

# **Allocating Growth in the Chicken Industry in Ontario**

## **Stakeholder Consultation Workshop**

Sponsored by Ontario Chicken Industry Advisory Committee

December 19, 2014

CFO District 5

Vineland, Ontario



**Bryan Boyle & Associates**

*FACILITATING YOUR FUTURE*

## Table of Contents

	<b>Page</b>
<b>Executive Summary</b>	3
<b>Purpose of Session</b>	5
<b>Current Perceptions</b>	5
<b>Desired Outcomes</b>	8
<b>Positives</b>	9
<b>Challenges</b>	10
<b>Consequences of Inaction</b>	10
<b>Key Objectives</b>	11
<b>Suggested Actions : Farmer-Member Allocation</b>	13
<b>Suggested Actions : Processor Supply Allocation</b>	17
<b>Workshop Summary</b>	19

## Executive Summary

On December 17, 2014 chicken producers from District 5 (Niagara) met at the Research Station in Vineland 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, quota allocations and marketing recommendations. Their thoughts about processor-supply allocation could be summarized as positive perceptions, relation to the market, concerns and recommendations.

The producers present had a wide range of perspectives about both farmer-member allocation and processor supply allocation. In general, their views tended to have a slightly positive trend.

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:

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

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 overwhelming priority of the participants was to allocate the growth to all quota holders, with allocating equal amounts slightly outweighing the pro rata approach. The support for the other options was almost non-existent in comparison to their highest priority. Other options listed included new entrants, next generation of quota holders, smaller producers, niche and specialty producers, the highest bidder and producers who lease quota.

With regard to processor supply allocation of growth, the participants’ highest priority was processors who were willing to bid the highest. Allocating to all processors was also a strong priority followed by niche, Ontario only, new and further processors.

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

- Sustainable
- Industry outcomes
- Ontario’s fair share within the national agency system

#### Fairness and Equity

- Equitable

#### Expansion

- Profitable growth
- More marketable kilograms

- Normal growth
- Organic growth
- Building industry

#### Quota Allocation

- Quota
- More units to be given to producers (x2)
- Additional, by kilograms not percent (x2)
- Per capita versus pro rata (x2)

#### Marketing Recommendations

- Open sign-up (x2)
- Ensure sufficient demand for the product

### **2) Relating to Processor-Supply Allocation (P):**

#### Positive Perception

- Competitive

#### Market Related

- More marketable kilograms

#### Concerns

- Lost chances or opportunities

#### Recommendations

- Needs to serve market

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

Average = 17.85

<p> <b>Scale:</b> 30 = Top of our Game            1 = Dead in the Water         </p>
--

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

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

Average = 18.04

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 Farm efficiencies that can be measured
- F Growth of Ontario production
- F New entrants coming into the industry as growers
- F Farmers only concerned about growing birds

Market Realities

- P Competition to supply by open contracting
- P New products
- P Measurable processor efficiencies
- P Export of birds is not good for farm supply
- P Differential growth achieved
- P Ontario processors or processing all of Ontario chicken production

Stakeholder Relationships

- FP All stakeholders are happy (x2)
- FP Industry outcomes
- FP We do know that we do the right thing

Sustained Growth

- FP Farmers and processors must grow and market their allotted growth
- FP We are growing a good product that the consumer wants

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

- F We have growth
- F Controlled growth goes to existing producers (x2)
- F Present system is equitable and predictable
- FP The system is fair without disrupting supply management
- FP Demand for chicken continues to grow
- FP Supply management is in place

Production

- F Fuller barns increase efficiency
- F More kilograms of production from the growers

Marketing

- F When you are under market, the more units given, the faster you make up the loss
- P Processors are assured a market share

Stakeholder Relationships

- FP Self-sufficiency for both farmer and producer
- FP Consumer trust is improving

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

### System Characteristics

- FP Both farmers and processors must be responsive to the marketplace
- FP Negative growth can be a danger in a recession
- FP The current system may be predictable but it steals or stifles innovation

### Production

- F Growth for smaller farms is not equal to larger ones
- F Unequal opportunity for growth
- F Lack of new entrants is a problem
- F Effective growth for producers

### Marketing

- P No competition between processors
- P Need to serve all markets; avoid losing out on markets
- P Need to have the opportunity to expand the market as individual processors; chance to seize growth
- P Poor promotion of Ontario chicken
- P Squandering growth opportunities
- P Stop spent hens being marketed as broiler meat

### Stakeholder Relationships

- FP Lack of communication between processors and farmers

## 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)

- Keep your eyes on the distant picture, even if things are good close by
- If we leave the current state with no input from farmers it's a race to the bottom
- Large farms get bigger; smaller farms lag behind
- Our current system is not helping young farmers grow

### Processor Supply Allocation (P)

1. Could hamper innovation and flexibility; create cost
2. Lost market opportunities
3. Present system stifles growth; processors don't have incentive to drive growth within supply management
4. Current allocation system has been in effect for only three years; changing it now makes no sense

### Both Growth Allocation Systems (FP)

5. No changes equals no future for farmers; we need to stand together
6. No change equals no improvement
7. If you snooze, you lose; keep on top of trends
8. Non-action or input could potentially leave course of action to non-stakeholders

Pro rata allocation has existed for 20 years without negative consequences

### **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 <sup>st</sup>	1	Evolve the Allocation System of Farmers and Processors	695
2 <sup>nd</sup>	4	Serve Existing Markets	540
3 <sup>rd</sup>	5	Develop a Predictable and Stable System	530
4 <sup>th</sup>	2	Create Value Serving Growing and Emerging Markets	450
5 <sup>th</sup>	6	Encourage Quality, Efficiency and Value Creation	385
6 <sup>th</sup>	3	Encourage Innovation, New Business-Building Ideas	320

## **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.

<b>Rank</b>	<b>Farmer-Member Allocation of Growth (To Whom)</b>	<b>Total Score</b>
<b>1<sup>st</sup></b>	All (Equal Amounts)	1430
<b>2<sup>nd</sup></b>	All (Pro rata)	1345
<b>3<sup>rd</sup></b>	New Entrants	185
<b>4<sup>th</sup></b>	Younger Generation of Current Quota Holders	60
<b>5<sup>th</sup></b>	Small	40
<b>6<sup>th</sup></b>	Supplying New or Specialty Markets	30
<b>7<sup>th</sup></b>	Highest Competitive Bidder	20
<b>8<sup>th</sup></b>	Leasing	0

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 existing quota holders  
**Why?** Growth goes to those invested in the industry  
**How?** Per capita or tiered per capita  
**When?** Whenever 3 to 5% market growth is realized  
**Objective?** 1,2,3,5

### **1.2**

**To Whom?** All current farmers who are quota holders  
**Why?** Equity; equal sharing; allows smaller producers to develop a bit faster  
**How?** Exactly equal kilograms of growth is allocated to each farmer member  
**When?** Every three years  
**Objective?** 1,3,5

## **2. All Producers (Pro rata)**

### **2.1**

**To Whom?** Quota holding farmers  
**Why?** They are invested and committed to the industry  
**How?** Pro rata; per capita is an idea that has come and gone  
**When?** Each quota period  
**Objectives?** 1,2,3,4,5,6

### **2.2**

**To Whom?** All producers with quota  
**Why?** They have the investment; equitable; provides balanced growth  
**How?** Pro rata  
**When?** Annually  
**Objectives?** 1,2,3,4,5,6

### **2.3**

**To Whom?** All existing producers  
**Why?** Fair and easy  
**How?** Pro rata  
**When?** Each quota period  
**Objectives?** 4,5

**2.4****To Whom?** All existing farmers**Why?** They are invested in the business; keeps farmers motivated**How?** Pro rata; based on a percent of growth**When?** Annually**Objectives?** 1,2,4,5**2.5****To Whom?** All existing farmers in Ontario**Why?** To grow and expand our overall system**How?** Pro rata allocation of growth; equal percentage to all farmers**When?** As the market grows**Objectives?** 1,5,6**2.6****To Whom?** All quota holders**Why?** They are the ones with skin in the game; could help smaller grower become more efficient**How?** Pro rata is the preferred choice; some type of adjustment may be possible to incorporate some per capita features**When?** 1 to 5 years**Objectives?** 1,2,5**3. New Entrants****3.1****To Whom?** New entrants**Why?** Allow new farmers to enter the chicken industry**How?** CFO Board should sell as specific number of allocated units directly to new entrants**When?** Annually**Objectives?** 1,2,3**3.2****To Whom?** New farmers**Why?** Gives new farmers a chance to enter the industry with equal market share; helps produce top-notch poultry for the consumer**How?** Include as part of a package to keep all farmers educated and up-to-date on the industry**When?** Annually**Objectives?** 1,3,6

**3.3****To Whom?** New entrants**Why?** Helps new producers pay down their debt to grow their new business**How?** Promote the existing CFO New Entrant Program; keep the same percentages**When?** Annually or whenever there is growth**Objectives?** 1,3,6**3.4****To Whom?** New entrants**Why?** Equitable; promotes growth of the industry**How?** Include a specific number of new entrants when allocating growth across all producers on a per capita basis ; allocate an amount by kg's that may be similar or greater than current producers on a per capita basis**When?** Initiate within 3 to 6 months, then annually**Objectives?** 1,3,6**4. Younger Generation of Current Quota Holders****4.1****To Whom?** Next generation of current quota holders**Why?** Allows these young farmers to grow more quickly; makes involvement in the farm more attractive; appealing for succession planning**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?** Next generation of current quota holders**Why?** This would be the end of your quota value growth**How?** All future quota growth would be better than zero; similar to the Egg Farmers of Ontario model**When?** Annually**Objectives?** 1,2,5,6**5. Smaller Producers****5.1****To Whom?** Smaller producers**Why?** Would allow them to become more efficient; would be fair**How?** In an allocation of growth across all producers small producers would be allotted additional kilograms**When?** Every quota period**Objectives?** 1,5

## **6. Niche or Specialty Market**

### **6.1**

**To Whom?** To farmers who supply niche or specialty markets, e.g. ethnic markets

**Why?** This is a large untapped market that should be supplied for the strength of our chicken industry

**How?** Offer financial incentives to these producers and allow 16 week cycles with no penalties or lower penalties for under-marketing

**When?** As soon as possible

**Objectives?** 1,2,3,4, 5,6

## **7. Highest Competitive Bidder**

### **7.1**

**To Whom?** To farmers willing to pay the highest bid for quota

**Why?** Quota would go where quota would be needed and filled

**How?** Organized auction either electronically or at a central location

**When?** Every quota period

**Objectives?** 1,2,6

## **8. Leasing**

### **8.1**

**To Whom?** To farmers with a special need or market

**Why?** Allocation of growth would go where it is really needed

**How?** All the allocation growth would go to the CFO Board; interested producers could apply for an allocation of quota based on their specific need; CFO Board would allocate that quota based on the specifics of the chicken market in that particular quota period

**When?** Every quota period

**Objectives?** 1,2,3

Rank	Processor Supply Allocation of Growth (To Whom)	Total Score
1 <sup>st</sup>	Highest Competitive Bidder (Open Sign-Up)	1325
2 <sup>nd</sup>	All	970
3 <sup>rd</sup>	Creating Growth in a Niche/Specialty Market	520
4 <sup>th</sup>	Ontario Only	300
5 <sup>th</sup>	New	155
6 <sup>th</sup>	Further	70

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 With the Highest Competitive Bid**

### **1.1**

**To Whom?** Processors willing to bid the highest

**Why?** Increase interest and bidder would have a specific market; quota goes where it will be used

**How?** Organized auction either electronically or at a central location

**When?** Each quota period

**Objectives?** 1,2,3,5

### **1.2**

**To Whom?** Processor who is the highest bidder

**Why?** Auction is a great way to match up buyer and seller

**How?** Auction based on open sign-up; adjust volume if the premium goes high; if this concept was successful it could be transferred to the existing chicken market as well as the growth allocation

**When?** Each quota period

**Objectives?** 1,2,3,5

## **2. All Processors**

### **2.1**

**To Whom?** All current processors

**Why?** Fair and easy

**How?** Use the same pro rata hybrid system that exists today

**When?** Every quota period

**Objectives?** 4,5

## 2.2

**To Whom?** All processors

**Why?** Equitable

**How?** Pro rata

**When?** Whenever an opportunity exists

**Objectives?** 1,2,3,4,5,6

## 3. Creating Growth in a Niche/Specialty Market

### 3.1

**To Whom?** Processors serving niche markets

**Why?** This is where the growth exists for our chicken industry

**How?** Allocate new growth to these producers as needed to support these new markets; recognize some of the markets are seasonal

**When?** As required based on the specific markets

**Objectives?** 1,2,3,4,5,6

### 3.2

**To Whom?** To processors driving the growth

**Why?** Equitable; processors rewarded for developing a market

**How?** Evaluate processors to find who is driving the growth; allocate the quota to support growth accordingly

**When?** Whenever growth appears; every quota period

**Objectives?** 1,3,5,6

### 3.3

**To Whom?** To processors who sign-up more existing farmers for potential supply agreements

**Why?** Processors who develop markets can gain market share and buy more chicken from farmers all within the structure of supply management

**How?** Open sign-up; this system worked great for two decades

**When?** By quota period or annually

**Objectives?** 1,3,5,6

## 4. Ontario Only Processors

### 4.1

**To Whom?** Processors who process only domestic Ontario birds.

**Why?** They support our system; this would promote domestic industry growth

**How?** Assure a system that doesn't allow blending of imported fall into domestic chicken; cap imported poultry

**When?** Immediately

**Objectives?** 1,2,3,6

## **5. New Processors**

### **5.1**

**To Whom?** Potential new processors

**Why?** Quota would go to those who can fill a market

**How?** Allow open contracting, including Form 101 with further processors; new processors would be part of an allocation that includes existing processors and further processors

**When?** Each quota period

**Objectives?** 1,2,3,4,5,6

## **6. Further Processors**

### **6.1**

**To Whom?** Further processors

**Why?** These further processors could assure they will have product to maintain or expand their operation

**How?** Further processors would work in cooperation with primary processors and/or producers

**When?** Every quota period

**Objectives?** 1,2,5

## **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.