Allocating Growth in the Chicken Industry in Ontario

Stakeholder Consultation Workshop

Sponsored by Ontario Chicken Industry Advisory Committee

January 27, 2015

Interested Members of the Public

Toronto, Ontario

Bryan Boyle & Associates

FACILITATING YOUR FUTURE

Table of Contents

Executive Summary

On January 27, 2015 interested members of the public met at the Airport Marriott Hotel in Toronto for an 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.

Participants 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 and concerns. Their thoughts about processor-supply allocation could be summarized as positive perceptions, relation to the market and concerns.

The participants’ perspectives about farmer-member allocation varied widely with a slightly negative trend. The participants’ perspectives of processor supply allocation were more mid-range but still reflected a negative 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:
1st: Evolve the Allocation System of Farmers and Processors
2nd: Create Value Serving Growing and Emerging Markets
3rd: Serve Existing Markets
4th: Encourage Innovation, New Business-Building Ideas
5th: Develop a Predictable and Stable System
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 top two priorities were focused on smaller producers. The highest priority was the small flock owner and the second highest priority was potential producers in the area between 300 chickens and 14,000 units of quota. Allocating quotas to all current quota holders on a per capita basis was the third highest priority. Allocating growth to six other target groups attracted modest to minimal support from the participants. These included specific breed growers, new entrants, pasture poultry producers, producers supplying innovative markets, Northern Ontario growers, and all current quota holders on a pro rata basis.

With regard to processor supply allocation of growth, no specific target group emerged as the participants' highest priority. A wide range of target groups to whom growth might be allocated was identified. In declining order, they include: new processors, processors in specific geographic areas, Class "B" processors, mobile processors, small processors, existing processors and processors with emerging markets.

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: Airport Marriott Hotel, Toronto, Ontario
January 27, 2015 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 (or in the Action Plans section - tables of 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". 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

- Proportional
- Orderly

Fairness and Equity

- Advantage to larger producers
- Potential for industry dominance by larger producers

Expansion

- Growth should encourage small producers

Production Considerations

- Concentrated
- Increased concentration
- Intensive
- Specialty breeds

Concerns

- Skewed to monopoly
- Closed

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

Positive Perception

- Stable

Market Related

- What about kosher, organic, etc.?
- Specialty breeds
- Not enough room for growth relating to new breeds of chicken

Concerns

- Mechanics of reaching agreements
- What steps are taken?
- Implications for smaller processors
- Not regionally distributed
- Accessibility for Northern Ontario farmers

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		
29		
28		
27		
26		
25		
24		
23		
22		
21		
20	**X**	
19		
18		
17		
16		
15	**X X**	
14		
13	**X**	**Average = 13.16**
12		
11		
10	**X**	
9		
8		
7		
6	**X**	
5		
4		
3		
2		
1		

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

Bryan Boyle & Associates
FACILITATING YOUR FUTURE

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

30
29
28
27
26
25
24
23
22
21
20
19
18
17
16
15 X X X X
14
13 **Average = 12.83**
12
11
10
9 X
8 X
7
6
5
4
3
2
1

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?"

<u>Production Features</u>

F Quota system allows for different costs of production and production practices
F Farmers who want to produce chicken as part of a mixed or diversified farm can fit within the quota system and make a living
F Number of chicken farmers is decentralized throughout Ontario
FP Place in the system for pastured chicken addressing local food demands, without pariah

treatment

Market Realities

P Well distributed network of processors

P Consumers have access to safe, ecologically grown, pastured, heritage chicken directly from farmers they trust

FP Reduced out of country imports

Stakeholder Relationships

FP Absence of built-in systemic bias among members

Sustained Growth

F Reasonable process for new entrants

F Transparent selection process for new entrants and others

F Accessibility for and evidence of new entrants

FP Supply management maintained

FP Profitability for processors and farmers

FP Chicken farmers and processors making a decent living

FP Research to determine the growing market potential at all levels

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

System Characteristics

- FP Increased growth in the industry is good (x2)
- FP Most of the chicken sold in Ontario is produced in Ontario
- FP New entrants program is in place
- FP Specialty breed programs exist
- FP Large processors and farmers are making money and have market security

Production

- F Good farmers are prospering regardless of size
- F Ability for non-quota holders to produce some chicken
- F No bankrupt farmers

Marketing

- P Chicken is getting to consumers
- FP Self-marketing quota exists
- FP Consumers are more aware of different choices of food production and distribution
- FP Chicken is relatively inexpensive
- FP No shortages in chicken

Stakeholder Relationships

- F Chicken farmers are among the few farm sectors in Ontario that have been, consistently maintaining a living and positive business returns, with some security

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

System Characteristics

- F Criteria for selection of new entrants is not transparent
- F Current system is built on a conventional cost of production model with little room for innovation
- FP Highly concentrated
- FP Highly controlled industry with not enough competition
- FP Difficulty for new entrants to grow into their market space; need a step function rather than percent calculation
- FP Consumers want to protect supply management but need to see that it is working for them

Production

- F High price of quota
- F Difficult to finance in a timely manner
- F Inability for small farmers to buy quota under 14,000 units
- F The size and efficiency necessary for quota production creates a bio-security risk
- F Exemption numbers of chicken production don't allow for farmers to scale up or make a living
- F Major difference between small flock quota exemption and the minimum quota that must be purchased

Marketing

- P Lack of accessibility to processors for Northern farmers
- P Need to go outside of the province for culturally appropriate chicken products
- P Restaurants cannot get chicken directly from farmers, so their product is not is fresh as it could be
- P Certain regions of Ontario cannot access local chicken, even though grown there
- FP Inability to have non-traditional types of chicken, e.g. pastured, free range, heritage, etc. available for sale
- FP Treating chickens as units misses the quality question and product segmentation
- FP No pastured chicken through the quota system

Stakeholder Relationships

- FP Conflict

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

<u>Farmer-Member Allocation (F)</u>

- Concentrated market share leading to market controlled by only a few large producers
- Loss of small farms
- Limited opportunity for new young farmers to enter the chicken business due to the high barriers to entry
- Fewer farmers = fewer good jobs = less rural resilience
- What happens if I raised 301 chickens a year?
- Unmanaged growth could potentially increase a bio-security threat

<u>Processor Supply Allocation (P)</u>

- Limited ability to meet specialty market demand if chicken is viewed as a commodity
- Anti-supply management sentiment when consumers get can't get what they want
- Consumers who want special products, e.g. organic, halal, pastured, etc. and cannot easily find it will turn the public opinion against supply management

<u>Both Growth Allocation Systems (FP)</u>

- Disgruntled consumer base with an inaccurate view of supply management
- Conservative government might choose to eliminate supply management

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
1st	1	Evolve the Allocation System of Farmers and Processors	185
2nd	2	Create Value Serving Growing and Emerging Markets	140
3rd	4	Serve Existing Markets	95
4th	3	Encourage Innovation, New Business-Building Ideas	85
5th	5	Develop a Predictable and Stable System	60
6th	6	Encourage Quality, Efficiency and Value Creation	35

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? Identify which one or more of the six objectives that this action will help the chicken industry in Ontario 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 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	Small Flock Producers	160
2nd	Producers Between 300 chickens and 14000 units	135
3rd	All Quota Holders (Per Capita – Same Amount)	105
4th	Specific Breed Growers	90
5th	New Entrants	70
6th	Producers of Pasture Poultry	55
7th	Producers Supplying Innovative Markets	45
8th	Northern Ontario Chicken Growers	30
9th	All Quota Holders (Pro Rata – Same Percentage)	15

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. Small Flock Producers

1.1
To Whom? Small flock producers
Why? Allows small flock owners to address local markets outside of the quota system
How? Allocate growth to registered small flock producers
When? Each quota period
Objectives? 1, 2, 3

2. Producers Between 300 chickens and 14000 units

2.1
To Whom? Small flock owners transitioning to small flock quota
Why? Allows alternative production methods to meet market demand

How? Develop a new system featuring small flock quota; utilize the current method used for specialty programs
When? As soon as possible
Objectives? 1, 2, 4

2.2
To Whom? Producers who wanted to grow more than 300 chickens per year, but much less than the minimum 14,000 units of quota
Why? Satisfies growing consumer demand for segmentation; helps make more new farmers financially viable; decentralizes production and processing for greater resiliency; adaptation to climate change and more financially viable rural economies; helps make more small diversified farms financially viable
How? Recognize that pastured chickens and rural local demand only operate at volumes well below current quota; develop a special class for quota; raise the small flock exemption and relax its marketing
When? As soon as possible
Objectives? 1, 2, 3

3. All Quota Holders (Per Capita – Same Amount)

3.1
To Whom? All current quota holders
Why? Provide some support to smaller quota holders
How? Allocate quota on a per capita basis where every producer gets the very same amount; set aside a specific amount for new entrants
When? By quota period
Objectives? 2, 4, 5

4.Specific Breed Growers

4.1
To Whom? To producers that grow birds other than the "501" hybrid
Why? Recognize the consumers' broader demand for a variety of poultry products
How? Allocate some of the growth to producers who are growing other than the "501" hybrid
When? Annually
Objectives? 1, 2, 3

5. New Entrants

5.1
To Whom? New entrants into the quota system
Why? Help reduce the barriers for young people to enter supply management
How? Consider creative alternatives such as creating steps to ease into production
When? Per quota period
Objectives? 1, 2, 3

6. Pasture Poultry Producers

6.1
To Whom? Pasture poultry producers
Why? Consumers are demanding healthy, ecologically diversified production; farmers can capture a greater value for their product
How? Create a specialty permit or increase access to small flock quota with transparency or allocate a certain percentage of quota to innovative practices where market growth has been identified; cost of production would need to change to fit the production methods
When? As soon as possible; continue each quota period
Objectives? 1, 2, 3

7. Producers Supplying Innovative Markets

7.1
To Whom? Producers supplying innovative markets, e.g. emerging, growing, niche, etc.
Why? Meets market demand and adds value for small producers
How? Need to research and develop methods for determining innovation and divergent markets outside of the conventional markets; allocate a percentage of quota and develop a flexible model for innovation and production for producers who demonstrate demand to receive quota allocation
When? Every quota period
Objectives? 1, 2, 3

8. Northern Ontario Chicken Growers

8.1
To Whom? Northern Ontario growers
Why? Meets consumer demand; addresses the lack of access to retail markets and processors
How? Investigate options and identify potential interested producers
When? As soon as possible
Objectives? 1, 3, 5, 6

9. All Quota Holders (Per Capita – Same Amount)

9.1
To Whom? All current quota holders
Why? System is well-established
How? Allocate quota on a per capita basis where every producer gets the very same amount of the growth
When? Each quota period
Objectives? 4, 5

Rank	Processor Supply Allocation of Growth (To Whom)	Total Score
1st	New Processors	105
2nd	Processors in a Specific Geographic Region	85
3rd	Class "B" Processors	80
4th	Mobile Processors	70
5th	Small Processors	60
6th	Existing Processors	55
7th	Processors With Emerging Markets	50

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. New Processors

1.1
To Whom? Processors who do not currently hold processor supply quota
Why? Maintain capacity of innovative, emerging markets; keep more money in the rural economy
How? Encourage new entrants in underserved areas; link with innovative, emerging or growing producers by region; financing model needs to allow for different production methods; demonstration of markets for new processor shouldn't be too stringent or onerous
When? Per quota period
Objectives? 1, 2, 3

2. Processors in a Specific Geographic Region

2.1
To Whom? Processors in specific geographic regions (x2)
Why? Meeting consumer demand and servicing producers
How? Set aside a certain percentage of growth allocation for processors willing to establish operations in current "dark zones", e.g. more than an hour's drive from current processing
When? Annually
Objectives? 1, 2, 3

3. Class "B" Processors

3.1
To Whom? Current Class "B" Processors
Why? Class "B" Processors provide a valuable service; support small flock producers
How? Allocate growth to Class "B" Processors who are interested in expanding to meet a specific market
When? Each quota period
Objectives? 1, 3, 5

4. Mobile Processors

4.1
To Whom? Mobile processors
Why? Allows for on-farm processing; less traveling for birds; less expensive; allows for direct marketing from farm to customers; accesses remote locations
How? Ontario Minister of Agriculture and Food needs to allow Class "B" permits for mobile processors
When? Now
Objectives? 1, 2, 3, 6

5. Small Processors

5.1
To Whom? Small processors
Why? Able to meet specific consumer demand; possibility of reaching the standards of primary processors at a much smaller scale; could cater to small flocks
How? Allocate growth to small processors who meet specific quality standards
When? Each quota period
Objectives? 2, 3, 5

6. Existing Processors

6.1
To Whom? Existing processors
Why? To assure that we do not lose existing processing infrastructure
How? Allocate growth first to existing processors to assure they can maintain existing levels of capacity utilization, not including major expansion
When? As soon as possible
Objective? 1, 2, 3

7. Processors with Emerging Markets

7.1
To Whom? Processors who are developing emerging markets (x2)
Why? They are identifying specific consumer demands and need the processing potential to supply them
How? Set aside a certain percentage of the new growth capacity for emerging market segments; that percent to be determined by research on which segments are growing fastest; may include non-meat bird hybrids
When? As soon as possible
Objective? 2, 3, 6

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.