

Allocating Growth in the Chicken Industry in Ontario

Stakeholder Consultation Workshop

Sponsored by Ontario Chicken Industry Advisory Committee

January 8, 2015
CFO District 4
Cayuga, Ontario



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Executive Summary

On January 8, 2015 chicken producers from District 4 met at the Haldimand Agricultural Centre near Cayuga 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 and attributes. Their thoughts about processor-supply allocation could be summarized as positive perceptions, relation to the market, concerns and recommendations.

The producers’ perspectives about farmer-member allocation were quite varied, with a slightly positive trend. Their perspectives of processor supply allocation were also quite widespread.

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: Develop a Predictable and Stable System
- 4th: Encourage Innovation, New Business-Building Ideas
- 5th: Encourage Quality, Efficiency and Value Creation
- 6th: Serve Existing Markets

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, clearly the highest priority of the participants was to allocate the growth so quota holders all receive the same amount. Allocating growth to all quota holders on a pro rata basis was substantially lower in second place on the priority list. Supporting small producers garnered substantial support. Allocating growth to new entrants received modest support. The final option of allocating growth to farmers supplying new and specialty markets received very little support from participants.

With regard to processor supply allocation of growth, processors who are members of the Association of Ontario Chicken Processors (AOCP) were the participants’ highest priority. A close second priority was processors who supply a niche or specialty market. Other priorities in a declining pattern include small processors, all processors on a per capita basis, all processors on a pro rata basis, the highest bidders and new 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: Haldimand Agricultural Centre, Cayuga, Ontario

January 8, 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 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 (x3)
- Positive environment

Fairness and Equity

- All treated equally
- Equal allocation of growth
- How will it be shared or divided?
- Who gets it?
- How is it allocated?
- All growth goes to the big guys

Expansion

- More chicken to grow (x2)
- Growth (x2)
- Future growth
- Growth is good
- New entrants
- Per capita growth
- Expansion percentage

Production Considerations

- Chick supply
- Fill the last few feet in my barn

Attributes

- Moving forward
- Increases according to population

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

Positive Perception

- Positive
- Good
- We need the processors
- Potential growth for processors
- More processing

Market Related

- More chicken to market (x2)
- Growth for the product

Concerns

- No room to fill niche and specialty markets
- Ethnic markets are ignored
- How much do they control?
- Complaints

Recommendations

- Incentives for increasing market
- Percentage of growth
- Share the growth
- Share with an equal percentage

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

Average = 18.2

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

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

30 X
 29
 28 X
 27
 26
 25
 24
 23
 22
 21
 20 X X X X X
 19
 18
 17
 16
 15 X X X X
 14 X **Average = 14.08**
 13
 12 X X
 11
 10 X X X X X X
 9
 8 X
 7
 6 X
 5 X
 4
 3 X
 2
 1

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

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 New barns
- F Full barns
- P All processors get all the chicken they need

Market Realities

- F Filling market demand
- F All markets filled
- P More competition
- P New processor opportunities

Stakeholder Relationships

- F Viable future for the next generation
- F Satisfied consumers
- F Political support
- F Growers' voice is heard
- F Majority rules
- P Each processor gets equal amounts of allocation of growth because small processors need larger growth

Sustained Growth

- F New producer opportunities
- F Continued growth
- F Maximum size of quota holding
- F Sliding scale in place to favour the smaller producer
- FP Strong, robust industry for all stakeholders
- FP Happy customers

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

- FP Growth is positive (x2)
- FP Continual growth that is shared
- FP Security
- FP Profitability
- FP Quality
- FP More income
- FP More work for all of Ontario

Production

- F Building new barns
- F Healthy financial environment

Marketing

- FP Fulfill niche markets
- FP More market
- FP More market share

Stakeholder Relationships

- F Potential for new producers
- FP Positive direction
- FP Consumer confidence

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

System Characteristics

- F Enough young people coming into the industry
- FP Capital for expansion

Production

- F Pro rata allocation of growth is unfair; creates mega farms; negative impression for consumers
- F Chick quality suffers
- FP Big guys keep getting bigger and bigger

Marketing

- F Can we fill all the markets?
- P Attempts to allocate niche markets
- FP Free trade

Stakeholder Relationships

- FP Media perception
- FP Political pressure
- FP Keeping everyone happy

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)

- Not reaching our full potential
- Decreased producer numbers
- Fewer farmers therefore less political support
- Need more new entrants to gain political support
- No opportunity for new producers
- Farms will get larger and fewer
- More dissatisfied farmers
- Fewer meetings to attend

Processor Supply Allocation (P)

- Possibility for a monopoly in processing
- May not be able to fill market needs

Both Growth Allocation Systems (FP)

- We will lack a plan for allocating growth in order to expand the industry
- The industry will lose support of politicians

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	630
2 nd	2	Create Value Serving Growing and Emerging Markets	460
3 rd	5	Develop a Predictable and Stable System	440
4 th	3	Encourage Innovation, New Business-Building Ideas	375
5 th	6	Encourage Quality, Efficiency and Value Creation	315
6 th	4	Serve Existing Markets	310

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	All Quota Holders (Per Capita – Same Amount)	1095
2nd	All Quota Holders (Pro Rata – Same Percentage)	555
3rd	Small Quota Holders	520
4th	New Entrants	335
5th	Producers Supplying New or Specialty Markets	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 Quota Holders (Per Capita – Same Amount)

1.1

To Whom? All current quota holders

Why? They are already stakeholders; per capita approach would give some additional benefit to smaller farms

How? Per capita; every quota holder shares an equal amount of the growth

When? Annually

Objectives? 5, 6

1.2

To Whom? All farmer-members

Why? To give incentives to smaller farmers

How? Per capita; equal amounts not equal percentage of growth

When? Every quota period

Objectives? 1, 2, 3

2. All Quota Holders (Pro Rata – Same Percentage)

2.1

To Whom? All registered chicken growers

Why? Producers have bought into the system; farmers are entrusted under the Farm Products Marketing Act

How? Pro rata or a combination of pro rata and per capita

When? A plan with lead time as soon as the process is approved (12 month minimum); this allows producers to make adjustments or capital expenditures

Objectives? 1, 4, 6

2.2

To Whom? All quota holders

Why? Share the growth; weighted towards smaller producers

How? Blended system; 50% pro rata and 50% per capita

When? As needed

Objectives? 1, 2, 6

2.3**To Whom?** All producers**Why?** Good compromise between current system (pro rata) and full per capita**How?** Hybrid system; half of the growth is distributed pro rata and half the growth is distributed per capita**When?** Annually**Objectives?** 1, 4**2.4****To Whom?** All quota holders**Why?** Spreads the growth around; helps smaller producers develop**How?** Allocate growth on a split between pro rata and per capita; alternate one year pro rata for all producers and another year per capita for all producers**When?** Annual allocation on this two-year cycle**Objectives?** 1, 4, 5**3. Small Quota Holders****3.1****To Whom?** Small family operated farms**Why?** To sustain family operated farms**How?** Maximize farm size of large corporate farms; any extra quota allocation beyond that maximum would be distributed among small family operated farms**When?** As soon as possible**Objectives?** 3, 5, 6**4. New Entrants****4.1****To Whom?** New entrants**Why?** Need to expand Ontario New Chicken Farmers' Entrant Policy to be more meaningful**How?** Use the established Ontario New Chicken Farmers' Entrant Policy but increase the numbers well beyond the current two new entrants each year**When?** Annually**Objectives?** 2, 3**4.2****To Whom?** New entrants**Why?** Create more smaller farmers; improve our political clout; meet specialty markets**How?** Utilize existing Ontario New Chicken Farmers' Entrant Policy, but offer it to more members, e.g. five or more

When? Annually

Objective? 3

4.3

To Whom? New producers

Why? Grows the number of chicken farmers; provide stability to enter the system; good public relations

How? Provide an appealing option, perhaps 50% of the quota at no cost; provide a per capita amount to all new producers who are selected through an application system

When? Annually

Objectives? 3, 5

5. Producers Supplying New or Specialty Markets

5.1

To Whom? Quota holders supplying new and specialty markets

Why? Meet consumer demand; those who created the market get to supply it

How? Producers would prove they are supplying a specific market and apply to the Chicken Farmers of Ontario for additional quota

When? Per quota period

Objectives? 1, 2, 5, 6

Rank	Processor Supply Allocation of Growth (To Whom)	Total Score
1 st	Association of Ontario Chicken Processors (AOCP) Members	505
2 nd	Processors Serving Niche Markets	425
3 rd	Small Processors	415
4 th	All Processors (Per Capita – Same Amount)	405
5 th	All Processors (Pro rata – Same Percentage)	335
6 th	Highest Bidder	260
7 th	New Processors	245

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. Association of Ontario Chicken Processors (AOC) Members

1.1

To Whom? All AOC members

Why? AOC processors are well-established and capable of meeting a wide range of markets; want all markets supplied; want happy consumers

How? Allocate quota differentially based on market demand or per capita

When? Annually

Objectives? 1, 2, 3

2. Processors Serving Niche Markets

2.1

To Whom? All processors

Why? Emphasize fairness

How? Distribute the allocation of growth to processors supplying niche markets; the balance would be allocated on a percentage basis to the rest of the processors

When? Annually

Objectives? 1, 2, 4

2.2

To Whom? Processors that show they have a specific market for chicken

Why? Grows the total market; more market for all; assure that all the end markets are supplied

How? Special planning would be required; base their allocation of quota on an end-user or customer focus

When? As soon as possible

Objectives? 1, 3

2.3

To Whom? Processors who can prove they have a market that guarantees a reasonable rate of return to the farmer

Why? Put some additional focus on higher-margin markets that have the potential to spread higher financial returns to various stakeholders in the supply chain

How? Processors would document the potential of strong financial returns; allocation of quota could be based on that documentation

When? As soon as possible

Objectives? 1, 3

3. Small Processors

3.1

To Whom? Small processors

Why? Capable of filling niche or specialty markets; good public relations; more politically acceptable

How? Prioritize which small processors have the most potential; allocate the growth based on these standards

When? Annually

Objectives? 1, 3, 5

4. All Processors (Per Capita – Same Amount)

4.1

To Whom? All processors

Why? Keep small processors viable because they play an important role in the market

How? On a per capita basis; equal amounts to every processor

When? Now

Objectives? 1, 2

5. All Processors (Pro Rata – Same Percentage)

5.1

To Whom? All processors; extra benefit to smaller processors

Why? Equal market opportunity; competitive; reflects market demands; healthy market

How? Blended system where 50% of the growth is allocated on a pro rata basis and 50% of the growth is allocated on a per capita basis

When? Each quota period

Objectives? 2, 3, 5

6. Highest Bidder

6.1

To Whom? Processors who are willing to give the best price for the supply quota

Why? Because we want to get chicken to the consumer

How? Various options such as a transparent auction

When? As soon as possible

Objective? 1, 2, 3

6.2

To Whom? All processors who are willing to bid on supply quota

Why? Helps match up the market and the ability to process chicken for that market

How? All the quota relating to growth would go to a specific pool; processors would bid on how many kilograms they would like at a predetermined price, e.g. over Producers' Cost of Production; quota would be sold and allocated based on the bidding volumes

When? As soon as possible

Objective? 1, 2, 3

7. New Processors

7.1

To Whom? Potential processors who currently do not hold any supply quota

Why? To fulfill all markets; allow potential cooperatives for specialty markets; allows new players into the market

How? Allocate some of the growth in the form of startup quota based on strong business case presentations

When? Now

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.