

AN ANALYSIS OF THE EFFECT OF MARKET REGULATION
IN THE BROILER INDUSTRY IN BRITISH COLUMBIA
AND WASHINGTON

by

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B.Sc., Long Island University, 1970

A THESIS SUBMITTED IN PARTIAL FULFILMENT OF
THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF SCIENCE

in the Department
of
Agricultural Economics

We accept this thesis as conforming to the
required standards

THE UNIVERSITY OF BRITISH COLUMBIA

July, 1974

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Date August 30, 1974

Abstract

The purpose of this study has been to analyze the effect of market regulation in the broiler industry in British Columbia and Washington State by comparing and contrasting the structure, conduct and performance of two institutions established to provide a degree of organization by producers in the marketing of broiler chickens. The two institutions studied have been the B.C. Broiler Marketing Board, in the province of British Columbia, Canada and the Washington Fryer Commission, in the state of Washington, United States of America.

An analysis of the structure and conduct of the B.C. Broiler Marketing Board and the Washington Fryer Commission has been presented.

An objectives model for organized marketing in the agricultural sector has been proposed, and from this model criteria have been chosen upon which to evaluate the market performance of the two structures with respect to organized marketing.

It has been observed that the powers held by the B.C. Broiler Marketing Board are far more extensive than those held by the Washington Fryer Commission.

It has been further observed that the performance of the B.C. Broiler Marketing Board has been primarily restrictive in nature and has had serious negative effects on the market environment for broiler chickens in British Columbia. The performance of the Washington Fryer Commission has been supportive in nature, and has had a positive effect on the

market environment for broiler chickens in Washington State.

In analysing the two approaches to organized marketing in the broiler industry, it has been concluded that the vesting of powerful tools of market regulation with primary producer groups (whose interests are narrowly defined) leads to inefficiencies in production and marketing which have serious effects on the industry as a whole.

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Acknowledgments

Acknowledgment is gratefully given to all those who so graciously contributed to this research, in particular to Dr. Peter L. Arcus, whose continued enthusiasm, encouragement and support has been deeply appreciated.

*Je veux qu'il n'y ait si pauvre
paysan en mon royaume qu'il n'ait
tous les dimanches sa poule au pot.*

Henri IV

CHAPTER I

INTRODUCTION

Since factors influencing the market environment are often delicately balanced, the concept of "market regulation" is an extremely controversial one. When the market being regulated falls within the agricultural sector, the implications of market regulation become increasingly important. Food is a universal commodity. The market for agricultural goods is of concern to everyone. While we live in an age of increasing technology, the production of food has not changed substantially. Although improvements in methods of production can and are being sought, through the use of herbicides and pesticides, fertilizers, animal husbandry techniques and increased mechanization, certain basic factors remain fixed. Society is still very much dependent upon the farm sector.

This fact gives rise to both demands for regulation and protests against regulation. Ideally, the regulation of agricultural markets should provide benefits to all sectors of society by providing a degree of stability to food production and by providing the best possible product in the most efficient manner. Practically applied, however, this is often difficult to attain. Since regulation normally implies legal authority, the establishment of market regulation is usually a function of the government. Since the sector with the greatest degree of vested interest (and political voice) in stabilizing production of

a specific agricultural good is often the farm sector, the implementation of that regulation is frequently vested with the producers. The question of whether a producer based approach to organized marketing precludes an objective approach to the problem of market regulation is often raised. Through an investigation of existing systems of organized marketing in the agricultural sector, we may approach a better understanding of the problem.

Terms of Reference

The purpose of this study has been to compare and contrast the structure, conduct and performance of two institutions established to provide a degree of organization by producers in the marketing of broiler chickens. The two institutions studied are the B.C. Broiler Marketing Board, in the province of British Columbia, Canada and the Washington Fryer Commission, in the state of Washington, United States of America.

Method and Content

Before a comparison of approaches to organized marketing may proceed, a definition of organized marketing must first be established. A discussion of the concepts of organized marketing, and their application to the agricultural sector, is presented in Chapter II.

In comparing the two institutions, the first basis for comparison is a structural one. Since both the Board and Commission derive their authority from governmental legislation, this first entails a

review of Canadian and U.S. marketing legislation enacted prior to the establishment of the two institutions. A discussion of the organizational structure of the two groups, including their respective powers and responsibilities is presented and contrasted in Chapter III.

The second area of comparison is that of conduct. The conduct of the B.C. Broiler Marketing Board and the Washington Fryer Commission is discussed and contrasted in Chapter IV.

The third area of comparison is that of performance. An analysis of the performance of the B.C. Broiler Marketing Board and the Washington Fryer Commission, as well as a discussion of the factors contributing to the differences in observed performance between the two institutions, is presented in Chapter V.

A comparative evaluation of performance of the B.C. Broiler Marketing Board and the Washington Fryer Commission with respect to; (a) their stated objectives, (b) effects on industry sectors and (c) the principles of organized marketing, is presented and discussed in Chapter VI.

While an evaluation of the two groups may be drawn on the basis of observed performance, there are certain philosophical differences between the United States and Canada which influence the approach to marketing of broiler products in each area. A discussion of these factors is presented in Chapter VII.

The conclusions and recommendations of this report are presented in Chapters VII and IX. A brief summary of the findings may be found in Chapter X.

CHAPTER II

ORGANIZED MARKETING

Introduction

Before we can hope to evaluate any approach to organized marketing in the agricultural sector, we must first have a basic understanding of the philosophy behind an organized marketing approach. The term "organized marketing" is used to describe a variety of marketing systems, some of which, when applied, fall far short of achieving the objectives of an organized marketing approach. Why does this occur? Very often the problem seems to be one of confusing the means with the ends; the original goals of marketing becoming lost in the implementation of increasingly complex regulatory systems.

Marketing is a simple concept. Expressed in the most basic terms, marketing is the bringing together of two parties who wish to exchange goods or services. The processes leading to the exchange of beaver pelts for tools and equipment are as much a marketing function as the massive promotional campaigns undertaken by a large manufacturer in introducing a new line of photocopying equipment. In both cases, a person who is in a position to supply a good or service is seeking a person with whom they can exchange that good or service for one which they cannot supply to themselves. When two people in this position are brought together, both requiring reciprocal services, then effective marketing has occurred. In the very simplest of socio-economic units--

for example, an isolated tribe in Africa--the demand for goods and services is matched by the supply. In the market place, the suppliers of goods and services are known to those who require them, and the marketing process is extremely simplified. As we look at increasingly complex socio-economic structures, the marketing process itself becomes more complicated, and access to market information becomes more difficult to obtain.

As the market place enlarges, increased demands are made on effective channels of distribution, and the producer of a product is often separated from the final purchaser of that product by several intermediate handlers. As producers of goods or services become farther removed from the ultimate consumer, they move towards a more disadvantaged position with respect to market knowledge, and inefficiencies may occur. The producers and consumers of various goods are normally not known to one another, and neither are the levels of supply and demand for their goods and services. Operating with less than perfect market knowledge, supply often exceeds or falls short of demand, creating surpluses and deficiencies. In a competitive situation, the mechanism of price will eventually cause supply and demand to reach an equilibrium. In imperfectly competitive situations, however, this often gives rise to market inefficiencies.

An example of this situation today is the agricultural industry. In the strictest economic sense, perfect competition is the most efficient industry structure. As we have observed, the problems of achieving a position of perfect competition in any industry are increased as the

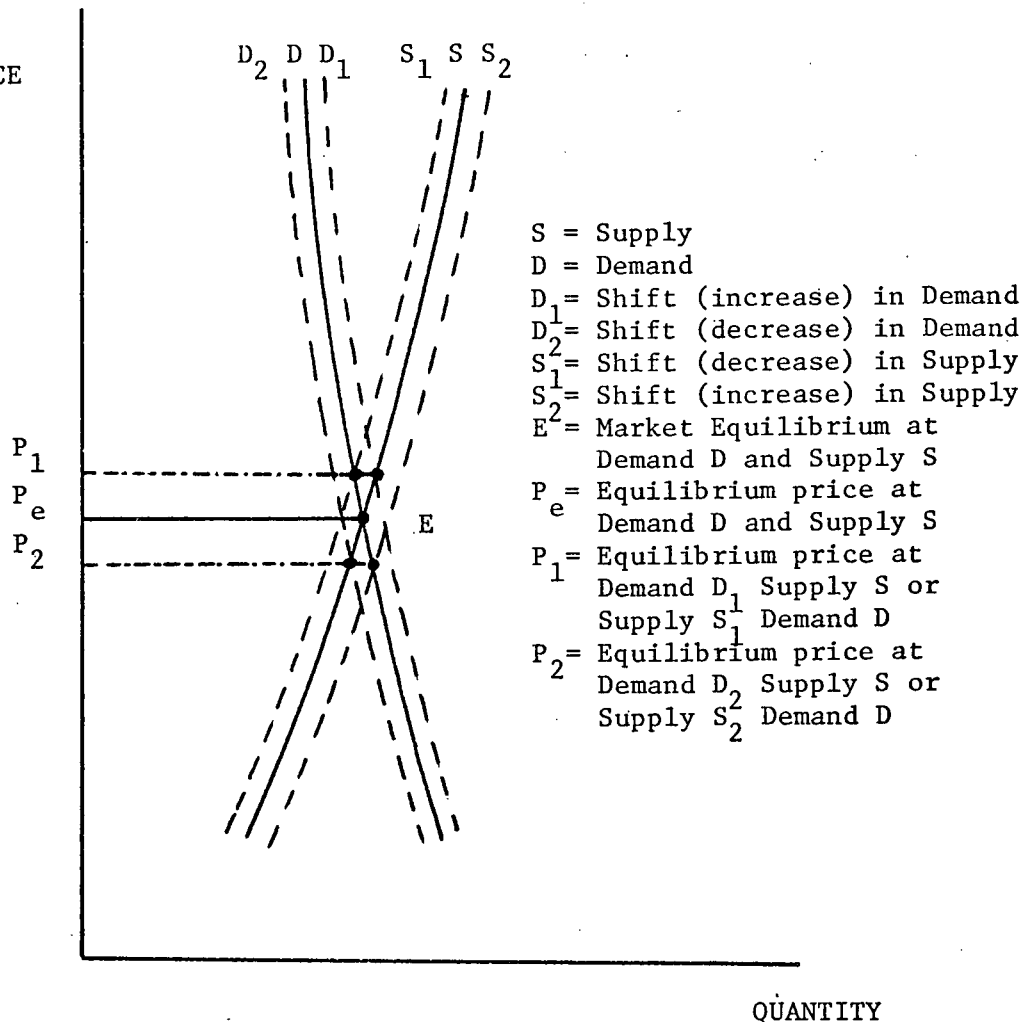
socio-economic structure becomes increasingly complex. In the agricultural sector, these problems are compounded by the large gap between producer and consumer (resulting in decreased market awareness), the potential for wide variance in production efficiency, and the inherent inelasticity of demand for food.

Farm incomes fluctuate to a far greater degree than do non-farm incomes, but farm production is remarkably more stable than industry production.¹ While the demand curve faced by the individual agricultural producer is relatively elastic, the industry demand curve is relatively inelastic. As may be observed in Figure 1, price may be significantly affected by a small change in supply or demand, due to the inelasticities of these curves. This situation has a direct effect on farm incomes. Net farm income may be expressed as price times quantity of output less cost of production. Since quantity of output and cost of production are relatively stable, farm incomes tend to fluctuate with price changes. While individual producers of a specific commodity are in a relatively competitive position, and the output of any one individual producer is normally too small to exert any influence on market price, aggregate behaviour produces dramatic effects on price.

Given this situation, if the majority of farmers produce without effective communication of market information, fluctuations in supply, resulting in proportionately wider fluctuations in price, reduce the

¹ Paul A. Samuelson and Anthony Scott, Economics--An Introductory Analysis, Third Canadian Edition, Toronto, McGraw Hill Co. of Canada Ltd., 1971, p. 496.

PRICE



QUANTITY

Figure 1. Effect of Shifts in Inelastic Supply and Demand on Price

Due to inelasticities of supply and demand, a small shift in either curve will result in a marked change in price levels.²

In agriculture, short run supply is relatively inelastic due to:

- (a) the attempt, on the farmer's part, to maintain production when price is low to maintain family income, and
- (b) the relatively large proportion of fixed factors of production which do not lend themselves to alternate use conversion. Since many of these costs cannot be eliminated by reducing quantity when the price falls below average cost, the farmer will produce to cover average variable cost.

In agriculture, demand is relatively inelastic since aggregate food consumption does not vary significantly in response to price.

² Paul A. Samuelson and Anthony Scott, Economics--An Introductory Analysis, p. 496.

farmer to the position of a "price taker."

While each farmer may be considered to be competitive with respect to other producers, in a strict economic sense they are not, for perfect competition implies, among other things, that each producer operate at the point at which marginal cost equals price. Due to the variation in marginal costs, attributable to differences in management expertise and factor productivity, the sum of the industry marginal cost curves (the industry supply curve) may differ significantly from those of any one producer. This factor contributes to variation in returns received by producers.

What are the alternatives to the agricultural producer? When faced with surplus production, demand cannot be increased effectively by individual's efforts. Advertising and promotional costs are normally too large to be borne by the individual producer. Since agricultural goods in a given sector are basically homogeneous, individual producer expenses in this area would serve, at best, to increase aggregate demand rather than increasing demand for individual goods or services sufficient to cover expenses incurred. Since the farmer quite often cannot readily convert his resources to alternative uses when price falls below average cost, he is often faced with the prospect of producing to cover average variable cost. If entry and exit is facilitated, widely fluctuating prices provide an incentive for speculation, adding further instability to an already unstable market. These problems have led many agricultural producers to adopt organized marketing approaches as an attempt to resolve common problems.

The primary goal of the producer-oriented approach to organized marketing is to increase the market power of producers. By approaching this on a collective level, resources may be employed which were previously unavailable to individual producers. The following model is presented as a guideline to be used in evaluation of the effectiveness of organized marketing approaches in the agricultural sector.

An Objectives Model for Organized Marketing in the Agricultural Sector

1. Improve Production Methodology

Through the improvement of production methodology, the producer is able to offer a higher quality, competitively priced product, thereby improving his market potential. Agriculture traditionally experiences wide variations in efficiency of its members. This is due largely to the variations in management expertise and in productive capacity of resources employed. These conditions often lend themselves to the creation of a sector which includes both marginal producers and extremely efficient producers. By decreasing the number of marginal producers, through attempts to increase their productivity or to facilitate their transfer into other sectors of the economy, the overall efficiency of the producing sector may be raised.

While the individual producer often lacks the means and expertise to investigate areas of improved production methodology, these avenues may be more readily explored under an organized marketing approach. Problems common to a large majority of producers may be more readily

identified and research efforts towards their solution more easily undertaken.

The channels of communication existing among producers are often poorly defined. While information exchange may occur between large, efficient operators, those of lesser efficiency are often isolated from this contact. Through the promotion of increased cooperation and communication under an organized marketing approach, expertise in the area of production technology may be more readily shared by the sector as a whole.

The improvement of product quality is also a benefit to be derived from organized marketing. Since individual producers lack the ability to exert control upon the overall patterns of the industry, improved product standardization and grading is difficult to accomplish on an individual level. This becomes far easier to achieve on a collective level. The benefits of improved product standardization and grading are many. When proper standards and grades are established, the individual producer is in a far better position to determine the type of product he should produce. Since grading is normally coordinated with price levels, the producer may more easily approximate his income from any given production cycle. By producing a product which is of higher quality and more uniform consistency, the market potential for that product may be more fully realized. Improved product standardization and grading benefits all sectors of the industry. It reduces the processor's costs, since he is presented with a more uniform product. The retailer is presented with a more standard, marketable product. The

consumer benefits from the ability to distinguish product quality by established grading standards, and benefits from the overall product improvement.

Through the promotion of improved efficiency, production methodology, and information dissemination, resulting in decreased production costs as well as establishment of guidelines for product standardization and grading thereby improving product quality, the organized marketing approach may contribute significantly to increasing the market power of the producer through production improvement.

2. Improve Response to Market Conditions

It is often difficult for the individual agricultural producer to effectively forecast supply and demand. As was illustrated in the previous section, fluctuations in supply in the agricultural industry have a very marked effect on price. While the output of an individual producer is normally insufficient to affect price levels, the aggregate behaviour of the industry can result in wide fluctuations in price if supply is not stable. Through the efforts of an organized marketing approach, market conditions such as supply and demand may be more accurately predicted and communicated to the producing sector. With an improved knowledge of market conditions, producers are in a better position to react effectively to market conditions through efficient production scheduling, thereby increasing stability and growth and improving their position in the market.

Another contribution of organized marketing is the unification of goals and objectives. Through a collective approach, an increased

awareness of long and short range goals may be achieved. Through a greater understanding and integration of the two, a greater degree of cooperation in response to market conditions may be attained.

By permitting the agricultural producer to more effectively react to market conditions, and by promoting an integration of short and long range objectives for the producing sector as a whole, organized marketing may contribute to increasing producer market power by improving response to market conditions.

3. Improve Channels of Distribution

Depending upon the type of product being produced, channels of distribution may be extremely complex. It is often difficult for the individual producer to assess the effectiveness of these channels, or to exercise any influence in increasing their responsiveness to his needs. Through a unified approach to the question of transportation, storage, and handling, the organized marketing approach may increase the efficiency of these channels in the marketing of agricultural products.

Through improved communications with processors and retailers, wherein mutual problems may be discussed and resolved, producers are provided the benefit of ensuring orderly and efficient flow of their product from farm to consumer.

By facilitating more efficient transportation, storage and handling of the product, as well as improving communication with processors and retailers, organized marketing may contribute to the market power of producers by improving their channels of distribution.

4. Expand Markets

The contribution of organized marketing to increased market expansion may be evidenced in several areas. Through the combined resources of the producer group, advertising and promotional programs can be undertaken which would have been impossible on an individual level.

Research and development is of prime importance in promoting market expansion. Research in the area of consumer preference and market delineation is of extreme importance in developing market potential. While one may expect that this information should be collected on the retail level and passed back to the producer, the underlying assumption is that the retailer will have as much vested interest in the product as the producer of that product. This assumption is, in fact, rarely true. Normally, the commodities of any one producer group represent a very small segment of the total profits to the retailer. Retail sales represent exactly that, retail sales. They are not necessarily an effective measure of consumer preference nor of market potential. Depending upon how the retail sales statistics are compiled, they may give no indication of market delineation. This information must be sought through channels of organized marketing.

The investigation of potential new markets is particularly important in the agricultural sector. Despite the sophistication of techniques used to determine supply and demand, occasional surpluses can and do occur due to the relatively long production cycles found in agriculture. Producers, acting independently, often have little choice

but to sell their product as quickly as they can (hoping that their surplus will not affect their returns), sell the product at a depressed price, or hold the product for marketing at some future date (providing the product is non-perishable over time and that storage facilities are available). Through increased facilities of research and development available through an organized marketing approach, secondary markets for temporary surplus may be sought, thereby maintaining the stability of domestic production.

Development of potential future markets should not be construed to be merely a reaction to surplus. Often, through changes in the processing or packaging of the product, extremely profitable new markets can be realized. Through efforts devoted to market development and new product research, this potential may be optimized.

By embarking upon market research and development, programs which include areas of research such as consumer preference, market delineation, development of potential markets and new product research, as well as improved efforts in the area of advertising and promotion, organized marketing improves market power of the producers by increasing market expansion.

This model can be summarized as follows:

Goal: To increase the market power of producers by functioning in a collective fashion to:

I Improve production

- . decrease production costs through
- . improved efficiency

- . improved methodology
- . improved information dissemination/shared technology
- . improve product quality
 - . standardization
 - . grading

II Improve response to market conditions

- . ability to effectively react to changes in
 - . supply
 - . demand
- . integration of long and short range goals

III Improve channels of distribution

- . transportation, storage and handling
- . improved communication with processors
- . improved communication with retailers

IV Expand Markets

- . advertising and promotion
- . market research and development
 - . consumer preferences
 - . market delineation
 - . development of potential markets
 - . new product research

While a theoretical objectives model for organized marketing in the agricultural sector has been presented, the practical application of these concepts is often difficult to attain. There is, currently, a great deal of controversy surrounding existing approaches to organized marketing in the agricultural sector. To achieve many of the goals outlined in the model, a degree of control over individual producer behaviour is required. Establishing the correct degree of control is a very difficult

task. If control becomes excessive, then the functions of organized marketing may become inhibitory rather than expansive. If insufficient control is provided, then many of the goals may not be fully realized.

Through an investigation of the structure, conduct and performance of two approaches to organized marketing in the agricultural industry, we may attempt to determine how this problem has been approached. Through a comparison of the performance of the two approaches on the basis of the objectives of organized marketing presented in this chapter, each approach to organized marketing may be evaluated.

CHAPTER III

STRUCTURE

Introduction

In contrasting the approaches to organized marketing taken by the B.C. Broiler Marketing Board and the Washington Fryer Commission in the broiler industries of British Columbia and Washington, respectively, the first area of comparison is that of structure.

Historical Development of Marketing

Legislation in Canada

In Canada, the stimulus to cooperative marketing in the first instance, . . . and then to the pressure for producer controlled marketing boards, has been the economic advantage of a close and direct relationship to markets. By thrusting forward to the central market through cooperation, the farmer is in a better position to organize his productive enterprise according to market results which he is in a position to distinguish and interpret.¹

While this statement expresses the ultimate aims of a cooperative marketing approach in Canada, the more immediate impetus towards organized marketing was often, as in the case of the apple growers in British Columbia in the 1920's, an attempt to achieve returns at least equal to the cost of production.

¹ L. E. Poetschke and W. M. MacKenzie, The Development of Producer Marketing Boards in Canadian Agriculture, June 1956, Alberta, Department of Political Economy, University of Alberta, p. 8.

In the early 1930's, a bill was drafted by the federal government which represented the first attempt, on a federal level, to establish a cooperative approach to agricultural production and marketing. It proposed the establishment of a Dominion Marketing Board, which was to have extensive powers to regulate and control the marketing of agricultural products, and to delegate some or all of these powers to local (provincial) boards organized by producer groups. Only those schemes wherein a significant proportion of the product was marketed either interprovincially or in export trade were to come under the jurisdiction of the Dominion Board.

The Dominion Board was to have the authority to vest provincial boards under its jurisdiction with the power to control interprovincial and export product movement, while the regulation of intraprovincial product movement was to be granted under provincial authority. In those areas where local organization was difficult to establish, the Dominion Board was empowered to act directly. The Dominion Board had the authority (transferable to local branches where necessary) to regulate or to restrict imports in competition with a regulated product, however this authority did not apply to competing goods from other provinces. They were also authorized to direct product to export markets where oversupply endangered local prices.

The bill required compulsory licencing of all producers in any area under the jurisdiction of the Board to obtain control of marketing, quantity and quality of product and to equalize producer returns. The power of the Board to investigate marketing conditions and practices

included the authority to prosecute for any attempts to obtain what they deemed excessive margins or for other practices which they considered injurious to trade. This was intended (a) to increase the efficiency of distribution by bringing the producer into closer contact with the consumer, thereby eliminating waste caused by delay in the product reaching the market, (b) to quell the suspicions of producers (by actual investigation of the marketing process) and to give them a closer view of the operations involved in marketing, (c) to eliminate mutually destructive competition among producers, and (d) to stabilize the domestic market and protect it further from interference by establishing import restrictions.²

In July of 1934, this bill was enacted into law as the Natural Products Marketing Act. In the first seventeen months from its inception, the Board recommended twenty-two schemes to the Governor in Council, fourteen of which were accepted and remained in operation until 1937. At that time, following a challenge, the Privy Council declared the Act ultra vires of the Dominion government, " . . . on the grounds that it infringed upon provincial jurisdiction over matters of property and civil rights and individual forms of trade and commerce confined to the provinces."³ Following this decision, three of the existing schemes continued operation under separate federal acts, and

² L. E. Poetschke and W. M. MacKenzie, The Development of Producer Marketing Boards in Canadian Agriculture, p. 9ff.

³ C. F. Perkin, "The Ontario Marketing Boards," Journal of Farm Economics, Vol. XXXII, No. 4 (November 1951), p. 969.

nine schemes were transferred to the provinces and continued under provincial legislation.

In 1938, the Chamber of Agriculture recommended to the provinces that they establish their own enabling acts, and suggested to the dominion government that they enact legislation to permit the regulation of interprovincial and export trade. By 1940, all provinces except Quebec had passed some form of marketing legislation, and the Chamber of Agriculture approached the Canadian Government on the question of federal marketing legislation.

This led to the passage of the Agricultural Products Marketing Act (Canada) in 1949. This Act provided for provincial boards to petition the federal government for the authority to exercise regulatory powers, when selling their product outside of the province or outside of Canada, similar to those they held for the product within the province. Since without the Agricultural Products Marketing Act (Canada), provincial legislation pertained only to the sale of product within the province, the authority of the boards was vastly extended by this Act. They could now regulate the movement of product within and without the province, as well as regulate quality, quantity and minimum price.

Difficulties in interprovincial trade continued however, and were highlighted by a situation arising in the late 1960's and early 1970's when "differential patterns of production and consumption in some commodities, particularly shell eggs and broiler chickens, gave rise to price differentials between provinces which exceeded the cost of

transportation."⁴ This situation was due, in part, to the policies of some of the provincial boards, as well as excess supplies of feed grains in the prairie provinces between 1969 and 1971. These price differentials led to increased interprovincial movement of commodities, and attempts by the provincial boards to curtail this movement to protect local markets. The ensuing conflict has been referred to as the "chicken and egg war."

The federal government, in an attempt to reconcile the problems, and to facilitate a more global organization of production and marketing of poultry products,⁵ drafted Bill C-197 in March of 1970. The bill failed after the second reading and was reintroduced in the fall session of the legislature (September 1970) as Bill C-176. After much discussion and controversy surrounding the intent of the legislation, it was enacted on January 11, 1972 as the Farm Products Marketing Agencies Act.

The Act provided for three institutions to govern the marketing of farm products, a National Farm Products Marketing Council, Farm Products Marketing Agencies, and Farm Products Marketing Plans.⁶

The functions of the National Farm Products Marketing Council are to advise the Minister of Agriculture on the establishment and operation of the Farm Products Marketing Agencies, to monitor the activities of the

⁴ Peter L. Arcus, "The Farm Products Marketing Agencies Act of 1972," Canadian Journal of Agricultural Economics, Vol. 20, No. 2 (July 1972), p. 98.

⁵ R. M. A. Loyns and A. Pursaga, unpublished manuscript.

⁶ Peter L. Arcus, op. cit., p. 98.

Agencies to insure that their activities conform to the goals established for them, to assist the Agencies in the development of more effective marketing strategies in the area of interprovincial and export trade, and to act as a liaison between federal and provincial governments.

The Farm Products Marketing Agencies, if and when established, are commodity oriented. Their goal, as set forth in the Farm Products Marketing Agencies Act, is to " . . . promote a strong, efficient and competitive production and market industry for the regulated product or products, having due regard to the interests of producers and consumers of the regulated product."⁷ An agency may be vested with the authority to purchase product under their jurisdiction, prepare and implement marketing plans, act for a province in the sale of the product in interprovincial or export trade, enter into agreement with the provinces with respect to intraprovincial trade, collect fees and levies on the regulated product, and advertise, promote and research new markets.

The Farm Products Marketing Plans, if and when authorized by the Governor in Council, may provide for the determination of producers of the regulated product, the specification of acts which constitute marketing, the establishment of marketing agreements to include control of quantity,⁸ price, time, and place for any and all grades of regulated product, the ability to conduct product receipt pools, and the licencing

⁷ Peter L. Arcus, op. cit., p. 100.

⁸ Quantity restrictions apply only to poultry and eggs.

of producers of the regulated products, as well as the imposition and collection of taxes. When quota regulation and supply is authorized, initial provincial quotas are to be allotted on the basis of the ratio of production in the specified area to total Canadian production for five years immediately prior to the inception of the Plan. Expansion of quota is to be allotted on the basis of comparative advantage parameters.

While this Act was established specifically to allow for the regulation of poultry meats, other farm products may be included under the Act if a majority of Canadian producers request that an agency be created. The Act specifically excludes products covered by the Canadian Wheat Board Act and the Canadian Dairy Commission Act. It does not assume regulation of a product not involved in interprovincial and/or international trade. Since the inception of the Act, two Agencies have been established--one for eggs and another for turkeys. A third Agency for broiler chicken is presently under consideration.

Development of Marketing Legislation in British Columbia

The first Canadian legislation aimed towards instituting compulsory marketing for agricultural products originated in British Columbia with the passage of the B.C. Produce Marketing Act of 1927. It was the result of growing dissatisfaction on the part of tree fruit producers with low prices and ineffective voluntary cooperative plans existing at the time. Under the Act, authority was granted to a committee to control the time and place of marketing of the regulated product (tree fruit), to establish quality and quantity regulations, to establish

minimum prices, and collect levies from the producers to cover the cost of operations. In 1931, the federal government declared this Act to be ultra vires on two grounds: (a) that it was an encroachment upon federal jurisdiction, since it extended control to interprovincial product movement, and (b) that it represented the imposition of an indirect tax, which was beyond the authority of the provincial government.⁹

In June of 1936, one day after the Supreme Court of Canada declared the Federal Natural Products Marketing Act (1934) to be ultra vires, British Columbia passed the Natural Products Marketing (British Columbia) Act. This Act, as revised to 1960, has as its purpose " . . . to provide for the promotion, control, and regulation in any or all respects of the transportation, packing, storage, and marketing of natural products within the Province, including the prohibition of such transportation, packing, storage, and marketing in whole or in part."¹⁰ The Lieutenant-Governor in Council was given the authority, under this Act, to establish such schemes as were necessary to effect the purposes of the legislation, and to constitute marketing boards to administer the respective local schemes. A scheme may be established to apply to " . . . the whole of the Province or to any area within the Province, and may

⁹ Department of Agricultural Economics, A Comparative Study of Agricultural Marketing Legislation in Canada, Australia, United Kingdom and the United States, November 1964, Ontario, University of Guelph, Publication No. A.E./64-65/11, p. 8.

¹⁰ Natural Products Marketing (British Columbia) Act, RS 1960, c. 263, s. 4.

relate to one or more natural products¹¹ or to any grade or class thereof."¹²

General Regulations Governing Marketing

Orders in British Columbia

Among the powers which the Lieutenant-Governor in Council may vest in any of the Provincial Boards under the Natural Products Marketing (British Columbia) Act are the power to:¹³

. . . regulate the time and place at which and to designate the agency through which any regulated product shall be packed, stored, or marketed; to determine the manner of distribution, the quantity and quality, grade or class of the regulated product that shall be transported, packed, stored, or marketed . . . and to prohibit the transportation, packing, storage or marketing of any grade, quality, or class of any regulated product; and to determine the charges that may be made for its services by any designated agency . . .

. . . require any or all persons engaged in the production, packing, transporting, storing, or marketing of the regulated product to register with and obtain licences from the board . . .

. . . fix and collect yearly, half-yearly, quarterly, or monthly licence fees from any or all persons producing, packaging, transporting, storing, or marketing the regulated product . . . and to recover such licence and other fees by suit in any Court of competent jurisdiction . . .

¹¹ Natural product, as defined by the Natural Products Marketing (British Columbia) Act, RS 1960, c. 263, s. 2, includes any product of agriculture, or of the forest, sea, lake, or river, and any article of food or drink wholly or partly manufactured or derived from any such product.

¹² Natural Products Marketing (British Columbia) Act, RS 1960, c. 263, s. 4, ss. 3.

¹³ Natural Products Marketing (British Columbia) Act, RS 1960, c. 263, s. 5.

. . . cancel any licence for violation of any provision of the Scheme or of any order of the board or of the regulations . . .

. . . require full information relating to the production, packing, transporting, storing, and marketing of the regulated product . . .

. . . fix the price or prices, maximum price or prices, minimum price or prices, or both maximum and minimum prices at which the regulated product, or any grade or class thereof, may be bought or sold in the Province . . . and may fix different prices for different parts of the Province . . .

. . . authorize any marketing agency appointed under the Scheme to conduct a pool or pools for the distribution of all proceeds received from the sale of the regulated product . . .

. . . . seize and dispose of any of the regulated product kept, transported, packed, stored, or marketed in violation of any order of the board . . .

. . . make such orders, rules, and regulations as are deemed by the board necessary or advisable to promote, control and regulate effectively the transportation, packing, storage, or marketing of the regulated product . . .

Provincial commodity boards are authorized, under the Agricultural Products Marketing Act, to cooperate with the Federal Board,¹⁴ and may, with the approval of the Lieutenant-Governor in Council, perform any function or duty and exercise any power imposed or conferred upon it by the Federal Act with reference to the marketing of a natural product. The Federal Board, may, with the approval of the Lieutenant-Governor in Council, exercise any of its powers provincially with reference to a natural product.¹⁵

¹⁴ Federal Board in this context refers to the Governor in Council.

¹⁵ Natural Products Marketing (British Columbia) Act, RS 1960, c. 263, s. 6-7.

As of July 1974, there are ten marketing boards in operation under the Natural Products Marketing (British Columbia) Act:

- B.C. Broiler Marketing Board
- B.C. Coast Vegetable Marketing Board
- B.C. Cranberries Marketing Board
- B.C. Egg Marketing Board
- B.C. Grapes Marketing Board
- B.C. Interior Vegetable Marketing Board
- B.C. Mushroom Marketing Board
- B.C. Oyster Marketing Board
- B.C. Tree Fruits Marketing Board
- B.C. Turkey Marketing Board

The B.C. Broiler Marketing Board--Organizational Structure

The British Columbia Broiler Marketing Scheme, a scheme to " . . . promote, control, and regulate the transportation, packing, storage, and marketing of British Columbia broiler chickens . . . "¹⁶ was passed by an Order in Council on December 12, 1961 pursuant to the provisions established in the Natural Products Marketing (British Columbia) Act. The Scheme provides for the creation of a B.C. Broiler Marketing Board, comprised of three grower-elected representatives of the broiler industry, who are given the authority to administer the Scheme. The members of the Board are elected for a term of three years, and are given such remuneration as is established by the growers at the B.C. Broiler Growers Association annual meetings.

All financial support for the Board is received through assessments, levied on the producers of the regulated product. Currently, the

¹⁶ British Columbia Broiler Marketing Scheme, B.C. Reg. 188/61.

assessment is three-quarters of one cent for each bird marketed (including fowl), and one-third of a cent per dozen on broiler breeder hatching eggs. These assessments are normally deducted from the grower returns by the processors and hatcheries respectively, and are forwarded directly to the Board.

In addition to the authorization given to conduct day to day activities, the Scheme empowers the Board to:¹⁷

. . . regulate the time and place at which, and to designate the agency through which, any regulated product shall be packed, stored, or marketed; to determine the manner of distribution, the quantity and quality, grade, or class of the regulated product, . . . to prohibit the transportation, packing, storage, or marketing of any grade, quality, or class of any regulated product; and to determine the charges that may be made for its services by any designated agency . . .

. . . exempt from any determination or order any person or class of person engaged in the transportation, production, packing, storing, or marketing of the regulated product or any class, variety, or grade thereof . . .

. . . require any or all persons engaged in the production, transportation, packing, storing, or marketing of the regulated product to register with and obtain licences from the Board . . .

. . . establish, issue, permit transfer, revoke, or reduce quotas to any person as the Board, in its discretion may determine from time to time, whether or not the same are in use, and to establish the terms and conditions of issue, revocation, reduction, and transfer of quotas, such quotas to remain at all times exclusive property of the Board, which shall not attach any monetary value thereto; . . .

. . . issue permits upon such terms and conditions as to issuance and revocation as is deemed necessary . . .

¹⁷ British Columbia Broiler Marketing Scheme, B.C. Reg. 188/61, s. 4.01 (a-o).

. . . fix and collect yearly, half-yearly, quarterly, or monthly licence fees . . .

. . . cancel any licence or permit for violation of any provision of the Scheme or of any order of the Board or of the regulations . . .

. . . require full information relating to the production, transportation, packing, storing, and marketing of the regulated product from all persons engaged therein; . . . and to inspect the books and premises of such persons . . .

. . . fix the price or prices, maximum price or prices, minimum price or prices, or both maximum and minimum prices at which the regulated product, or any grade or class thereof, may be bought or sold in the province, or that shall be paid for the regulated product by a designated agency, and may fix different prices for different parts of the province . . .

. . . establish and conduct, or to authorize any marketing agency approved by the Board under the Scheme to conduct a pool or pools for the distribution of proceeds received from the sale of the regulated product after deducting all necessary and proper disbursements, expenses and charges, in such manner that each person receives a share of the net proceeds in relation to the amount, variety, size, grade, and class of the regulated product delivered by him . . .

. . . require the person in charge of any vehicle in which the regulated product could be transported to permit any member or employee of the Board to search the vehicle . . .

. . . seize and dispose of any of the regulated product kept, transported, packed, stored, or marketed in violation of any order of the Board . . .

. . . make such orders, rules, and regulations as are deemed by the Board necessary or advisable . . .

. . . refuse to issue any licence to any person who previously held a licence which was cancelled by the Board, and to any person who associated with any person who previously held a licence which was cancelled by the Board, and to any person who has, within six months of the date of his application for a licence, committed any act which would be an act of bankruptcy under the Bankruptcy Act of Canada, and to any person who fails to satisfy the Board that he has the transportation, packing, storing, and marketing facilities deemed by the Board as necessary to properly protect the interests of the growers . . .

. . . promote the broiler industry by advertising . . . and by compiling, publishing, distributing, and furnishing information with respect thereto . . .

. . . delegate its powers¹⁸ to such an extent and in such manner as the Board may from time to time deem necessary or advisable . . .

All producers of the regulated product are under the jurisdiction of the B.C. Broiler Marketing Board and all handlers of the registered product are licenced by the Board. The definition of a regulated product provided in the Scheme, as amended on April 25, 1973, includes " . . . any class of chicken under six months of age not raised or used for egg production, and also means broiler breeders and broiler hatching eggs and any article of food or drink wholly or partly manufactured or derived from the regulated product." The Scheme was revised in 1973 to permit the inclusion of forty-one broiler breeder hatching egg production units under the jurisdiction of the Board. (The broiler breeder hatching egg producers were formerly under the jurisdiction of the B.C. Egg Marketing Board).

Broilers under B.C. Broiler Marketing Board regulations are divided into four categories, Rock Cornish Game Hens (five weeks of age, approximately 2.2 pounds liveweight), junior broilers (seven to eight weeks of age, approximately 3.4 pounds liveweight), broilers (eight weeks of age, approximately 3.9 pounds liveweight), and roasters (twelve weeks of age, approximately 7.5 pounds liveweight).

¹⁸ Excluding powers concerning licencing and quotas.

The B.C. Broiler Marketing Board does not have the authority to directly control production. Presumably, this is because the British North America Act does not delegate authority to any corporation or board to control production directly.¹⁹ This does not, however, preclude indirect control of production through control of the amount of any product which any one grower may market in a given production period. By effectively controlling the quantity of product marketed, the Board accomplishes virtual production control.

The B.C. Broiler Marketing Board regulates production through the use of quotas and permits. These represent rights to market a given quantity of birds per cycle and are allotted to individual growers at the discretion of the Board. The primary difference between a quota holder and a permit holder is that a grower holding a permit is not considered to be a registered grower by the Board, and therefore cannot vote on Board actions, be elected to the Board, or hold membership in the B.C. Broiler Growers Association. The Board has traditionally used permits as a means to introducing new growers. Theoretically, the quota (or right to produce) issued by the Board has no monetary value attached to it.

The Board has the authorization, under their Scheme, to set the price for hatching eggs and to establish the price per pound liveweight paid to the grower for finished broilers. Individual grower returns are

¹⁹ H.V. Walker and G. Hiscocks, A Preliminary Draft of: A Report on Agricultural Marketing Boards in Canada, 1969, Ottawa, Canada Department of Agriculture library, p. 76.

based on the amount of production per class of product multiplied by the liveweight price for that product.

In 1961, when the Board commenced activities, 261 producers became subject to regulation, their volume of production being 8,082,000 birds. In 1973, comparable figures were 139 broiler producers with 18,835,000 birds.

The Board has the authority to regulate the importation of any broiler product from outside of the province coming under their jurisdiction. Anyone wishing to bring any of the regulated product to British Columbia must first receive written permission from the Board, which retains the right to specify the quantity of the product sold as well as any conditions relating to the sale of that product.

Historical Development of Marketing Legislation in the United States

Due to unfavourable economic conditions resulting from the depression years (1930-35) and the ineffectiveness of voluntary organization to arrest the falling prices of farm products, the initial steps toward an organized marketing approach for agricultural commodities were undertaken in 1933, with the passage of the Agricultural Adjustment Act.

This act represented the first attempt to provide a statutory basis for "compulsory competition" in agricultural marketing through the use of licences. Within two years, sixty-eight plans were promulgated involving 7700 licences and directly affecting two million

growers.²⁰ This first attempt was, however, short lived. In 1937, the Act was declared unconstitutional on the basis of its processing tax provision. It was felt that in some instances the tax provision merely provided for the transfer of money from the processor to the producer, with resulting losses in agricultural acreage.

The Agricultural Adjustment Act was replaced by the Agricultural Marketing Agreement Act of 1937. One of the conceptual differences in the two pieces of legislation was that the latter was designed to place marketing controls as a permanent adjunct of agricultural marketing, and that "shortages" should be planned for as well as "surpluses." In the former act, these powers were advocated only as temporary measures to meet the emergency situations created by the depression years. The objectives set forth in the 1937 act were to:²¹

- (1) . . . establish and maintain such orderly marketing conditions for agricultural commodities in interstate commerce as will establish, as the prices to farmers parity prices . . .
- (2) . . . protect the interest of the consumer by
 - (a) approaching the level . . . (parity) . . . prices . . . by gradual correction of the current level . . . , and
 - (b) authorizing no action . . . which has for its purpose the maintenance of prices to farmers above the parity level . . . ,
- (3) . . . establish and maintain such minimum standards of quality and maturity and such grading and inspection requirements for agricultural commodities . . . as will effectuate

²⁰ A Comparative Study of Agricultural Marketing Legislation in Canada, Australia, United Kingdom and the United States, p. 16.

²¹ R. M. A. Loyns, "A Comparison of Legislative Aspects of Agricultural Market Regulation in Canada and the U.S.," Canadian Journal of Agriculture Economics, Vol. 19, No. 1 (July 1971), p. 40.

such orderly marketing of such agricultural commodities as will be in the public interest . . .

- (4) . . . establish and maintain such orderly marketing conditions . . . as will provide, in the interest of producers and consumers, an orderly flow of the supply thereof to market throughout its normal marketing season to avoid unreasonable fluctuations in supplies and prices . . .
- (5) . . . continue for the remainder of any marketing season or marketing year, such regulation pursuant to any order as will tend to avoid a disruption of the orderly marketing of any commodity and be in the public interest . . .

In 1947, the Act was amended to empower marketing control boards to establish minimum grade and quality standards, together with mandatory inspection, regardless of whether seasonal average price exceeded parity levels. This was a significant amendment, since the basic act required suspension of all control measures designed to aid prices when the seasonal average had reached or was likely to reach parity.

In 1954, the Act was amended to include regulation of imports with the view towards maintaining them on a comparable basis with the regulated domestic product. Provision was also included, at this time, for the regulation of containers used for packaging and marketing the regulated product, and for market research and product development.²²

The Agricultural Marketing Agreement Act specifies those products which may be regulated on a federal level and those which may

²² A Comparative Study of Agricultural Marketing Legislation in Canada, Australia, United Kingdom and the United States, p. 18.

be regulated include milk, specific soft fruits, tree nuts, peanuts, tobacco, vegetables, hops, honey bees, naval stores, olives, grapefruits, cherries, cranberries and some apples for canning and freezing. All fruits and vegetables for canning and freezing not mentioned and apples produced in several states are ineligible. Other commodities which are excluded are honey, cotton, grains, sugar beets and sugar cane, poultry and eggs (except turkey and turkey hatching eggs).²³ Products not eligible under federal jurisdiction are normally controlled by state marketing agreements if their level of production is sufficient to warrant this. Several states have no legislation to cover this type of market legislation, several have legislation specific to milk or some other commodity, and a few cover all or most farm products.

In the United States, enabling agricultural legislation on the federal and state level falls into two basic categories: marketing orders and marketing agreements. A marketing order is a compulsory agreement between the Secretary (or State Director) of Agriculture and producers or processors which regulates the marketing of a commodity (once the order has been approved by the requisite majority). A marketing agreement is a voluntary arrangement between the Secretary (or State Director) of Agriculture and producers and handlers of a commodity, and is binding only on those who sign it.²⁴

²³ Loyns, "A Comparison of Legislative Aspects of Agricultural Market Regulation in Canada and the U.S.," p. 39.

²⁴ Ibid., p. 37.

The majority of state orders and agreements are for fruits and vegetables. Several commodities are regulated by federal and state orders simultaneously in order to effect fresh and processed forms of the product or to engage in other regulatory activities which are unique to one or other of the enabling statutes.²⁵

California was the first state to pioneer the use of marketing orders as a form of self-help for agriculture, with the passage of the Prorate Act of 1933 and subsequent marketing and enabling legislation in 1933, 1935 and 1937. Since then, more than 35 California commodity groups have employed state marketing orders.²⁶ Many other states have used California's legislation as a base upon which to pattern their own enabling legislation.

Development of Marketing Legislation in Washington State

The first effort towards compulsory marketing of agricultural commodities in Washington was the creation of the Washington Apple Advertising Commission in 1937. This Commission was based on a marketing order which was requested by industry leaders and was imposed by the legislature upon those growers who produced apples for sale on the fresh market. It levied an assessment on such apples to be paid by the grower, provided for the collection and disbursement of the funds,

²⁵ Loyns, "A Comparison of Legislative Aspects of Agricultural Market Regulation in Canada and the U.S.," p. 39.

²⁶ Washington State Department of Agriculture, State Marketing Orders, 1971, p. 2.

and created a commission of growers and handlers to administer the order. Funds collected were used to advertise and promote the regulated product. Similar legislation was requested of, and enacted by, the legislature to create the Washington Dairy Products Commission in 1937 and the Washington Soft Fruit Commission in 1947.²⁷

In the early 1950's several farm groups appealed to the Washington legislature for enactment of legislation governing agricultural production and marketing similar to that in effect in California. As a result, a general Agricultural Enabling Act was passed in 1955. It authorized the use of marketing orders and marketing agreements to regulate commodity markets under the administration of commodity commissions. The members of the commodity commissions were to be elected by growers and/or handlers as specified by the order or agreement. One feature of California legislation, the authorization to control the quantity of a product moving to market and the disposition of surpluses, was not and has not since been included in any agricultural legislation in Washington due to opposition from the processors and distributors of the product.²⁸ Under the Agricultural Enabling Act, qualifying groups may have orders promulgated by the Director of Agriculture, and assessments may be disbursed for advertising, research, improvement of grades and standards, and for the investigation of unfair trade practices.

²⁷ Washington State Department of Agriculture, State Marketing Orders, 1971, p. 2.

²⁸ Ibid.

The first commodity group to use this legislation was the bulb growers (in 1956). Orders were established for potato growers and seed potato growers in 1956, and for wheat and fryers in 1957.

Following complaints by dissident groups of wheat producers in 1957, the Agricultural Enabling Act was challenged in court. It was declared unconstitutional on the grounds of its administrative provisions, but this decision was subsequently reversed by the Washington State Supreme Court. With the expressed approval of the 1955 Act by the Supreme Court the extension of legislative authority and the collection of assessments were considered legal and within the intent of the Legislature.²⁹ As a result of the controversy surrounding the original act, a second Washington Agricultural Enabling Act was drafted and passed in 1961. The major difference in the two pieces of legislation is that in the latter Act, its administration is vested with the Director of Agriculture or his designate. Advisory and assistance functions are assigned to individual commodity boards, elected by the respective growers and/or handlers of the produce, and the board so established may be designated as the administrator. Power is also granted to groups established under the 1961 Act to use a sign-up procedure in lieu of a referendum to obtain requisite grower approval. The first group to use the new act was the hop growers in 1964, followed by the dry pea and lentil growers in 1965, and the mint growers in 1966.

²⁹ Personal communication with Allan Johnson, Manager, Washington Fryer Commission.

and then the blueberry growers in 1969. Commissions for beef and tree fruits were established under separate legislation in 1969.

The agricultural community in Washington State now has a choice of two enabling acts for use in market organization and regulation: the Agricultural Enabling Act of 1955 and the Agricultural Enabling Act of 1961. While both acts permit the use of marketing agreements as well as marketing orders, there have been no marketing agreements established in Washington.³⁰ Both acts provide for the termination of any order which fails to accomplish the purposes for which it was intended. The 1955 Act requires the same procedure for termination as for issuance (a referendum of all growers, a favourable majority being established if fifty-one per cent of the growers vote, and of those voting, sixty-five per cent or more with fifty-one per cent of the production volume vote in favour). The 1961 Act requires a referendum of fifty-one per cent of the growers with fifty-one per cent of the production volume for termination.

General Regulations Governing Washington State

Marketing Orders

All marketing orders drafted under the Washington State Agricultural Enabling Acts of 1955 and 1961 are operated and controlled by commissions or commodity boards elected by the affected growers. The State Director of Agriculture is an ex-officio member of all

³⁰ State Marketing Orders, p. 4.

commissions. Each commission is given the authority to establish an office, employ necessary personnel, including attorneys, to acquire property, to borrow money, to maintain its own bank account, to sue and be sued, and to adopt rules and regulations that will tend to effect the purposes of the marketing order. Complete records of all activities must be maintained, and these are subject to audit by the State Auditor. Nomination and election of commission members is supervised by the Director of Agriculture. Each commission is required to hold meetings at least four times per year, and these are open to the public. Funds may not be spent for any activity not specifically authorized by the marketing order in effect.

Activities authorized under the 1955 Act are advertising and promotion, research, improvement of grades and standards, and the prevention of unfair trade practices. The 1961 Act authorizes the same activities and in addition authorizes the distribution of marketing information and certain services to producers such as the verification of grades, standards, weights, tests, and sampling for quality and quantity of the affected commodity. This Act also permits the inclusion of any other provision that is incidental to and not inconsistent with the Act, if the Director finds that such is necessary to effect the purposes of the Act.

No marketing order can be issued for the purpose of controlling the production of a commodity, or for fixing prices at any level of trade. Neither can any order be issued that disregards the interests of consumers. All costs of formulation, implementation, and administration

of marketing orders are paid by affected producers through a levy on the proceeds or sales of their commodities. The maximum amount of assessment is limited by the Act. Further, the amount that is to be assessed must be determined and agreed to by the producers before the marketing order is issued. Any increase or decrease in the rate of assessment requires an amendment to the order that again must be approved by the growers. Assessments are normally collected by the first handler of the product, and deducted from the returns paid to the grower.³¹

The Washington Fryer Commission--Organizational Structure

A Marketing Order for Washington Fryers, Broilers and Roasters was established on April 15, 1957 under the authority of the Washington State Agricultural Enabling Act of 1955. It provided for the creation of the Washington Fryer Commission to administer the order. The Commission is comprised of eight voting members; six grower-elected commissioners (who are also producers) representing six geographical producing districts within the state, and two commissioners-at-large who are appointed by the elected producer members. The commission members are elected for a term of three years. The Washington State Director of Agriculture is an ex-officio members of the commission. Commission members receive no salary or other compensation from the commission other than a specified per diem amount (not to exceed twenty

³¹ State Marketing Orders, p. 8.

dollars) for each day spent in actual attendance or travelling to and from meetings of the commission or on special assignments for the commission. Their subsistence and travelling expenses are paid at the rate allowed by law to all state employees.³² Commission meetings are required to be held at least four times per year on a quarterly basis, and must be comprised of at least five voting members for approval of any action to be taken by the Commission. A manager is employed to supervise the day to day activities of the Commission.

All financial support is received through assessments levied on the producers of the regulated product.³³ Currently, an assessment of .17 of a cent per pound liveweight is levied on the producer for every pound of fryers sold, processed or delivered for sale or processing by him, and .22 of a cent per pound for dressed or cut-up fryers sold, processed or delivered for sale or processing by the producer thereof. No assessment is levied for sales on a producer's premises by " . . . a producer direct to a consumer of thirty . . . pounds or less of fryers from a producer's own production; . . . fryers of a producer's own production used by him for personal consumption; or . . . fryers donated or shipped for relief or charitable

³² State of Washington Department of Agriculture, Marketing Order for Washington Fryers, Broilers and Roasters, Director's Findings and Final Decision (hereafter cited as Marketing Order for Washington Fryers Broilers and Roasters), March 4, 1957, Art II, s. H(6).

³³ The term "regulated product" as specified by the Order, includes any and all breeds or varieties of chickens under the age of six months marketed for human consumption as fryers, broilers or fryer-roasters.

purposes."³⁴ No assessment levied or collected by the Order may exceed three per cent of the total market value of all such fryers sold, produced or delivered for sale or processing by all producers of fryers for the fiscal year to which the assessment applies.

The activities of the Commission are restricted to four basic areas: advertising and sales promotion, research, the improvement of grades and standards for fryers by defining, establishing and providing labelling requirements, and the investigation and prevention of unfair trade practices, to include correction, where possible, of trade practices which hinder the marketing of Washington produced fryers. The provisions covering standards, grades, labels and trade practices apply with respect to fryers marketed or sold within Washington State, regardless of where produced.³⁵

In 1957, when the Commission commenced activities, 640 producers became subject to regulation, their volume of production being 11,671,000 birds. In 1973, comparable figures were 126 producers with 16,839,195 birds. Production has fluctuated in the intervening years with a high of 21,681,412 birds produced and marketed in 1966.³⁶

³⁴ Marketing Order for Washington Fryers, Broilers and Roasters, Art. III, s. A(3).

³⁵ Ibid., Art. III, s. E.

³⁶ Washington Fryer Commission, Annual Reports, 1957-73.

Summary and Comparison

Enabling Legislation

One of the areas in which the enabling agricultural legislation differs is the delegation of state and provincial authority as compared with federal authority.

In Canada, all producer boards are initiated and operate under powers vested in them through enabling provincial legislation. The powers granted to them by provincial legislation limit their conduct to activities which affect only intraprovincial trade. For those products moving in interprovincial or export trade, authority is delegated under federal legislation (Agricultural Products Marketing Act 1949, as amended). In the United States, marketing orders and agreements may be instituted under either federal or state jurisdiction.

The specification of commodity coverage also differs between Canadian and American enabling legislation. Commodity boards in Canada may be established to regulate the movement of any agricultural or natural product produced, as well as any product derived from them. The United States, on the other hand, has enacted legislation which designates specifically those commodities which may be regulated and those which are exempt from regulation.

Responsibilities to other sectors of the economy are more clearly defined in the American enabling legislation. This legislation makes specific reference to "public interest," includes provisions which are aimed at protecting the interests of the consumer, and expressly forbids

any action the purpose of which is to maintain prices to farmers that are above parity levels. With the exception of Quebec, no reference is found in any of the existing Canadian legislation (dealing with market regulation) which imposes limits on the authorities that may be exercised by the regulatory agencies, or which specifies the responsibilities to other parties.³⁷

The controls available to commodity boards in the United States and Canada are substantially different. Under federal legislation in the United States, no restrictions may be imposed on the production capacity of any producer, with the exception of hop producers, a special case for which quotas are permitted.³⁸

Canada, the legislative provisions for quota regulation and price setting provide producers with extensive power over markets. The ability of regulatory agencies to establish minimum prices or negotiate prices on behalf of the producers in Canadian legislation has no counterpart in either federal or state marketing orders in the United States. The strongest legislation regarding prices found in United States legislation is the requirement of price posting, a measure which is intended to improve price information and to ensure equitable pricing among producers rather than establish price levels by collective action.³⁹

³⁷ Loyns, "A Comparison of Legislative Aspects of Agricultural Market Regulation in Canada and the U.S.," p. 40.

³⁸ Ibid., p. 44.

³⁹ Ibid.

In the United States, it is normally the processors or handlers of the product who are regulated under marketing orders and agreements, while in Canada, regulatory mechanisms used by the Boards are applied to producers.⁴⁰ This tends to lead to a dependence on producer quotas as implements of market regulation in Canada, rather than the use of tools such as market research and development and product promotion to improve market demand as is the case in the United States. Research efforts in the United States have been extensive in the areas of economic and technical characteristics of commodities, investigation of improved production and marketing efficiencies, development of market potential, and continuing program evaluation. The research is often embarked upon by the commodity groups themselves, or in conjunction with Land Grant Colleges. There is very little historical evidence to suggest that research or program analysis has been conducted in Canada, and statistical information relevant to market control is definitely lacking.⁴¹

The degree to which individual boards are controlled also differs in Canada and the United States. In the United States, the Secretary and State Director of Agriculture are responsible for the supervision, investigation, and issuance of marketing orders on the federal and state level respectively. All orders establishing a commodity program specify that an advisory committee or control board--comprised of appointed

⁴⁰ Loyns, "A Comparison of Legislative Aspects of Agricultural Market Regulation in Canada and the U.S.," p. 44.

⁴¹ Ibid.

producers and/or processors--be appointed to advise the Secretary or State Director of Agriculture on all aspects of program operation, and to implement orders as they may be issued.⁴² In Canada, a Provincial Marketing Board is established to oversee the operations of all provincial commodity boards. In most provinces, however, the role of the provincial board is limited after a producer board has been established. It is the individual producer boards themselves who determine regulatory policies, establish quotas and issue licences.

In British Columbia, the Provincial Marketing Board functions mainly as a liaison between the local boards and the provincial government. In Canada, the focus of control of agricultural commodities rests mainly with the provinces. Since the provinces have traditionally delegated their powers of regulation to the individual commodity boards, the individual producer groups are far more powerful than those in the United States.

Organizational Structure

One of the more striking differences in the structure of the Board and Commission are the powers delegated to each. The Washington Fryer Commission is empowered with the authority to conduct advertising and promotion, product research, the improvement of standards and grades, and the investigation and prevention of unfair trade practices. The B.C. Broiler Marketing Board has the authority to regulate total quantity

⁴² Loyns, "A Comparison of Legislative Aspects of Agricultural Market Regulation in Canada and the U.S.," p. 45.

of product produced, maximum quantity of product produced by any one grower, the price the grower receives for the product, and to restrict the introduction of any competing product into the British Columbia market. The powers given to the Washington Fryer Commission are developmental in nature, while those given to the B.C. Broiler Marketing Board are regulatory in nature.

The Marketing Order for Washington Fryers, Broilers, and Roasters specifies the minimum number of times the Commission must meet, and that these meetings must be open to the public. The B.C. Broiler Marketing Scheme has no provision for the number of times during a year that meetings must be held. The Order under which the Washington Fryer Commission operates, explicitly precludes any action taken by the Commission for the purpose of controlling the production of the commodity or fixing price at any level of trade. It further states that no order may be issued that disregards consumer interests. The provision for establishment of price is explicitly stated in the B.C. Broiler Marketing Scheme, however, no provision is included for consumer interests.

While both the Board and Commission collect a levy from the growers to finance their operations, the Marketing Order for Washington Fryers, Broilers and Roasters places an absolute limit on the amount which may be assessed. No such provision is included in the B.C. Broiler Marketing Scheme.

CHAPTER IV

CONDUCT

Introduction

In the approaches to organized marketing taken by the B.C. Broiler Marketing Board and the Washington Fryer Commission in the broiler industries of British Columbia and Washington, respectively, the second area of comparison is that of conduct.

B.C. Broiler Marketing Board

As was previously mentioned, the B.C. Broiler Marketing Board has the authority, under their Scheme, to regulate the amount of product produced (through the use of quotas), to determine the number of growers who may hold quota at any given time, to fix the total amount of quota which any grower may hold, to establish the price for broiler hatching eggs and liveweight price to producers, and to restrict or otherwise control any regulated product which is offered for import sale on the British Columbia market. While the Scheme also authorizes the Board to conduct promotional activities, since most of the functions of the Board centre on regulation, a discussion of their conduct is necessarily dominated by reference to legislation rather than to product promotion and research. The activities of the Board may be divided into three categories: (a) regulation of domestic supply, (b) regulation of imported product, and (c) other activities.

Regulation of Domestic Supply

The control of domestic supply through the use of quota has formed a major portion of the Board's activities. Quota constitutes the right to produce a specified amount of the regulated product, and is allocated by the Board. For broilers, quota specifies the number of birds a grower may produce during each production cycle, and the length of the production cycle is determined by the Board. To regulate the volume of production, the Board stipulates the percentage of quota which may be produced in any given cycle.

When the Board began operation in 1961, quota was granted to existing growers on the basis of the square footage of buildings which had been in operation for six months or more. Following the initial allocation, increased production demand was met by increasing the existing quota.

In 1970, basic market quota became known as primary quota and the concept of secondary quota was introduced. All growers holding more than 5000 primary quota were issued 5000 secondary quota, and all growers with less than 5000 quota were issued secondary quota equal in amount to their primary quota. Secondary quota, unlike primary, could be transferred only through the sale of the farm, and only after it had been held for three years.

In 1971, the B.C. Broiler Marketing Board implemented a plan to permit the entry of new growers. Subject to approval by the Board, a new grower receives a 4000 bird roaster permit and a 4000 bird Rock Cornish Game Hen permit. After three years, the grower may apply to the

Board to have these permits converted to an 8000 bird broiler quota.

In April of 1973, the B.C. Broiler hatching egg producers were brought under the jurisdiction of the B.C. Broiler Marketing Board. This extended for the Board the definition of regulated product to include broiler hatching eggs and fowl. The Board subsequently established production quota for the broiler breeders, instituted a levy of one-third of a cent per dozen on broiler breeder hatching eggs and three-quarters of a cent per head on each broiler breeder marketed (fowl).

On January 1, 1974, the Board amalgamated all primary quota and all secondary quota which had been held at least three years into the category of broiler quota. At the same time, they issued secondary quota of 5000 birds per cycle to all 110 lower mainland growers with less than 40,000 total quota, and for those with total quota from 40,000 to 44,999, they issued secondary quota to bring them to a level of 45,000 birds per cycle.

In January of 1974, total broiler quota amounted to 4.1 million birds per eleven week cycle and secondary quota amounted to 550,000 birds per eleven week cycle.

While quota is used by the Board as a tool to regulate production volume, it is not always sufficient to prevent the accumulation of surplus,¹ and other measures are necessary to further curb production. As of July 1974, approximately 4.6 million pounds of broiler products

¹ Surplus in this context being defined as the excess of product supplied over that demanded at the Board established price.

are being held in frozen inventory. While the Board has restricted all secondary quota production, and reduced primary quota to ninety per cent to eliminate this surplus, they have also issued regulations increasing the production cycle upon which quota is based for broilers from eleven to twelve weeks and reduced the broiler breeder production cycle from 62 to 56 weeks.

Regulation of Imported Product

During the years 1969 to 1970, a series of incidents which were later referred to as the "chicken and egg war" drastically affected the poultry industry in Canada. The rate of interprovincial trade in chicken and eggs increased dramatically, moving product from areas of low cost of production to those of higher cost of production. The B.C. broiler market was subject to large quantities of imported products from eastern Canada, which caused disruption of B.C.'s prices. As a result of this, steps were taken by the Board to regulate any imported product offered for sale on the British Columbia market.

On August 17, 1970, the Board enacted Import Order No. 1, permitting them to seize and destroy any import product offered on the British Columbia market which had not received prior written approval from the Board.

The interprovincial movement of broilers was a concern shared by many of the provinces. In 1970, the Board endorsed a proposal for a National Chicken Marketing Plan, providing for regulations restricting the interprovincial movement of broiler products. Since the regulation

of interprovincial trade implies a degree of national control of broiler production, the development of the Plan has been characterized by provincial dissension. Early in 1972, the federal government appointed the National Farm Products Marketing Council, a statutory body appointed to set guidelines for producer groups in establishing national plans under the Farm Products Marketing Agencies Act. The following is a brief summary of the position the Board has taken in the ensuing negotiations.

Based on the quota provisions of the Farm Products Marketing Agencies Act, Quebec was to receive the largest provincial quota. The B.C. Broiler Marketing Board felt that this would give Quebec a disproportionate share of the total Canadian chicken market, and suggested that provincial quotas be established on the basis of 1972 marketing figures. The Plan also called for the purchase and disposition of surplus production on a national level. Due to the controversy surrounding quota allocation and surplus disposition, as well as unsatisfactory definitions of future growth, the Board declined to support the Plan in 1972.

Negotiation concerning the National Chicken Marketing Plan continued through 1973, and in December of 1973 the Canadian Broiler Council forwarded a copy of the proposed National Chicken Marketing Plan to the National Farm Products Council in Ottawa for review, despite the dissension of Quebec and British Columbia. Quebec's dissension was based on Section 24 of the National Farm Products Marketing Agencies Act,

requiring provincial quota in the national plan to be based on the provinces previous five years of production relative to the rest of Canada. The B.C. Broiler Board again objected on the grounds of national quota allocation, authorization to purchase and dispose of surplus on a national level, the provision for interprovincial movement of regulated product, and the disregard for the concept of provincial self-sufficiency in broiler production.

Early in 1974, further hearings were conducted regarding the National Chicken Marketing Plan. The B.C. Broiler Marketing Board presented a brief at Winnipeg representing the interests of British Columbia producers. On April 9, the Directors of the Canadian Broiler Council met in Vancouver and approved a new proposal for the National Chicken Marketing Plan. The proposed plan based provincial quotas on a two per cent increase over 1973 provincial production, reduced the function of the National Agency to one of coordination of surplus disposal programs, and prevented interprovincial movement of broiler products without the prior consent of the receiving province or provinces. It further proposed that Canada be divided into three producing regions, the first region comprised of British Columbia, Alberta, Saskatchewan and Manitoba, the second region comprised of Ontario and Quebec, and the third region comprised of New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland. Further provincial market allocation increases or decreases were to be based on comparative advantages of production and marketing within each province with specific reference to change in consumer demand, individual efforts on the part of any province to develop new uses for

chicken and increase domestic and export markets, the ability of any province to meet its target production, total market requirement within each province, transportation costs from areas of supply to areas of demand, and the proportion of provincial demand which is met by provincial production.

The B.C. Broiler Marketing Board approved the plan as proposed at the April 9 meeting, and it was again forwarded to the National Farm Products Council for review. The Plan was subsequently amended by the Council and returned to the provinces for ratification. Included in the amendments were a reduction of the controls placed on interprovincial trade, a modification of the basis for provincial quota allocation and surplus disposition, and an elimination of the concept of three producing regions in Canada.² The B.C. Broiler Marketing Board declined to approve the proposed Plan as amended.

Other Activities

The B.C. Broiler Marketing Board has placed an emphasis on the concept of the family farm, and has taken several steps to ensure the maintenance of family sized farm units in the industry. This has been accomplished by placing limits on individual quota holdings and the restrictions of quota transfer policies. In 1969, the Board passed a regulation prohibiting any grower from holding more than seven per cent of total quota allotment. This was decreased to a maximum of three per cent in

² Personal communication, Art Stafford, manager, B.C. Broiler Marketing Board. Amendments of the proposed plan were unavailable.

1971, and further reduced to 1.25 per cent, or 50,000 birds per cycle, in 1974.

Prior to 1972, quota could be transferred between growers, subject to approval of the Board. In 1972, the Board issued a regulation assigning all primary quota to specific farms. As a result of this regulation, quota may be transferred only through the sale of the farm, and the transfer is subject to the approval of the Board.

To further ensure the concept of a family farm, and to curb vertical integration, the Board has stipulated that quota may not be issued or transferred to any grower who has received capital financing from any other part of the broiler industry or affiliated trades. As a further curb on vertical integration, every grower is required to sign a statement³ to the effect that they

. . . will not engage, be employed, or own shares in any hatching, processing or feeding business whether incorporated or unincorporated either directly or indirectly or through any related person or corporation; provided that nothing in this Undertaking and Agreement shall prevent the undersigned from acquiring and holding shares in Pacific Poultry Producers Cooperative Association⁴ or for any successor thereto, which successor is approved by the B.C. Broiler Marketing Board.

³ Undertaking Order, B.C. Broiler Marketing Board.

⁴ Pacific Poultry Producers Cooperative Association is an association formed by 125 broiler and turkey producers in British Columbia. In December of 1973, they formed a company known as Pan-Ready Poultry Ltd., acquired Wm. Scott & Co., a processing plant, and Centennial Hatchery. The government owns forty per cent interest in Pan-Ready. The President of Pan-Ready and Pacific Poultry Cooperative Association is also Chairman of the B.C. Broiler Marketing Board.

While much of the Board's activity has been devoted to administering the powers granted to them under their Scheme, advertising and promotional functions have been undertaken as well. These include exhibitions at the B.C. Federation of Agriculture's "Acres of Food" display at the Pacific National Exhibition, newspaper, radio and magazine advertisements, the publication of a "Home Grown B.C. Quality" cookbook containing recipes for chicken, and establishment of May as "chicken month" by the provincial government. The area of research has also received some attention. In 1973, the Board commissioned a market study to determine the potential demand for further processed broiler products.⁵ Further efforts in this direction are pending.

The Washington Fryer Commission

As was mentioned previously, the Washington Fryer Commission has been empowered with the authority, through their Order under the Agricultural Enabling Act of 1955, to encourage the production and marketing of the regulated product through advertising and promotion, research, improvement of standards and grades, and investigation and prevention of unfair trade practices. Their conduct in each of these areas is described herein in order of its significance.

⁵ W. Dixon, An Analysis of the Potential Market for Further Processed B.C. Broiler Products, September 1973, Market research conducted on behalf of the B.C. Broiler Marketing Board.

Advertising and Promotion

Advertising and promotion have received the greatest amount of attention by the Washington Fryer Commission in the sixteen years of its operation.⁶ A minimum of four major campaigns are now conducted each year, additional campaigns being undertaken when necessary. The campaigns are theme-coordinated, and comprised of point-of-purchase material (posters, recipe cards, danglers, channel cards), newspaper, television and radio features, and billboard displays. A major emphasis is placed on effective communication with the retailers regarding these campaigns. Prior to each promotion, a field agent⁷ calls on approximately 600 retail stores to discuss with the meat managers the details of the campaign, and supplies them with the necessary materials. A calendar is personally distributed to the store managers at the beginning of the year describing in detail the planned promotions to enable the managers to most effectively merchandise fryer products.

The Commission has received a great deal of retailer cooperation, as well as increasing aggregate fryer demand, through the use of free radio tags. These are comprised of ten seconds of free radio broadcasting time, located at the end of the Commission's regular thirty

⁶ One of the largest problems facing the Commission is the presence, in the Washington market, of lower-priced imported fryers from the southern states.

⁷ The function of the field agent also includes the enforcement of labelling provisions, public relations, and strengthening the communication between the Commission and retail sector.

second radio advertisements. They are made available to local retailers to attract customers to their stores, and in 1973 approximately nine hours of advertising were utilized by retailers in this fashion.

Newspaper advertising mats, often with recipes for Washington Fryers, are provided to the retailers at no charge by the Commission to further promote fryer sales. This greatly increases the amount of media advertisements placed by the retailers, as well as drawing attention to "Washington Grown Fryers." The Commission also provides to consumers, upon receipt of two "Grown in Washington" labels, a cookbook containing recipes for preparing "Washington Grown Fryers."

The Commission retains an independent advertising agency to produce, under their direction, all promotional material used.

There is a great deal of emphasis placed on developing an effective communication network between the various segments of the industry. In 1965, the Commission formed an Advisory Committee, comprised of the major processors in Washington, to evaluate, criticize, and counsel the Commission in the planning stages of its programs in an attempt to unify the industry in the overall production and marketing of fryers. Industry-wide meetings are held yearly to bring together the interests of producers, processors and retailers.

Advertising and promotion represents the major focus of the Commission's activities. In 1973, \$91,414 was expended on advertising, representing approximately seventy-nine per cent of the total operating budget.

Improvement of Standards and Grades

In August of 1957, the Commission established a Labelling Regulation requiring all fryers sold in Washington to be labelled as to state of origin. By 1959, they had achieved approximately ninety per cent compliance with this regulation. In addition to being a method of standardization, this legislation provided complementary support for their efforts in advertising and promotion. The aim of the Commission is to increase the demand for "Washington State Fryers." By stressing freshness ("days Fresher" than imported product), superior taste and quality, they are appealing to the consumer to differentiate between closely homogeneous food products. Without the labelling legislation, this would be impossible.

While the Commission currently has a standard label, they are considering allowing label diversification (provided minimum standards are met) to increase attractiveness and function.

The enforcement of labelling legislation is carried out primarily through public relations efforts, however the Commission has the authority to enforce it by means of legal action if necessary. Due to the intensive promotional activities of the Commission, which have resulted in an increased demand for Washington fryers, it has become advantageous for the retailer to cooperate with the labelling regulation since it stands to increase his returns.

Research

The area of research has not received as much attention as advertising and promotion and improvement of standards and grades,

however the Commission has embarked upon several significant projects. These include the investigation of barley and kelp as components of feed rations for fryers, the encouragement and participation in the formation of the Western Feedstuffs Transportation Committee, a group comprised of representatives from eleven states to investigate and lobby for more equitable freight rates for feed grains, the creation of scholarships of five hundred dollars each at two major Washington universities to encourage research in all aspects of fryer production and marketing, and the commissioning of two studies to investigate the consumption patterns of fryer products in Washington State. Research plans for the near future include investigation of production costs to include housing, fuel, ventilation and management.⁸

Investigation and Prevention of Unfair Trade Practices

The authority of the Commission to investigate and curtail unfair trade practices has been invoked primarily in the case of retailers using fryer products as "loss leaders," and pricing them below cost to attract consumers into the stores. They have been largely successful in preventing this practice through persuasion, however several cases have required court action before they could be resolved.

⁸ Personal communication with Allan Johnson, Manager, Washington Fryer Commission.

Summary

The B.C. Broiler Marketing Board's major area of activity has been the regulation of domestic production through the use of production quotas. Returns to producers are based on prices established by the Board.⁹ Imported product has been effectively eliminated from the British Columbia market through passage of Import Order No. 1. The Board has refused to support the proposed National Chicken Marketing Plan, since it stands to curtail the powers currently enjoyed by the Board regarding the restriction of imported product, the disposition of surplus product, and the ability to define future growth in provincial broiler production. The Board has successfully maintained the concept of the family farm through regulations placed on quota holdings and quota transfer. Advertising, promotion and research have been undertaken as well, although the majority of the Board's activities have been in production regulation rather than these latter three areas.

Due to the existence of competing product in the Washington market, the activities of the Washington Fryer Commission have been focussed primarily in the area of advertising and promotion. The Commission had also been concerned with the enforcement of state-of-origin labelling, a regulation which it passed in 1957. Their activities in the area of research have been primarily devoted to reducing cost of production through

⁹ As of June 1974, the price established for broiler breeder hatching eggs to the hatcheries was \$1.27 per dozen and for finished broiler chickens to the processor the price was 36.5 cents per pound liveweight.

lower priced feed rations, improvement of production methodology, and studying patterns of demand for broilers in Washington.

The Commission has also, through the investigation and prevention of unfair trade practices, been successful in preventing retail stores from selling fryers at below-cost price.

CHAPTER V

PERFORMANCE

Introduction

In attempting to analyze the performance of the B.C. Broiler Marketing Board and the Washington Fryer Commission with respect to the concepts of organized marketing, certain criteria of performance must first be established.

The goal of an organized marketing approach in agriculture, as discussed in Chapter II, is to increase the market power of producers by functioning in a collective fashion to (a) improve production, (b) improve response to market conditions, (c) improve channels of distribution, and (d) achieve market expansion. While many criteria could be drawn from this model, eight have been chosen for review in this study.

These are:

- A. To measure improvements in the area of production, structures of production and returns to producers have been chosen.
- B. To measure the degree to which response to market conditions have been improved, the criteria of price, supply, and competition have been selected.
- C. To determine the extent to which effective channels of distribution have been created, relationships with processors and retailers are examined.

- D. To measure efforts in the area of market expansion, performance in the areas of advertising and promotion and research are evaluated.

The observed differences in performance in the British Columbia and Washington markets, with respect to the criteria parameters mentioned above are first presented, followed by a discussion of the factors contributing to the observed differences. By investigating the performance of the two groups on the basis of these criteria, it is possible to approach a more orderly evaluation with respect to performance of each, thereby facilitating a comparative evaluation.

While market data for the broiler industry in British Columbia and Washington is dealt with specifically in the following sections, an overview of the historical data in each market provides a measure of industry perspective.

Background

Tables 1 and 2 present historical data in the broiler industries in British Columbia and Washington respectively.¹ As may be observed from the data presented, production has increased in both markets. Average liveweight prices to producers have tended to fluctuate, with high ranges in the late 1940's, during the 1950's, and again in 1973. Average

¹ For purposes of comparison, all figures relating to broiler production in B.C. exclude product classified as roasters and Rock Cornish Game Hens. Production figures for British Columbia and Washington State are those reported by the Canada Department of Agriculture and the U.S. Department of Agriculture respectively.

Table 1. British Columbia Broiler Industry,
Production, Gross Income and Prices, 1953-1973^a

	Year	Production			Gross	Prices				
		No. ^b	Live wt. (¹ 000) lbs.	Evis. wt. (¹ 000)	Income ^c (¹ 000)	Producer ^b		Wholesale ^b		Retail ^d
						Mon- treal	Van- couver	Mon- treal	Van- couver	Vancouver (Dec. 30)
P	1953	--	4495	3327	1326	31.4	29.5	40.9	--	--
R	1954	--	4067	3010	1045	23.4	25.7	33.2	--	--
E	1955	--	6025	4459	1693	28.1	26.9	35.8	--	--
B	1956	--	8468	6266	2193	24.3	25.9	31.6	--	--
O	1957	--	9393	6944	2387	23.4	25.4	30.9	--	--
A	1958	--	14558	10773	3566	21.9	24.5	29.3	--	--
R	1959	--	20159	149.8	4475	19.9	23.2	25.5	--	--
D	1960	--	25046	18534	5384	20.1	21.5	25.7	--	--
	1961	8082	27847	20607	5068	17.3	18.2	23.2	--	--
	1962	7666	26774	19813	5689	19.8	21.3	24.6	--	--
P	1963	8939	32878	24330	7266	20.1	22.1	25.1	--	--
O	1964	8776	32597	24122	6258	18.5	19.2	--	--	--
S	1965	9569	34512	25539	8806	27.0	25.5	37.8	37.4	--
T	1966	11361	41388	30627	9147	21.2	22.1	35.0	40.0	--
B	1967	11465	41801	30933	8987	19.0	21.5	32.6	38.4	52.0
O	1968	11246	40712	30127	8957	19.8	22.0	34.4	41.2	55.0
A	1969	12817	47603	35226	10615	18.6	22.3	32.6	43.4	52.0
R	1970	14204	51822	39348	10725	17.2	20.7	30.2	39.2	55.0
D	1971	15447	57622	43640	12677	18.3	22.0	33.4	41.9	59.0
	1972	17297	65605	48547	14958	21.3	22.8	38.9	43.9	65.0
	1973	18987	71966	53256	22093	29.4	30.7	53.6	60.0	89-95

- ^a Production (head) 1953-60 based on birds less than 4 lbs.
1961-62 based on birds less than 3 lbs.
1963-73 based on birds less than 4 lbs.
LW & Wh Price 1953-55 based on birds less than 3 lbs.
1956-62 based on birds less than 4 lbs.
and less than 3.5 lbs. respectively.
1963-64 based on birds less than 5 lbs.
and less than 4.5 lbs. respectively
1965-73 based on birds less than 5 lbs.
and less than 4 lbs. respectively

^b Agriculture Canada, Poultry Market Review, Markets Information Section, Poultry Division, Production and Marketing Branch, Ottawa, Canada, 1961-1973

^c Derived from eviscerated weight data.

^d B.C. Broiler Marketing Board Annual Reports, 1966-1973.

Table 2. Washington State Broiler Industry,
Production, Gross Income and Prices, 1940-1973

	Year	Production		Gross Income	Prices	
		No. ('000)	Lbs. LW ^a ('000)	(\$ '000)	Producer ^a (Cents per lb.)	Retail
P R O D U C E R S O F T C O M M U N I T Y	1940	840	2184	321	17.0	--
	1941	1092	2948	531	18.0	--
	1942	1529	4128	1073	26.0	--
	1943	2141	5781	1734	30.0	--
	1944	1991	5376	1720	32.0	--
	1945	2986	8659	2771	32.0	--
	1946	1792	5197	1818	35.0	--
	1947	3136	9094	3274	36.0	--
	1948	3763	11665	4433	38.0	--
	1949	4741	14223	4409	31.0	--
	1950	4646	14403	4465	31.0	--
	1951	7666	25298	7842	31.0	--
	1952	7513	23290	7150	30.7	--
	1953	8339	26685	7819	29.3	71.4
	1954	9590	29729	7759	26.1	66.0
	1955	9782	30324	8036	26.5	65.4
	1956	11115	37791	8692	23.0	60.7
P O U L T R Y C O M M U N I T Y	1957	11671	39681	8730	22.0	59.7
	1958	14939	50793	10514	20.7	60.0
	1959	15985	54349	10109	18.6	54.3
	1960	15505	52717	10069	19.1	54.0
	1961	15970	54298	9013	16.6	49.7
	1962	15426	57076	9988	17.5	50.3
	1963	18175	65430	11385	17.4	49.6
	1964	19221	71118	11948	16.8	47.0
	1965	21030	75708	13097	17.3	47.8
	1966	22412	82924	14926	18.0	51.3
	1967	21980	83524	14283	17.1	48.4
	1968	21288	80894	14318	17.7	48.9
	1969	21436	83600	15382	18.4	--
	1970	21118	82360	14578	17.7	--
	1971	14931	58231	10715	18.4	--
	1972	16396	63944	11766	18.4	--
	1973	17575	68543	18232	26.6	--

Source: 1940-1968 U.S. Department of Agriculture, Washington Department of Agriculture, Washington Poultry, Seattle, Washington and Olympia, Washington, U.S.A., 1969

1969-1973 U.S. Department of Agriculture, Chicken and Eggs Production, Disposition, Cash Receipts and Gross Income by States, Crop Reporting Board, Statistical Reporting Service, Washington, D.C., U.S.A. POU 2-3 (69-73).

^a Liveweight Basis.

wholesale and retail prices have fluctuated in a similar manner as well in response to producer prices.

To determine the observed effects of the Board and Commission on production volume and price, an index based on a three year average of production and price prior to the operation of the Board and Commission was compiled. Tables 3 and 4 present index values for commercial broilers, number and pounds produced, price per pound, and gross income in the British Columbia and Washington market respectively. As may be observed from the data presented, both price per pound (liveweight) paid to producers and gross income paid to producers, has increased at a faster rate in the British Columbia market since the inception of the Board.

Several noticeable shifts in production and price, which have occurred for reasons outside the control of the Board or Commission, may be observed in both markets.

In 1970 the broiler production in Washington State fell significantly. This may be attributed to three factors occurring during 1970.²

- (a) The institution of new regulations concerning the inspection of processing plants, resulting in the closure of several plants.
- (b) The withdrawal of feed interests from the Washington Market by several major feeding companies.
- (c) The sale of competing product at distressed prices in the Washington market.

² Washington Fryer Commission Annual Report, 1970.

Table 3. Index Numbers for British Columbia Commercial Broilers, Numbers and Pounds of Production, Gross Income and Price per Pound paid to Producer^b 1961-1973 (1959-61 = 100)

Year	Production		Gross Income	Price/lb ^b to Producer
	No. ^a	Lbs.		
1962	94.9	110.0	114.3	103.2
1963	110.6	135.0	146.0	107.3
1964	108.6	133.9	125.8	93.2
1965	118.4	141.7	177.0	123.8
1966	140.6	170.0	183.8	107.3
1967	141.9	171.7	180.6	104.4
1968	139.1	167.2	180.0	106.8
1969	158.6	195.5	213.3	108.3
1970	175.7	218.4	215.5	100.5
1971	191.1	242.2	254.8	106.8
1972	214.0	269.4	300.6	110.7
1973	234.9	295.5	444.0	149.0

Source: Derived from Table 1 (p. 66).

^a Index for production based on 1961 data.

^b Liveweight basis.

Table 4. Index Numbers for Washington Commercial Broilers,
Numbers and Pounds of Production, Gross Income
and Price Per Paid to Producer^a 1957-1973
(1954-56 = 100)

Year	Production		Gross Income	Prices	
	No.	Lbs.		Producer ^a	Retail
1957	114.8	121.6	107.0	87.3	93.2
1958	147.0	156.7	128.8	82.1	93.7
1959	157.3	166.6	123.9	73.8	84.8
1960	152.6	162.6	124.6	75.7	84.3
1961	157.2	166.4	110.4	65.9	77.6
1962	151.8	174.9	122.4	69.4	78.6
1963	178.9	200.6	139.5	69.0	77.5
1964	189.1	218.1	146.4	66.6	73.4
1965	206.9	232.1	160.5	68.6	74.7
1966	220.5	254.3	182.9	71.4	80.1
1967	216.3	256.1	175.0	67.9	75.6
1968	209.5	248.0	175.4	70.2	76.6
1969	210.9	256.3	188.5	73.0	--
1970	207.8	252.5	178.6	70.2	--
1971	146.9	178.5	131.3	73.0	--
1972	161.3	196.1	144.2	73.0	--
1973	172.9	210.2	223.4	105.5	--

Source: Derived from Table 2 (p. 67).

^a Liveweight basis.

Another aspect observed when contrasting the differences in criteria parameters in British Columbia and Washington is the increase in product price and returns to producers in both markets during the last year and a half. The factors affecting these changes were drastic shifts in the overall economy as opposed to actions of the Board or Commission. Since, in the broiler industry, feed represents approximately seventy per cent of the input cost, the world grain shortages and resulting increases in the price of feed had a great influence on the price of broiler products.

While the stimulus for these changes is external, we should be able to measure the industry reaction through the use of defined criteria.

Production

(a) Structures of Production

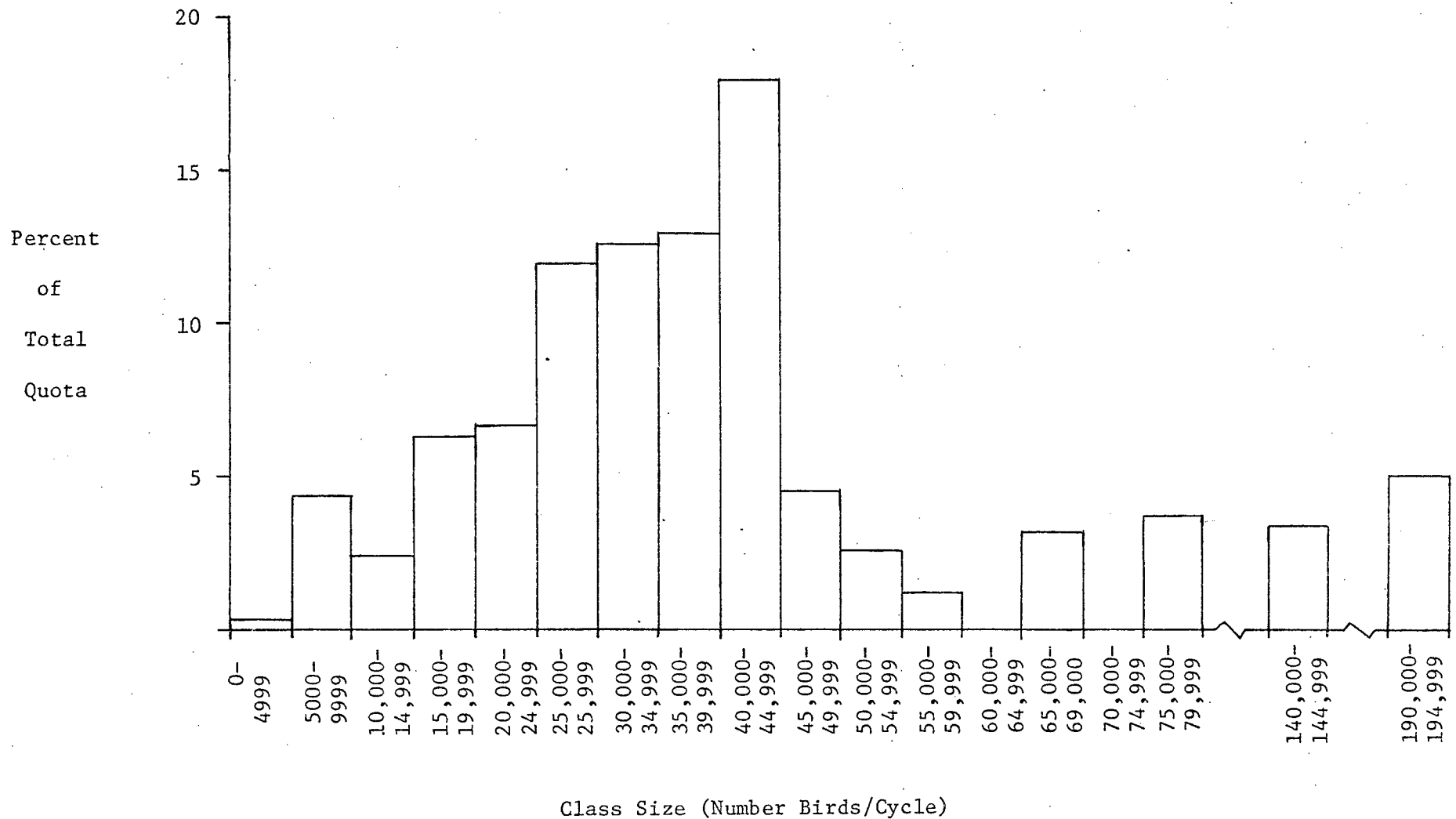
Table 5 presents a comparison of structure, supply and price in the broiler industry in British Columbia and Washington as of June 1974.

When the B.C. Broiler Marketing Board and the Washington Fryer Commission were established, there were 261 and 640 producers respectively. As of June 1974, there were 139 broiler producers in British Columbia and 125 in Washington State. As may be observed in Figure 2, ninety per cent of the growers in British Columbia are operating farms of under 45,000 birds per cycle, and forty-eight per cent of the producers hold quotas ranging between 25,000 and 45,000 birds per cycle. Information obtained through personal interview with producers and processors in the Washington market indicates that average farm size falls between 40,000

- ^a B.C. Agriculture Canada Poultry Market Review, 1973.
Wash. U.S. Department of Agriculture, Chicken and Eggs Production, Disposition Cash Receipts and Gross Income by States. Pou 2-3 (73).
- ^b B.C. B.C. Broiler Marketing Board Annual Report 1973.
Wash. U.S. Department of Agriculture, Commercial Broiler Production, Washington Crop and Livestock Reporting Service, Statistical Reporting Service, State Statistical Office and Washington State Department of Agriculture, Seattle, Washington, March 31, 1974.
- ^c B.C. Personal communication, Art Stafford, Manager, B.C. Broiler Marketing Board, June 12, 1974.
Wash. Personal communication, Allan Johnson, Manager, Washington Fryer Commission, June 5, 1974.
- ^d B.C. Derived from Quota Distribution Roster, B.C. Broiler Marketing Board, June 1974.
Wash. Personal communication with producers and processors in broiler industry in Washington, June 1974.
- ^e B.C. Personal communication, Art Stafford, op. cit.
Wash. Personal communication, Art Koplowitz, President, Draper Valley Farms, June 6, 1974.
- ^f B.C. Personal communication, Dr. Hicks, Buckerfields Ltd., June 12, 1974. (Price based on 9-10 ton order).
Wash. Personal communication, Art Massey, Division Manager, Poultry and Eggs, Western Farmers Association, June 5, 1974 (price based on \geq 20 ton order).
- ^g Only one grower ration is used in British Columbia.
- ^h B.C. Personal communication, Art Stafford, op. cit.
Wash. Personal communication, Art Massey, op. cit.
- ⁱ B.C. Canada Department of Agriculture Poultry Market Report. Markets Information Section and Poultry Division, Weekly Report #22, Ottawa, Ontario, June 7, 1974 (week ending June 1, 1974).
Wash. Personal communication, Art Massey, op. cit.
Personal communication, Art Koplowitz, op. cit.
- ^j B.C. Canada Department of Agriculture, Poultry Market Report.
Wash. Personal communication, Retailer in Washington Market, June 1974.

Table 5. British Columbia and Washington State Broiler Industry Structure, Supply and Price.

		<u>British Columbia</u>	<u>Washington State</u>
<u>Structure</u>			
<u>number of broiler growers</u> ^c		139	125
<u>number of processors</u> ^c		9	5
<u>size of units</u> ^d - birds/cycle		48% from 25-45000 24% from 35-45000	40000-45000
<u>Supply</u>			
<u>Volume 1973</u> ^a		18,987,000	17,575,000
<u>Avg. liveweight 1973</u> ^b		3.78	3.9
<u>Price</u>			
<u>Hatching eggs/dozen</u> ^e	\$	1.27	1.00-1.20
<u>Chicks</u> ^e	\$/ea	.215	.152
<u>Feed/ton</u> ^f	\$		
broiler breeder		155.00	134.50
broiler starter		184.00	168.00
grower I ^g		--	165.00
grower II		184.00	164.50
finisher		181.00	159.00
<u>Broiler-lbs. liveweight</u> ^h	\$.355	.265
<u>Broiler wholesale/lb. GDA</u> ⁱ	\$.58-.59	.44
<u>Broiler retail/lb</u> <u>Grade A - whole, fresh</u> ^j		.89-.95	.49-.55



Percent Growers in Class	2.2	15.8	5.8	10.8	8.6	13.0	11.5	10.1	13.0	2.9	1.4	0.7	0.0	1.4	0.0	1.4		0.7		0.7
Cumulative Percent Growers in Class	2.2	18.0	23.8	34.6	43.2	56.2	67.7	77.8	90.8	93.7	95.1	95.8	95.8	97.2	97.2	98.6		99.3		100.0

Figure 2. Quota Distribution B.C. Broiler Marketing Board, June 1974

Source: Quota Distribution Roster, B.C. Broiler Marketing Board, June 1974.

to 45,000 birds per cycle, and that larger units are more prevalent than in British Columbia.

There are several striking contrasts in the structures of production between the two markets. In British Columbia, most growers are independent in the sense that they are not financed by or affiliated with any major allied industry groups. In Washington, the concept of vertical integration is more widely practised. Approximately ninety per cent of the growers are operating on a contract basis with large processors, and the majority of the remaining growers are associated with Western Farmers Association, a grower cooperative.

In summary, while the number of growers is similar in both markets, the size of the units tends to be larger in the Washington market. The structure of production in the two markets also differs-- in British Columbia it is based on the concept of the family farm and in Washington it is based on the principle of vertical integration.

(b) Returns to Producers

Figure 3 presents annual gross industry income to broiler producers in the British Columbia and Washington markets for the years 1953 to 1973. From this information it may be observed that until 1971, annual gross returns to producers in Washington exceeded those in British Columbia. This may be attributed to higher production volumes in Washington for that period. To compare increases in gross returns in each market since the inception of the Board and Commission, an index of the annual gross return received by growers in the three year period prior

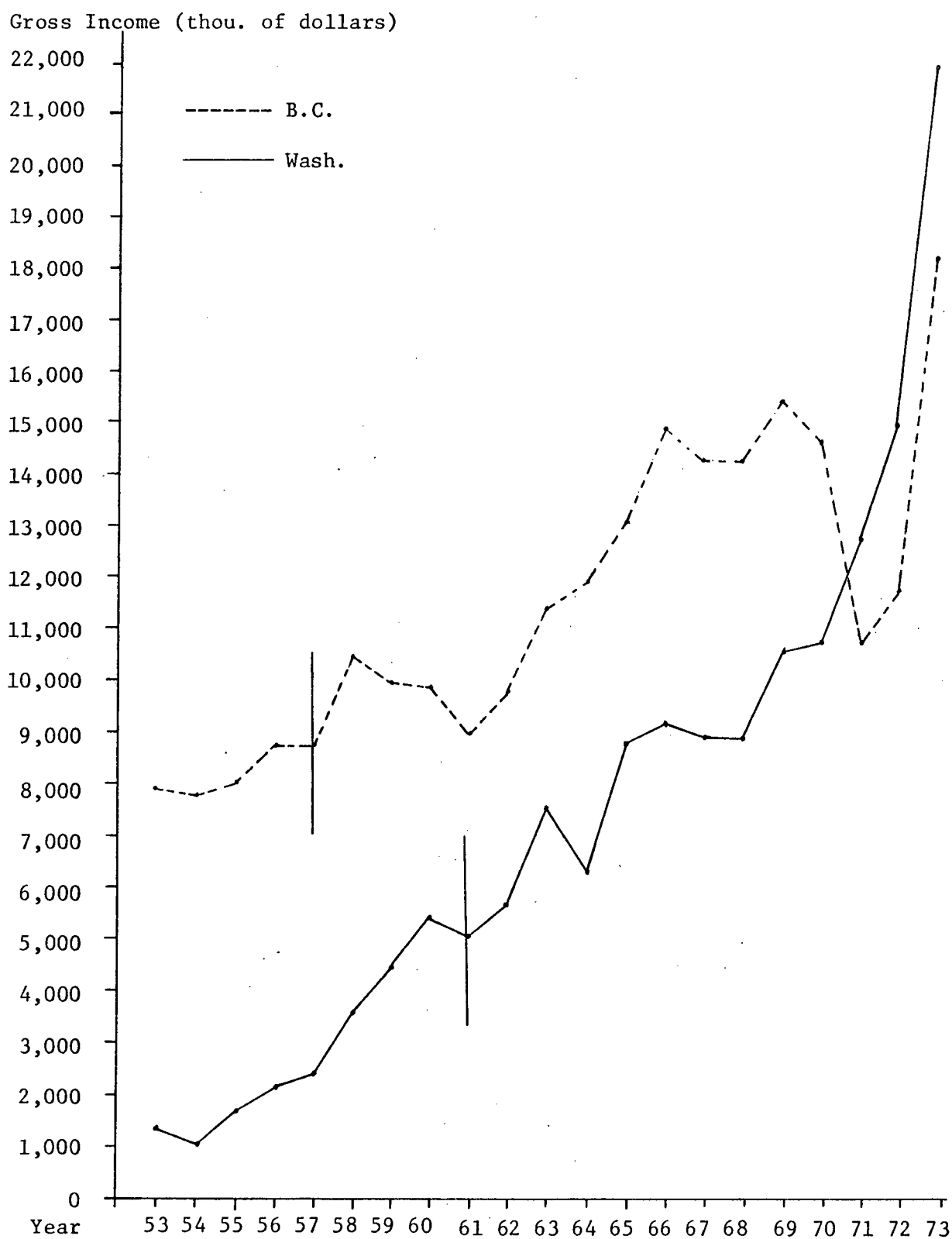


Figure 3. Annual Gross Income to Broiler Producers in
British Columbia and Washington State, 1953-1973

Source: Tables 1 and 2 (pp. 66,67).

to the operation of the Board and Commission was calculated and set to one hundred. It was observed that, while gross returns to producers increased at approximately the same rate during 1961 to 1966, gross returns to producers have increased at a faster rate in British Columbia than in Washington State from the year 1966 onward. The greatest difference in gross returns to the producers, based on index values, is found in 1973.

What does this differential mean for individual growers in 1974? In British Columbia, the B.C. Broiler Marketing Board currently defines an economic unit as 40,000 birds per cycle. To arrive at the returns to a grower operating this size unit in British Columbia and Washington, cost of production data for 1974 was obtained for each area.³ Table 6 presents the fixed and variable costs observed in the British Columbia and Washington market, June 1974. The estimated returns and costs for a 40,000 bird per cycle unit in the British Columbia and Washington markets, June 1974, are presented in Table 7 (per bird) and Table 8 (per annum). The net return to management and capital for a 40,000 bird per cycle producer, based on prices as of June 1974, is 22.7 cents per bird in British Columbia and 9.2 cents per bird in Washington State. Since, in both markets, a unit of this size is considered to be a one-person

³ The material presented was obtained and verified through personal interviews conducted with representative producers in each market, cooperative producer groups in Washington, major feed distributors, the Washington State Extension Service, the University of British Columbia Poultry Science Department, the B.C. Department of Agriculture, and Board and Commission members.

Table 6. Estimates of Variable and Fixed Costs per Bird
for 40,000 birds/cycle Broiler Operation,
British Columbia and Washington State, June 1974

	<u>British Columbia^a</u>	<u>Washington State^b</u>
<u>Variable Costs</u>		
Brood, electricity	2.5¢	2.5¢ ^c
Medication	1.5¢	.3¢
Catching	1.5¢	.8¢
Litter	<u>1.0¢</u>	<u>.9¢</u>
	6.5¢	4.5¢
<u>Fixed Costs</u>		
Taxes, insurance, operation of machinery, maintenance and depreciation	<u>6.689¢</u>	<u>2.0¢</u>
Total Variable and Fixed Cost/Bird	<u>13.189¢</u>	<u>6.5¢</u>

^a Personal communication, Herb Gasperdone, Poultry Specialist, BCDA Poultry Test Station, Abbotsford, B.C., June 1974 and verified by representative persons in the broiler industry in British Columbia.

^b Personal communication, Dr. D. Andrews, Extension Poultry Specialist, Western Washington Research and Extension Centre, Puyallup, Washington, July 1974 and verified by Washington Fryer Commission members, and representative persons in the broiler industry in Washington State.

^c Propane = 2¢/head, Electricity = .5¢/head.

Table 7. Estimate of Returns and Costs Per Bird
for 40,000 Birds/Cycle Broiler Operation,
British Columbia and Washington State,
June 1974.

	<u>British Columbia</u>	<u>Washington State</u>
A. <u>Returns</u>		
L.W. price/lb	35.5¢	26.5¢
Avg. lbs. L.W.	<u>3.78</u>	3.9
<u>Gross return/bird</u>	134.19¢	103.35¢
B. <u>Expenses</u>		
Feed price/lb.	09.1435	08.3685
Feed conversion	<u>2.2</u>	<u>2.2</u>
Total cost feed/lb at L.W.	20.1157¢	18.4107¢
Avg. L.W. at slaughter	<u>3.78</u>	<u>3.9</u>
<u>Total feed cost</u>	76.037¢	71.8017¢
<u>Chick cost</u>	21.5¢	15.2¢
<u>Variable costs</u>		
brood, litter, lights, water	6.5¢	4.0¢
<u>Fixed costs</u>		
depreciation, taxes, maintenance	6.689¢	2.5¢
Board/Commission levy	<u>0.76¢</u>	<u>0.663¢</u>
<u>Total Expense</u>	<u>111.476¢</u>	<u>94.16¢</u>
C. Return to management & capital		
	<u>22.714¢</u>	<u>9.19¢</u>

Table 8. Estimate of Total Gross Returns, Costs and Net Returns per Annum for 40,000 Birds/Cycle Broiler Operation. British Columbia and Washington State^a

	<u>British Columbia</u>	<u>Washington State</u>
A. <u>Gross Returns</u>		
Birds/cycle	40,000	40,000
Cycles/year	<u>4.7</u>	<u>4.7</u>
Birds/year	188,000	188,000
Avg. L.W. (lbs.)	<u>3.78</u>	<u>3.9</u>
Total pounds/year	710,640	733,200
Avg. live price/lb.	\$ 0.355	\$ 0.265
Gross return/year	\$252,277	\$194,298
B. <u>Expenses</u>		
<u>Feed:</u>		
Total lbs/yr broilers	710,640	733,200
Feed conversion	<u>2.2</u>	<u>2.2</u>
Total feed (tons)	781.7	806.52
Avg. price/ton	<u>\$ 182.87</u>	<u>\$ 167.37</u>
<u>Total feed cost</u>	\$142,950	\$134,987
Chick price (each)	\$ 0.215	\$ 0.152
Birds/year	<u>188,000</u>	<u>188,000</u>
<u>Total chick cost</u>	\$ 40,420	\$ 28,576
<u>Variable costs</u>		
brood, litter, lights, medication	\$ 12,200	\$ 8,460
<u>Fixed costs</u>		
Taxes, depreciation, maintenance	\$ 12,575	\$ 3,760
<u>Board/Commission Levy</u>		
(3/4¢ per bird)	<u>\$ 1,410</u>	(.17 cents/lb) <u>\$ 1,246</u>
<u>Total Expense</u>	<u>\$209,575</u>	<u>\$177,029</u>
C. <u>Net return to management & capital</u>	<u>\$ 42,702</u>	<u>\$ 17,269</u>

^a Based on June 1974 Industry prices, costs and conversion factors as reported by industry representatives.

operation, this amounts to an annual return to capital and management of \$42,702 in British Columbia and \$17,269 in Washington, or a differential in producer returns of \$25,433 per annum in favour of the British Columbia producers.

In attempting to assess the capital investment required in each market, a similar procedure to that used for production costs and returns was followed.⁴ The findings are presented in Table 9. When allowing for a six per cent return on capital investment,⁵ the net return to management for a 40,000 bird per cycle unit in British Columbia and Washington is \$22,600 and \$8,480 respectively.⁶

In summary, until the end of the 1960's, gross returns to all producers were higher in Washington than they were in British Columbia. In the early 1970's, as total production in British Columbia started to exceed that of Washington State, total returns to British Columbia growers surpassed those received in Washington. This is largely a reflection of production volume in the two areas and says little about individual producer

⁴ For British Columbia, figures were provided by the B.C. Department of Agriculture and verified by representative persons in the broiler industry and an agricultural loan officer of a large commercial bank. For Washington, figures were supplied by the U.S. Federal Land Bank Commission, the Washington State Extension Service, Western Farmers Association, Building Department, and verified by representative members of the broiler industry.

⁵ This rate of return was established through consultation with the B.C. Department of Agriculture and the University of British Columbia.

⁶ It should be noted that in Washington, farm size tends to be slightly larger than 40,000 birds per cycle, however the comparison was based on a unit of 40,000 birds since this is the average producer size in British Columbia.

Table 9. Estimates of Capital Investment Requirements and Interest Costs per Annum for a 40,000 Bird/Cycle Broiler Operation in British Columbia and Washington State, June 1974

BRITISH COLUMBIA

<u>Investment</u>	\$
Land ^a - 10 acres @ \$5000 per acre	50,000
Buildings - \$3.50/sq. foot * 40,000 birds	
* .75/sq. foot/bird	105,000
Equipment - \$.65/sq. foot * 40,000 birds	
* .75/sq. foot/bird	19,500
Truck, tractor, etc.	10,500
Quota @ \$3.75/bird * 40,000 birds	<u>150,000</u>
<u>Total Investment</u>	<u>335,000</u>

INTEREST

Interest on investment/year @ 6%	<u>20,100</u>
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WASHINGTON STATE

<u>Investment</u>	
Land ^a - 20 acres @ \$1500 per acre	30,000
Buildings - \$2.75/sq. foot * 40,000 birds	
* .75/sq. foot/bird	82,500
Equipment - \$.65/sq. foot * 40,000 birds	
* .75/sq. foot/bird	19,500
Truck, tractor, etc.	<u>14,500</u>
<u>Total Investment</u>	<u>146,500</u>

INTEREST

Interest on investment/year @ 6%	<u>8,790</u>
----------------------------------	--------------

^a The normal amount of land required for a 40,000 bird/cycle operation in Washington is greater since they encourage a larger society "buffer" zone.

returns. On the basis of estimated costs of production for June, 1974, for a 40,000 bird per cycle unit in both markets, returns to growers in British Columbia are approximately double what they are in Washington.

Market Conditions

(a) Price

Figure 4 presents an historical comparison of monthly average prices paid for broiler products at the retail and farm level in Canada and the United States. Table 10 presents an historical comparison of the annual average price paid to producers of broiler products in Canada and the United States. This information is also presented in Figure 5. From this information, it is possible to observe that, since 1960, prices in the broiler market have traditionally been higher in Canada than in the United States. This situation was not always the case in the British Columbia and Washington markets. Figure 6 presents the average annual price paid to producers of broiler products in Washington and British Columbia. From this information, it may be seen that, during the years 1953 to 1955, prices paid to producers for broiler products in both markets were very closely aligned. From 1955 until 1961, the producers in British Columbia received a higher price for their product, however the average annual price differential was only 2.7 cents per pound. Following the inception of the B.C. Broiler Marketing Board in 1961, annual prices paid to producers in B.C. averaged 4.3 cents per pound higher than those in Washington.

PRICE cents per pound

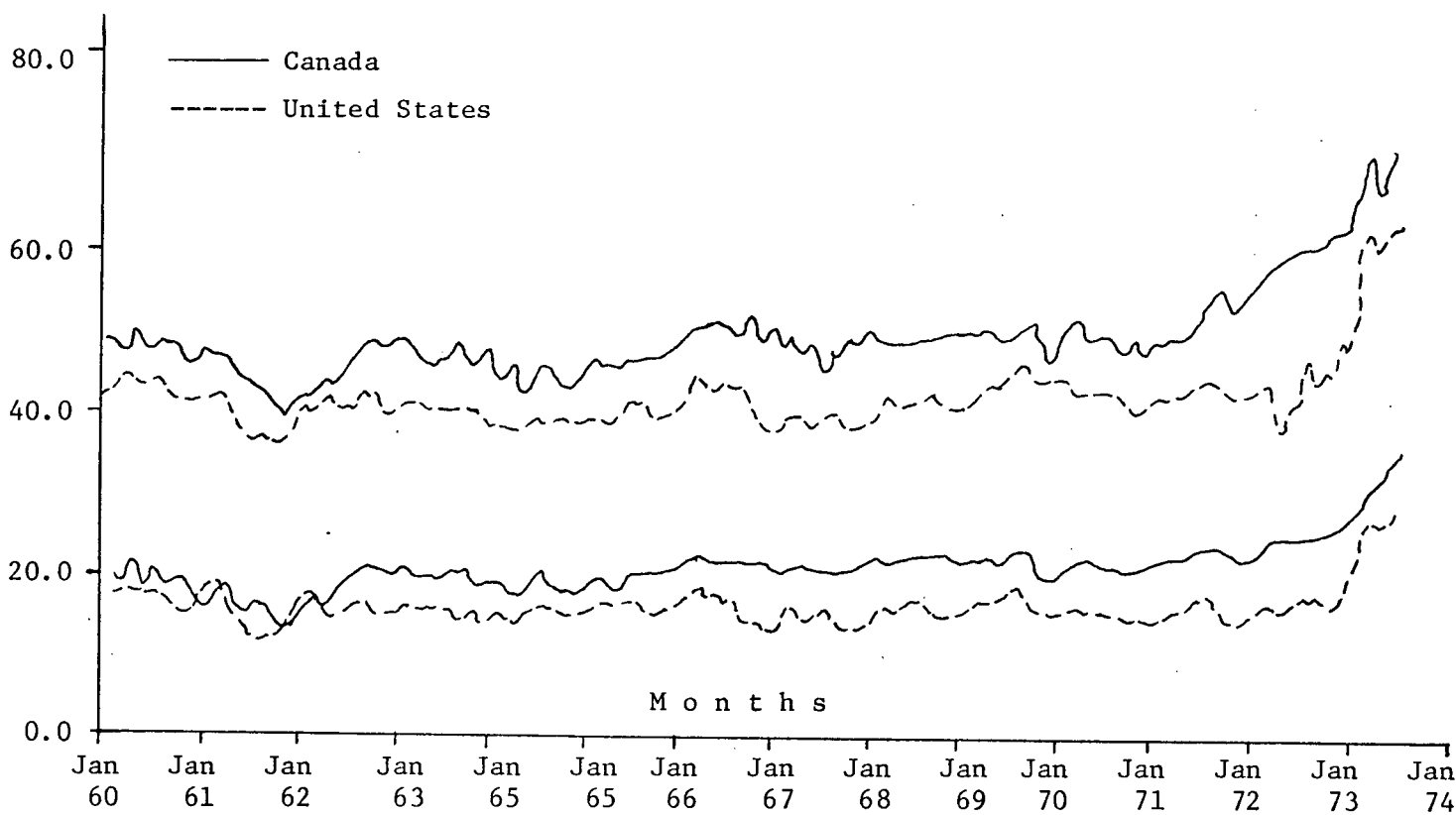


Figure 4. Grade A Chicken Prices, Producer and Retail
Canada and the United States by Months
January 1960 to July 1963

Source: Canada: Agriculture Canada Poultry Market Review, 1960-1973
United States: United States Department of Agriculture Poultry and
Egg Situation 1960-1973.

Table 10. Weighted Annual Average Price Per Pound Paid to Broiler Producers, Canada and the United States, 1960-1973

Year	Canada ^a	United States ^b	Differential	Difference Per Cent
(cents per lb) Liveweight				
1960	20.8	16.9	3.9	18.8
1961	17.2	13.9	3.3	19.2
1962	19.0	15.2	3.8	20.0
1963	20.0	14.6	5.4	27.0
1964	18.1	14.2	3.9	21.6
1965	19.5	15.0	4.5	23.1
1966	21.0	15.2	5.7	27.1
1967	19.6	13.3	6.3	32.1
1968	20.6	14.2	6.4	31.1
1969	19.8	15.2	4.6	23.2
1970	18.5	13.5	5.0	27.0
1971	19.9	13.8	6.1	30.7
1972	21.9	14.3	7.6	34.7
1973	31.3	25.1	6.2	19.8

^a Agriculture Canada, Poultry Market Review, 1960-1972.
1973 figures derived from Table 13, p. 94.

^b U.S. Dept. of Agriculture, Handbook of Agricultural Charts, 1960-1972.
1973 figures derived from Table 13, p. 94.

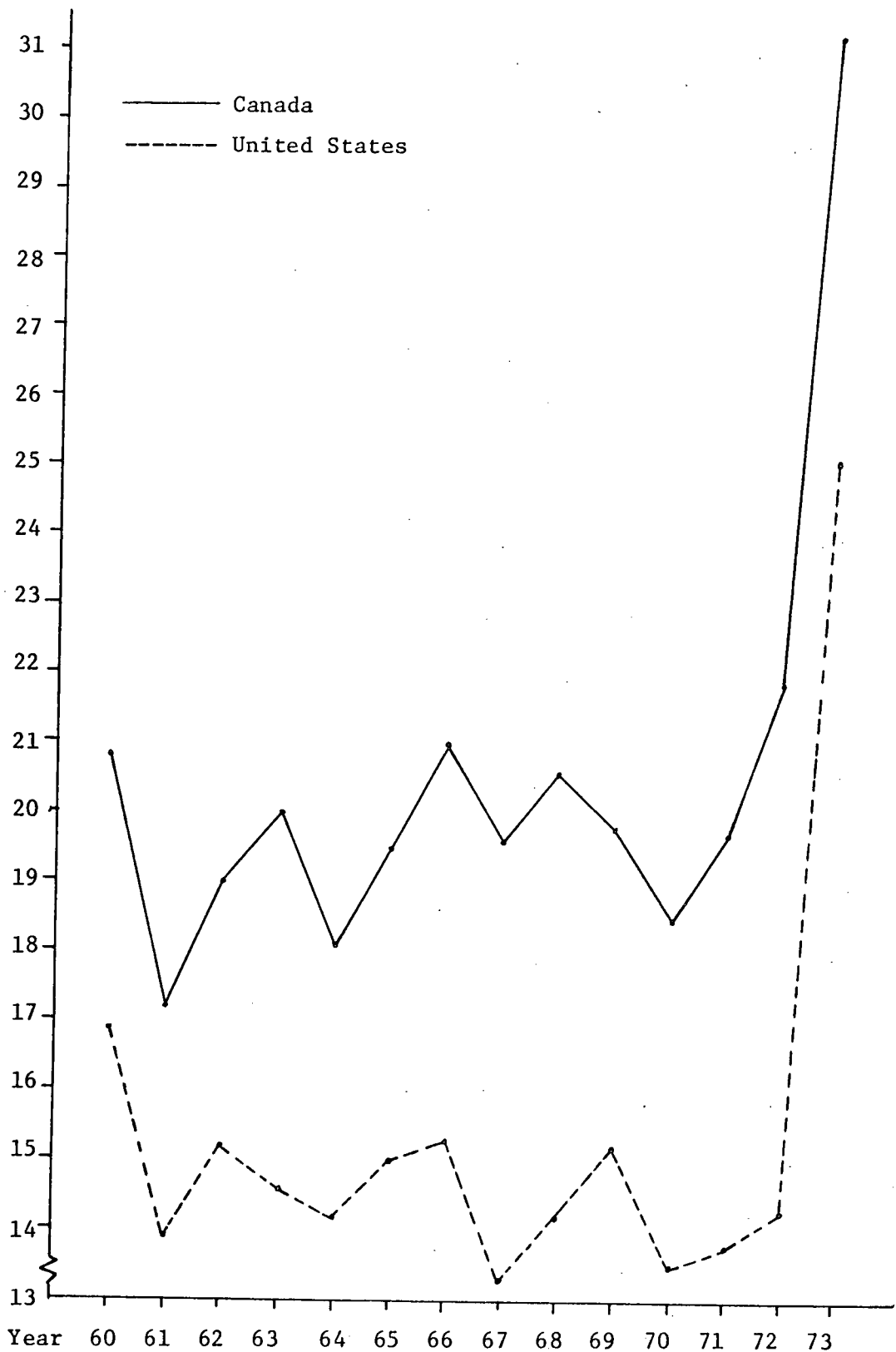


Figure 5. Broiler Prices: Annual Weighted Average Price Paid to Broiler Producer--Canada and United States, 1960-1973.

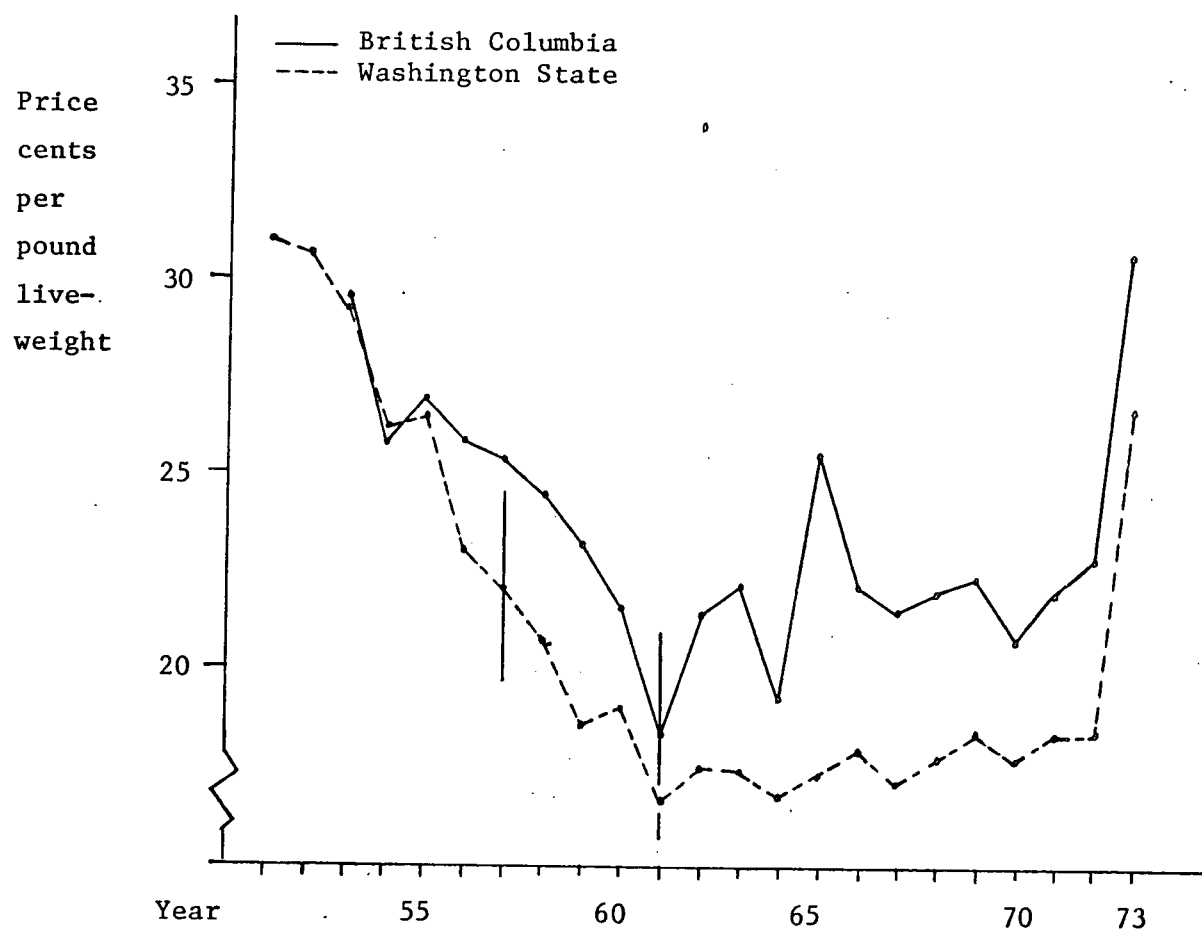


Figure 6. Average Annual Price Paid to Broiler Producers
British Columbia and Washington State, 1940-1973

Source: Agriculture Canada, Poultry Market Review (1953-1973).
U.S. Department of Agriculture, Washington Poultry.
U.S. Department of Agriculture, Chicken and Eggs, (1969-1973)

While we are able to judge price differentials in this fashion, it does not provide an effective means of determining the influence of the Board and Commission on prices paid to producers in each market. An index of the average price per pound paid in the three years prior to the operation of the Board and Commission provides one means of measuring changes in price after their inception. Figure 7 presents the index values of annual price per pound paid to broiler producers in British Columbia and Washington where the historical index value has been calculated on the average price per pound paid to producers in each market three years prior to the inception of the Board and Commission and set at one hundred. From this it may be seen that, in British Columbia, the index has only dropped below one hundred once since the marketing Board began operations, whereas, in Washington State, the index rose above one hundred only once since the operation of the Commission. It would thus appear that the B.C. Broiler Marketing Board has been more effective in increasing prices paid to producers than has been the Washington Fryer Commission.

Since prices paid to producers in both markets declined during 1956-1961, and, in fact, reached their lowest point in 1961, a more effective comparison of the two markets may possibly be obtained from using a common index base. Table 11 presents the index values of price per pound paid to broiler producers in British Columbia and Washington, with an index base of 1959-1961 set to 100. This information is also presented in Figure 8. From this it may be observed that while the actions of the B.C. Broiler Marketing Board have still been more effective

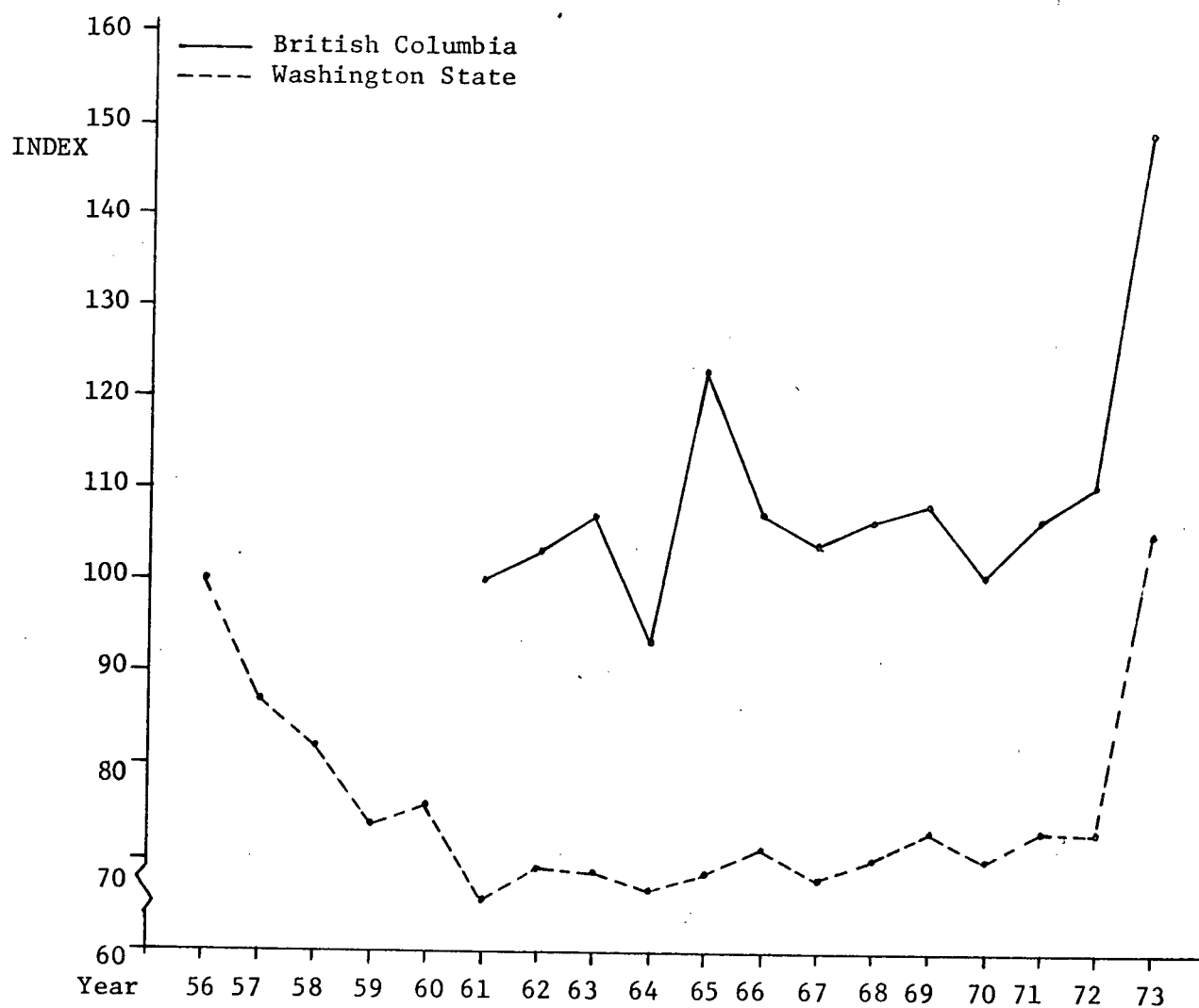


Figure 7. Index Values--Annual Average Price Per Pound Paid to Broiler Producers, British Columbia and Washington State (B.C. Index Base 1959-61 = 100. Washington Index Base 1954-56 = 100).

Source: Tables 3 and 4 (pp. 69, 70).

Table 11. Index Values of Prices Per Pound Paid to Broiler Producers^a in British Columbia and Washington State. (1959-61 = 100)

Year	British Columbia	Washington State
1961	100.0	100.0
1962	103.2	96.7
1963	107.3	96.1
1964	93.2	92.8
1965	123.8	95.6
1966	107.3	99.5
1967	104.4	94.5
1968	106.8	97.8
1969	108.3	101.7
1970	100.5	97.8
1971	106.8	101.7
1972	110.7	101.7
1973	149.0	147.0

Source: Derived from Tables 1 and 2 (pp. 66, 67).

^a Liveweight basis.

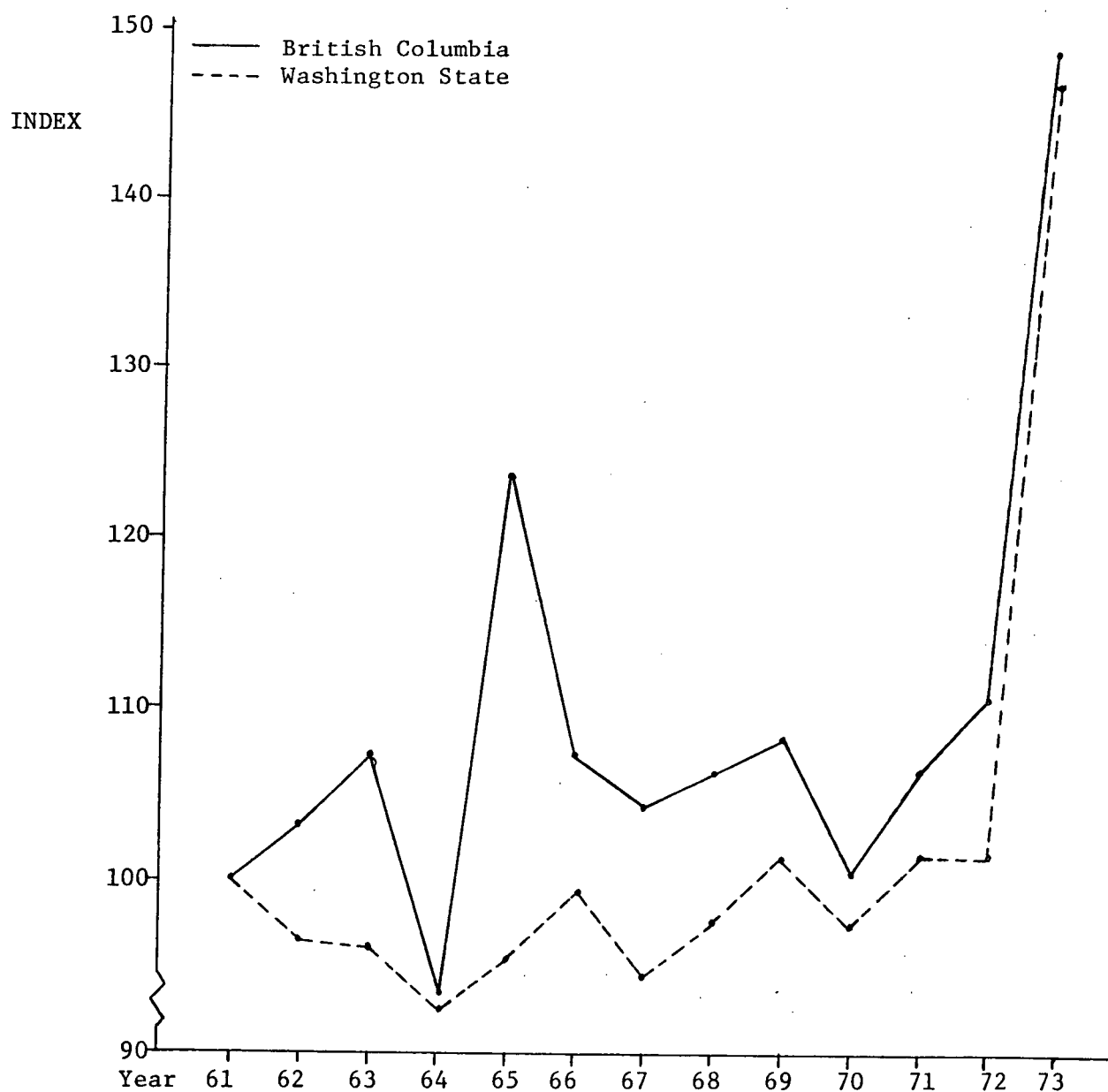


Figure 8. Index Values of Annual Price Per Pound Paid for Broiler Producers, British Columbia and Washington State (1959-61 = 100).

Source: Table 11, (p. 90).

in increasing prices paid to producers, the observed difference in performance of the Board and Commission on producer price is less.

To measure price stability, a weighted average of annual fluctuations in prices paid to producers in British Columbia and Washington was compiled and is presented in Table 12. The average annual fluctuation in Washington from 1957 to 1972 was .9 of a cent per pound, while the average annual fluctuation in British Columbia from 1962 to 1972 was 2.0 cents per pound.⁷ We are therefore able to conclude that prices are relatively more stable in Washington than in British Columbia.

Some of the more interesting developments in the pricing of broiler products in Canada and the United States have occurred over the last year and a half. Table 13 presents the weighted average price paid to producers by month in Canada and the United States during 1973. This information is also presented in Figure 9. From this it may be observed that between January and July of 1973, monthly prices to producers in Canada averaged 5.5 cents per pound higher than those in the United States. In August, with the lifting of Phase II of the U.S. Price and Wage control program, the position was reversed, with United States prices rising above those in Canada by 3.2 cents per pound. In autumn of 1973, following the high prices received in August, product surpluses began to develop in response to increased price and reduced demand. As may be observed, this resulted in a sharp decline in prices paid to producers

⁷ 1973 prices have been excluded due to the severe impact of economic conditions external to the broiler industry.

Table 12. Year-to-Year Changes in Annual Average Price Per Pound Paid to Broiler Producers^a British Columbia and Washington State, 1957-1972

<u>Year</u>	<u>British Columbia</u>	<u>Washington State</u>
	Change from preceding year in cents per pound	
1957	--	-1.0
1958	--	-1.3
1959	--	-2.1
1960	--	+0.5
1961	--	-2.5
1962	+3.1	+0.9
1963	+0.8	-0.1
1964	-2.9	-0.6
1965	+6.3	+0.5
1966	-3.4	+0.7
1967	-0.6	-0.9
1968	+0.5	+0.6
1969	+0.3	+0.7
1970	-1.6	-0.7
1971	+1.3	+0.7
1972	+0.8	+0.0
	<hr/>	<hr/>
Average annual price change	1.96	0.86

Source: Derived from Tables 1 and 2 (pp. 66,67).

^a Liveweight basis.

Table 13. Monthly Weighted Average Price Per Pound Paid to Broiler Producers, Canada and the United States, 1973

Month	Canada ^a	United States ^b	Difference ^c	Difference Per Cent
cents per lb. liveweight				
January	23.9	17.2	6.7	28.0
February	25.3	19.4	5.9	23.3
March	28.3	23.3	5.0	17.7
April	28.3	25.5	2.8	19.9
May	29.6	23.8	5.8	19.6
June	31.2	24.5	6.7	21.5
July	32.6	26.4	6.2	19.0
August	34.6	37.8	-3.2	- 9.2
September	36.8	30.3	6.5	17.7
October	36.3	24.3	12.0	33.1
November	34.5	23.4	11.1	32.2
December	33.9	--	--	--

Source: Compiled by the Agricultural Economics Research Council of Canada.

^a U.S. Department of Agriculture Poultry and Egg Situation, November 1973.

^b Canada Dept. of Agriculture Poultry Market Report, 1973.

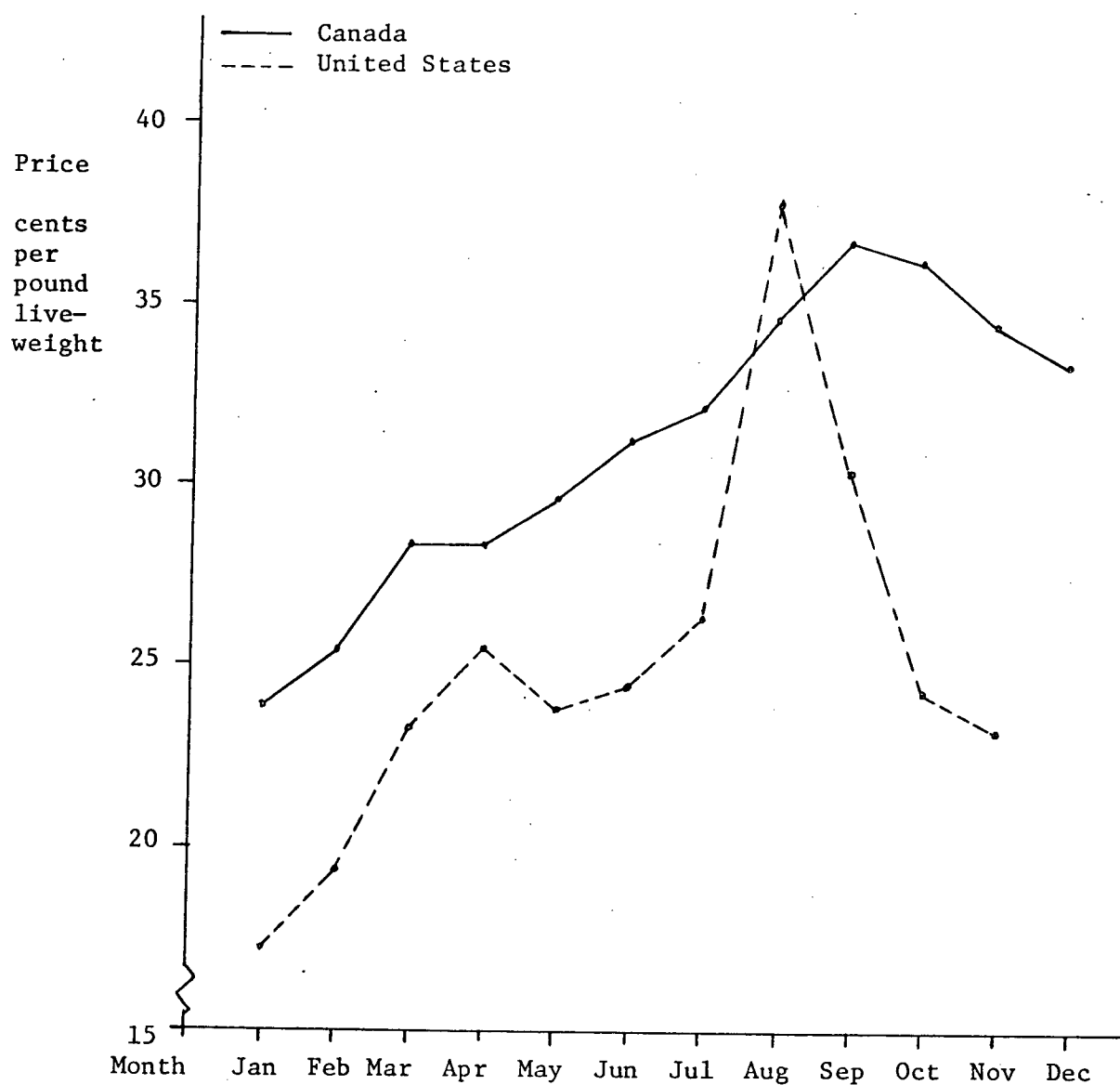


Figure 9. Monthly Weighted Average Prices Paid to Producer. Canada and United States, 1973

Source: Table 13 (p. 94).

in the United States, however prices remained at a relatively high level in Canada. The average monthly price paid to producers in Canada during the fall of 1973 was 9.9 cents per pound higher than in the United States. This price differential was reflected in British Columbia relative to the Washington market, and has persisted into 1974. The price per pound received by broiler producers in Washington as of June 12, 1974 was 26.5 cents; in British Columbia producers received 35.5 cents per pound, a price differential of 9.0 cents per pound, despite the existence of a large surplus in the British Columbia market.⁸

Wholesale prices in British Columbia and Washington as of June 12, 1974 were 59 cents per pound and 44 cents per pound respectively. If processor gross margins are calculated on the basis of cost per pound of meat to the processor (eviscerated weight), the price differential is approximately 2 cents per pound in favour of the British Columbia processors.

It is in the area of retail prices that the widest differences exist between the two markets. The average retail price for Grade A whole-bodied fryers in British Columbia, for the week ending June 1, 1974, was 89 to 95 cents per pound for fresh product and 87 to 89 cents per pound for frozen.⁹ Prices in the Washington market in the beginning of June were 47 to 49 cents per pound for the same product on weekend days

⁸ The surplus was 4.6 million pounds as of June 1974.

⁹ Canada Department of Agriculture, Poultry Market Report: Markets Information Section and Poultry Division, Weekly Report #22, Ottawa, Ont., June 7, 1974 (week ending June 1, 1974).

and approximately 5 to 10 cents per pound higher during the weekdays.¹⁰ Based on the weekday prices, there is a difference of 30 cents per pound in retail prices between Washington State and British Columbia.

This discrepancy in retail pricing policy is also noted between the Vancouver and Montreal markets. Table 14 presents a comparison of the range of producer, wholesale and retail prices in the Vancouver and Montreal markets for the first half of 1974. This information is also presented in Figure 10. From this it may be observed that, while the price ranges at the producer and processor level are relatively similar, the retail pricing behaviour is sharply contrasted between the two markets.¹¹ It may be concluded that the retail mark-up for broiler products is substantially higher in the Vancouver market.

In summary, prices to the producers for broiler products have traditionally been higher in the British Columbia market than in the Washington market. The price differential between the two markets has greatly increased during the last year and a half. Producer prices are more stable in Washington than in British Columbia, however, the instability

¹⁰ Personal communication with retailers in the Washington market.

¹¹ Since these charts reflect a range of weekly prices, not an average, the minimum markup was used for the purpose of comparison. In attempting to determine the average price, figures were obtained from the Prices Division of Statistics Canada, Ottawa. These prices are collected one week of each month, on Tuesday to Friday in fifteen Victoria stores and Wednesday to Friday in twenty-two Vancouver stores. The weighted average prices for Grade A whole-bodied broilers for January through April, 1974 in the Vancouver market were 88.8, 84.4, 87.8 and 85.9 respectively. These figures suggest that the upper portion of the retail price range is probably a closer reflection of the retail mark-ups on broiler products.

Table 14. Producer, Wholesale and Retail Prices and Ranges of Price for Broilers. Vancouver and Montreal January-June 1974.

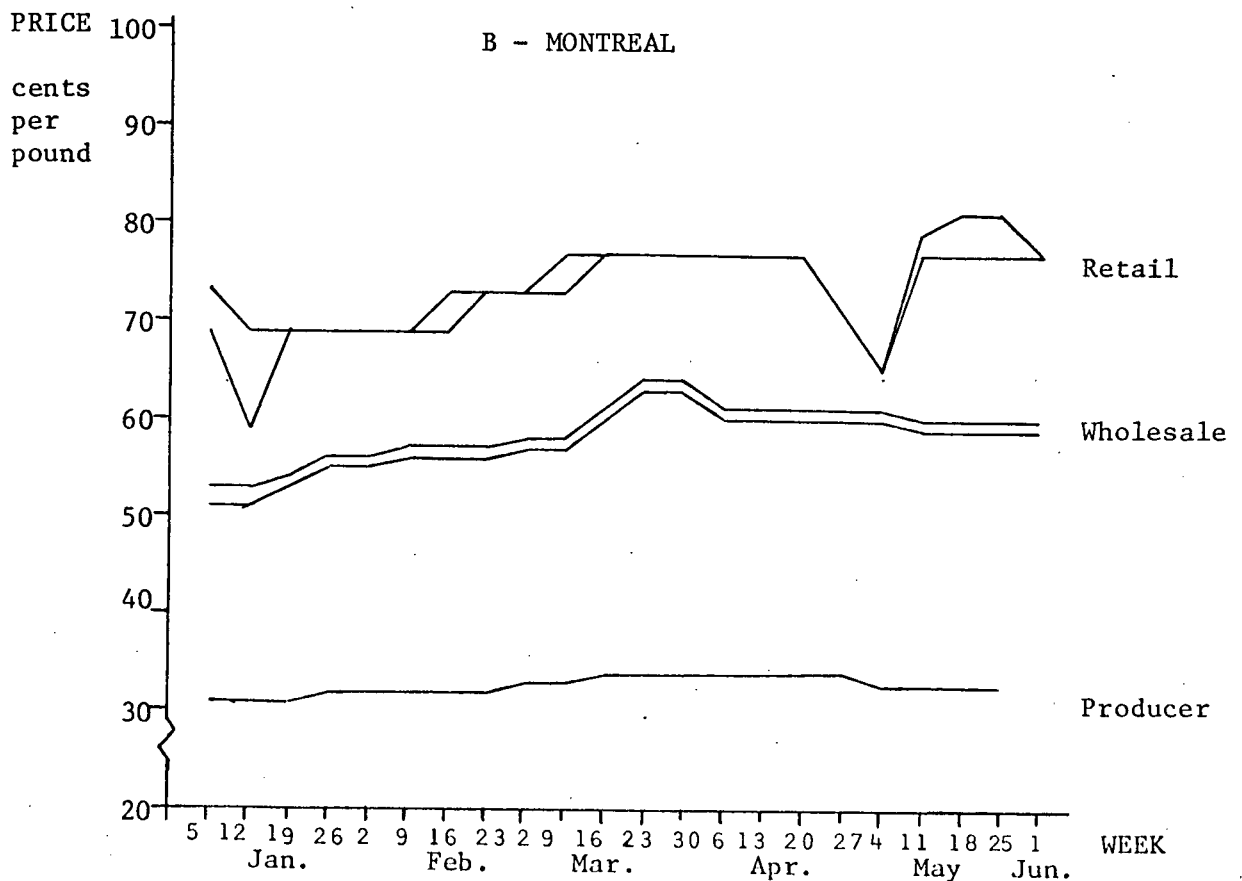
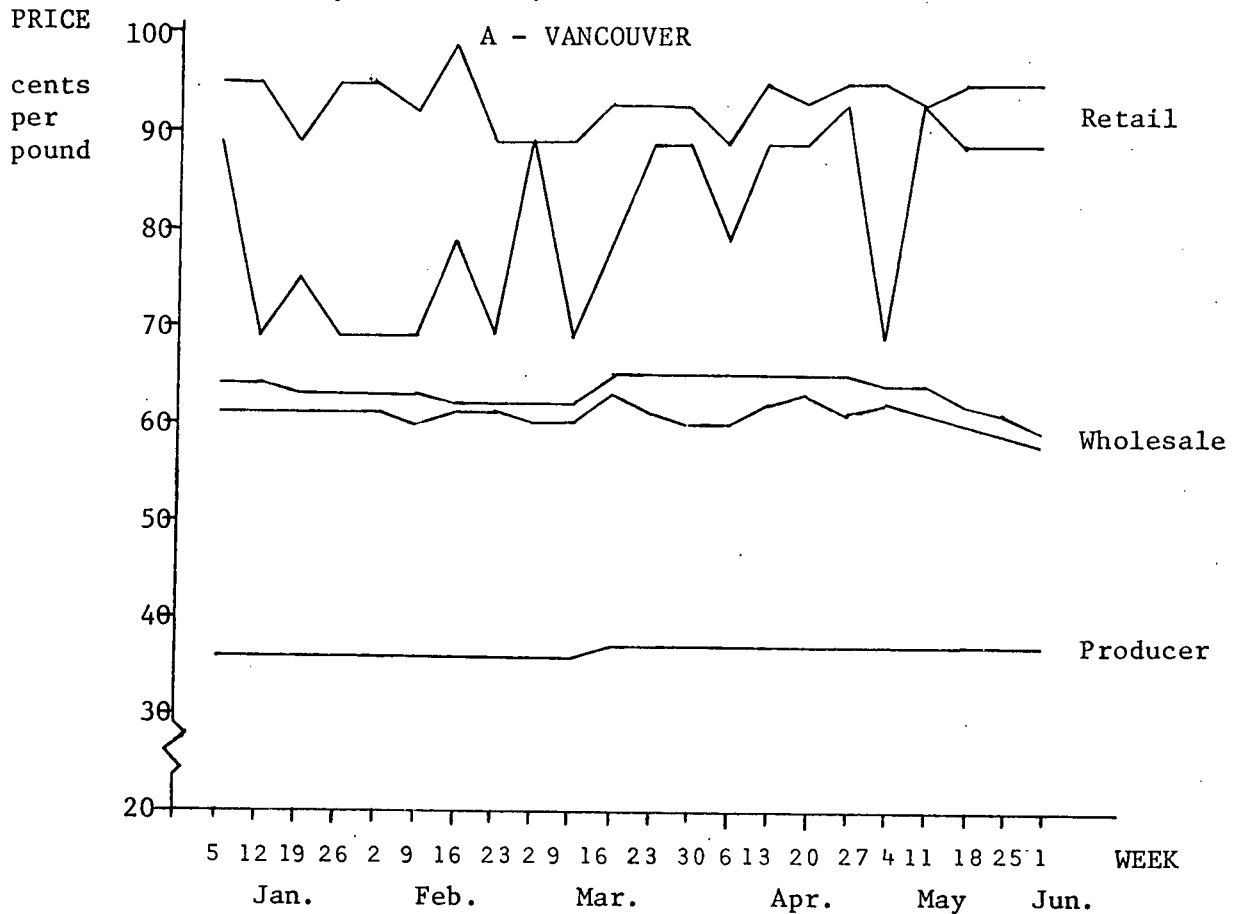
Week Ending	Vancouver			Montreal		
	Producer ^a	Wholesale	Retail	Producer	Wholesale	Retail
cents per lb.						
Jan 5	35.5-36.5	60.5-64	89-95	31.25	51-53	69-73
12	35.5	↓	69-95	↓	↓	59-69
19	↓	60.5-63	75-89	↓	53-54	69
26	↓	↓	69-95	31.75	55-56	↓
Feb 2	↓	↓	69-95	↓	↓	↓
9	↓	60-63	69-92	32.25	56-57	↓
16	↓	60.5-62	79-99	↓	↓	69-73
23	↓	↓	69-89	↓	↓	73
Mar 2	↓	60-62	89	33	57-58	↓
9	↓	↓	69-89	33.5	↓	73-77
16	36.5	62.5-65	79-93	34	60-61	77
23	↓	60.5-65	89-93	↓	63-64	↓
30	↓	60-65	↓	↓	↓	↓
Apr 6	↓	↓	79-89	↓	60-61	↓
13	↓	62-65	89-95	33.5	↓	↓
20	↓	63-65	89-93	↓	↓	↓
27	↓	61-65	93-95	↓	↓	71-77
May 4	↓	62-64	69-95	33	↓	65-77
11	↓	61-64	93	↓	59-60	77-79
18	↓	60-62	89-95	↓	↓	77-81
25	↓	59-61	↓	↓	↓	↓
Jun 1	↓	58-59	89-95	↓	59-60	77-79

Source: Canada Department of Agriculture Poultry Market Report, Weekly Report No. 1-22, 1974.

^a Liveweight basis.

Figure 10. Weekly Prices and Ranges of Prices, Retail, Wholesale, and Producer. Vancouver (A) and Montreal (B)
January 1 - June 1, 1974

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in British Columbia is due largely to producer price increases as opposed to price fluctuations. In British Columbia, price to producers appears to be less responsive to surplus production than in the Washington market. Prices have increased at a greater rate in British Columbia since the establishment of the Board than they have in Washington since the establishment of the Commission. Processors' mark-ups appear to be slightly higher in British Columbia, although not by a significant amount. Retail mark-ups are substantially higher in British Columbia than in Washington State.

(b) Supply

Figure 11 presents data on the number of broilers produced per year in British Columbia and Washington for the years 1953 to 1973. From this it may be seen that, prior to 1971, annual Washington broiler production exceeded that of British Columbia. By contrast, supply has undergone a relatively steady increase in British Columbia.

Historical production volumes do not, however, provide us with a convenient means of measuring the effect of the Board and Commission upon production in each market. An index of the average production in each market for the three year period prior to the operation of the Board and Commission provides one means of measuring the changes after their inception. Figure 12 presents the annual commercial broiler production in Washington and British Columbia, with an index base set at one hundred. From this, we are able to observe that in both markets, production has increased greatly since the inception of the Board and Commission, however this increase has occurred at a faster and more stable rate in the British Columbia market.

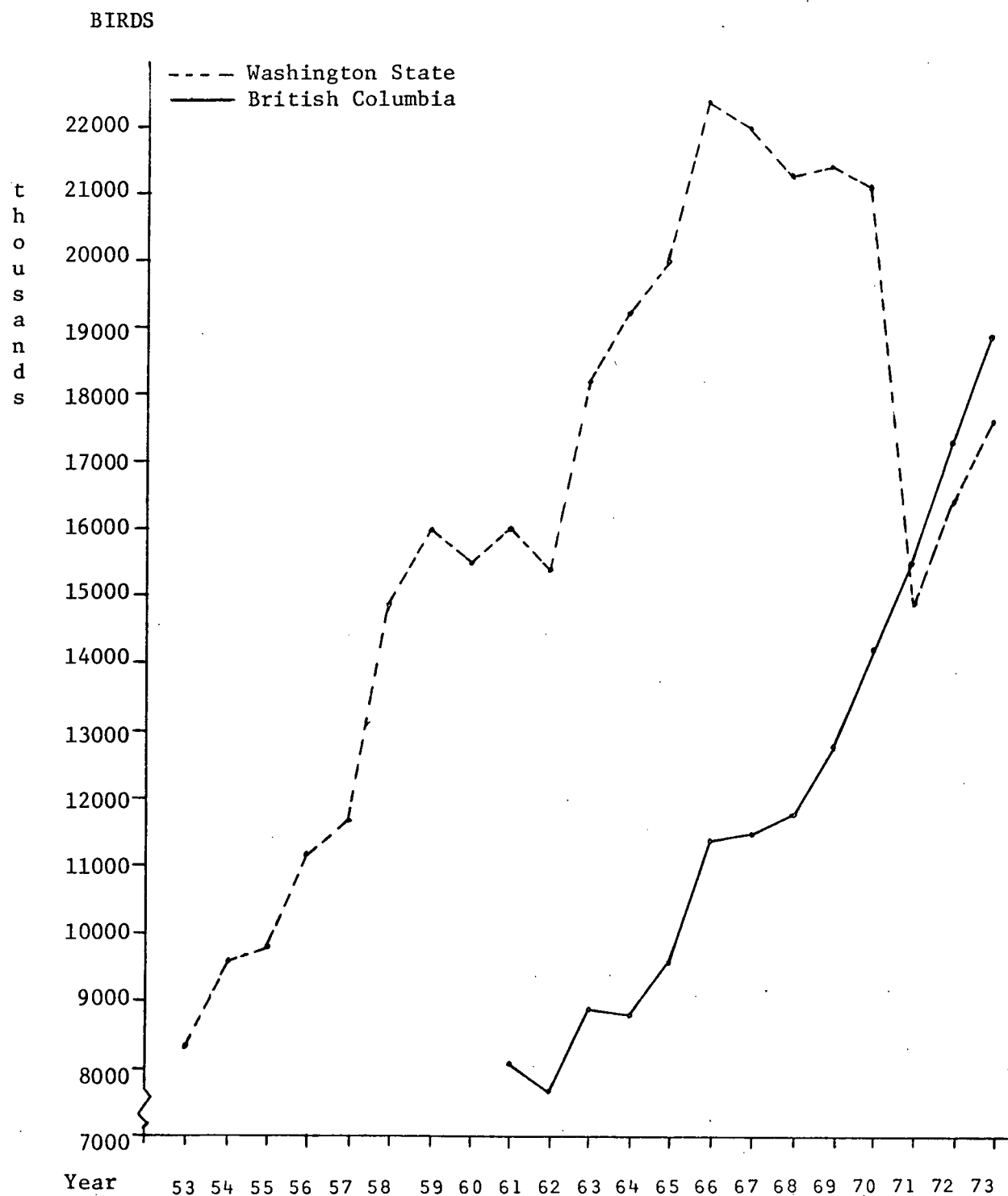


Figure 11. Annual Broiler Production
British Columbia and Washington State
1953-73

Source: Tables 1 and 2 (pp. 66,67).

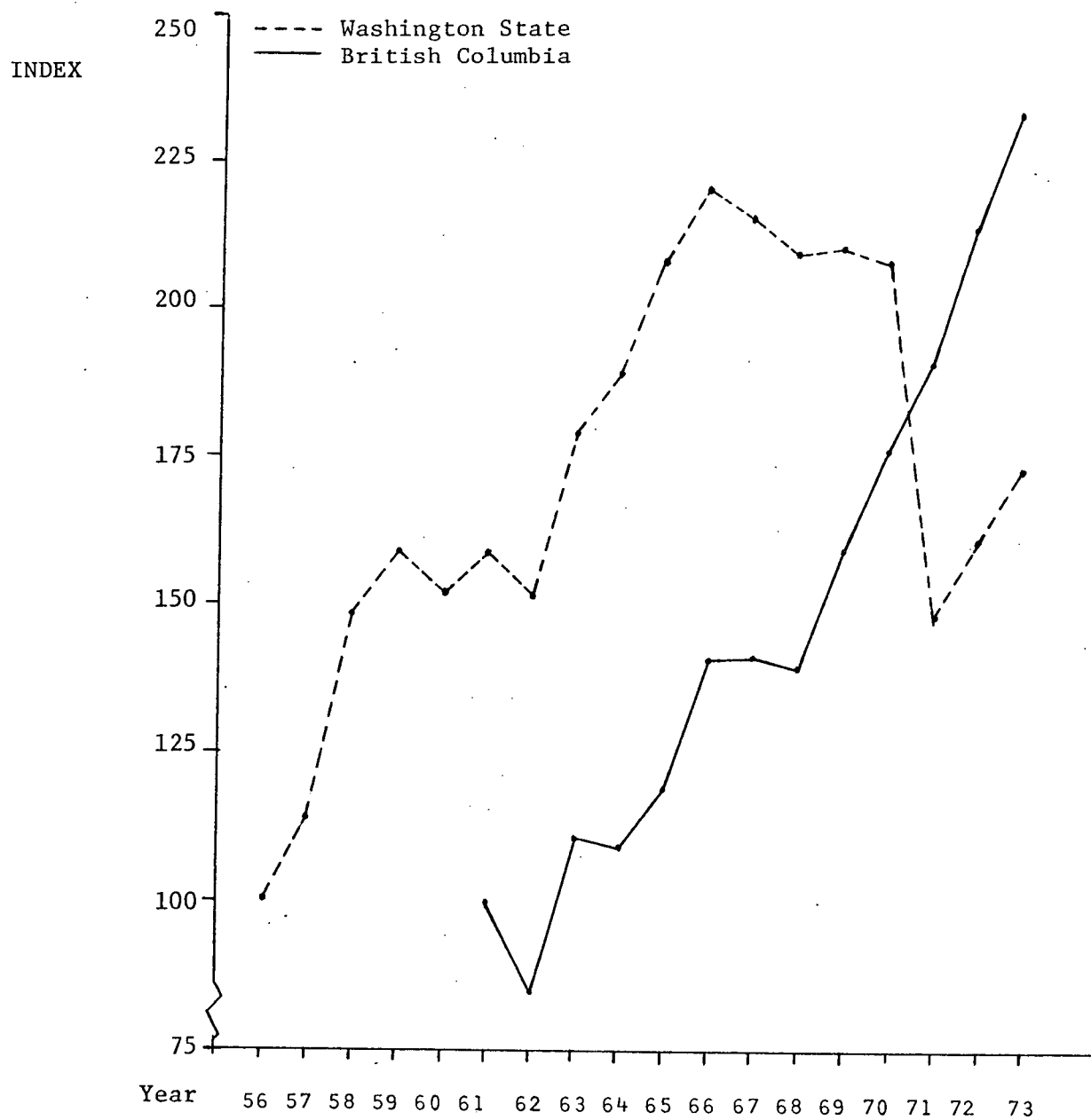


Figure 12. Index Values for Number of Broilers Produced
British Columbia and Washington State, 1953-1973

In 1973, total broiler production in Washington was 17,575,000 birds and in British Columbia 18,835,000 birds.

In summary, while current production volume for British Columbia and Washington is roughly equivalent, production levels have been subject to greater fluctuation in the Washington market.

(c) Competition

Figures 13 and 14 present an historical comparison of annual prices paid to producers in British Columbia and Washington respectively as contrasted with the national average price paid to producers in each market. From this it may be observed that, historically, prices in both the British Columbia and Washington markets have been above the respective national averages. Table 15 presents the average annual price per pound received by producers in the Washington and Arkansas market during the years 1963 to 1973. This information is also displayed in Figure 15. Since the Arkansas market is representative of the large broiler industry located in the southern part of the United States, it may be inferred from this data that the price differential between Washington and national average prices is largely attributable to broiler production in the southern states, which hold a comparative advantage over broilers produced in Washington State.

Table 16 presents the average annual prices paid to broiler producers in the Vancouver and Montreal markets during the years 1961 through 1973. This information is also presented in Figure 16 for the years 1953-73. Since prices in the Montreal market are representative of prices paid

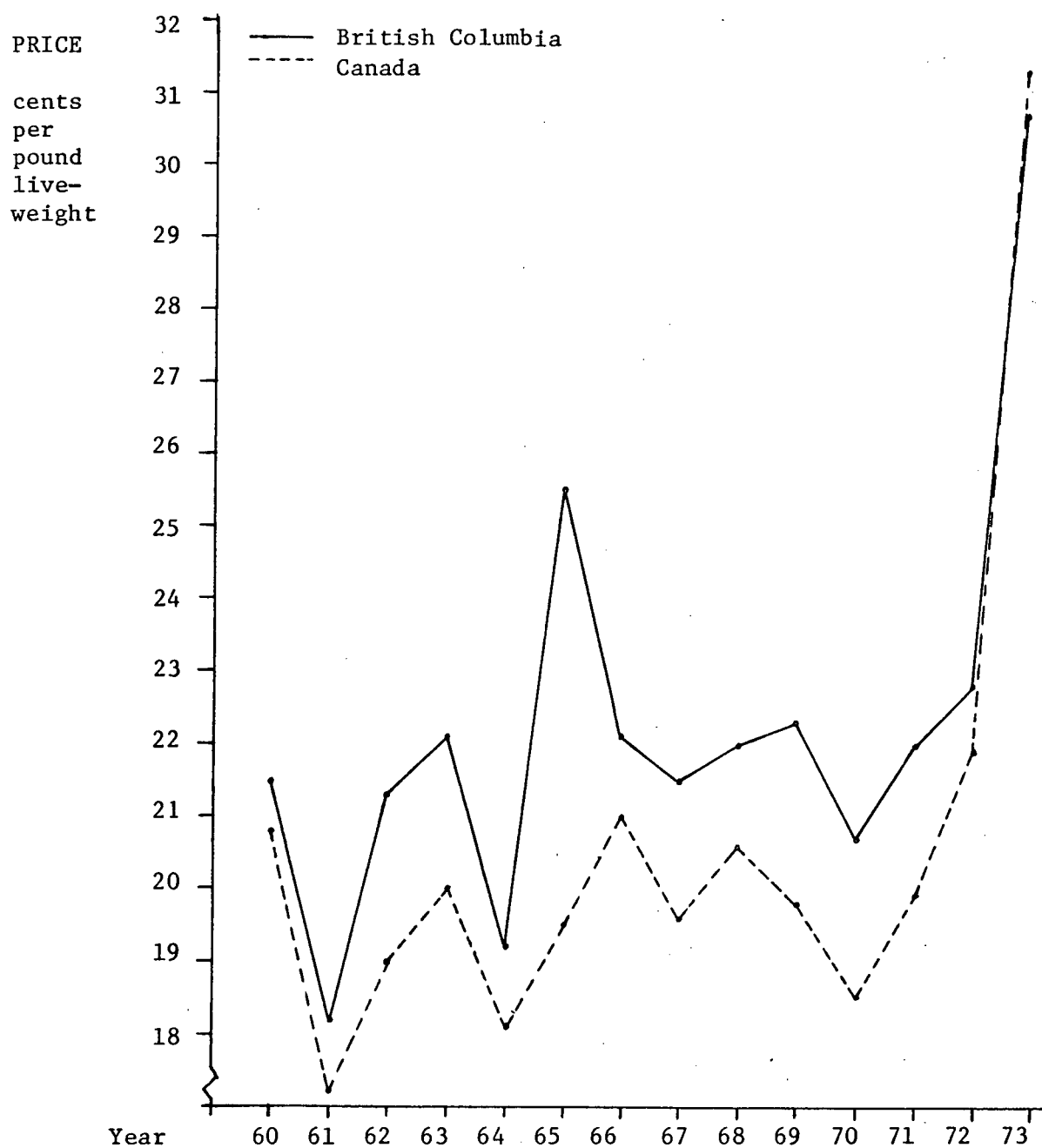


Figure 13. Annual Average Price Paid to Broiler Producers
Canada and British Columbia. 1960-1973

Source: Table 1 and Table 10 (pp. 66 and 85).

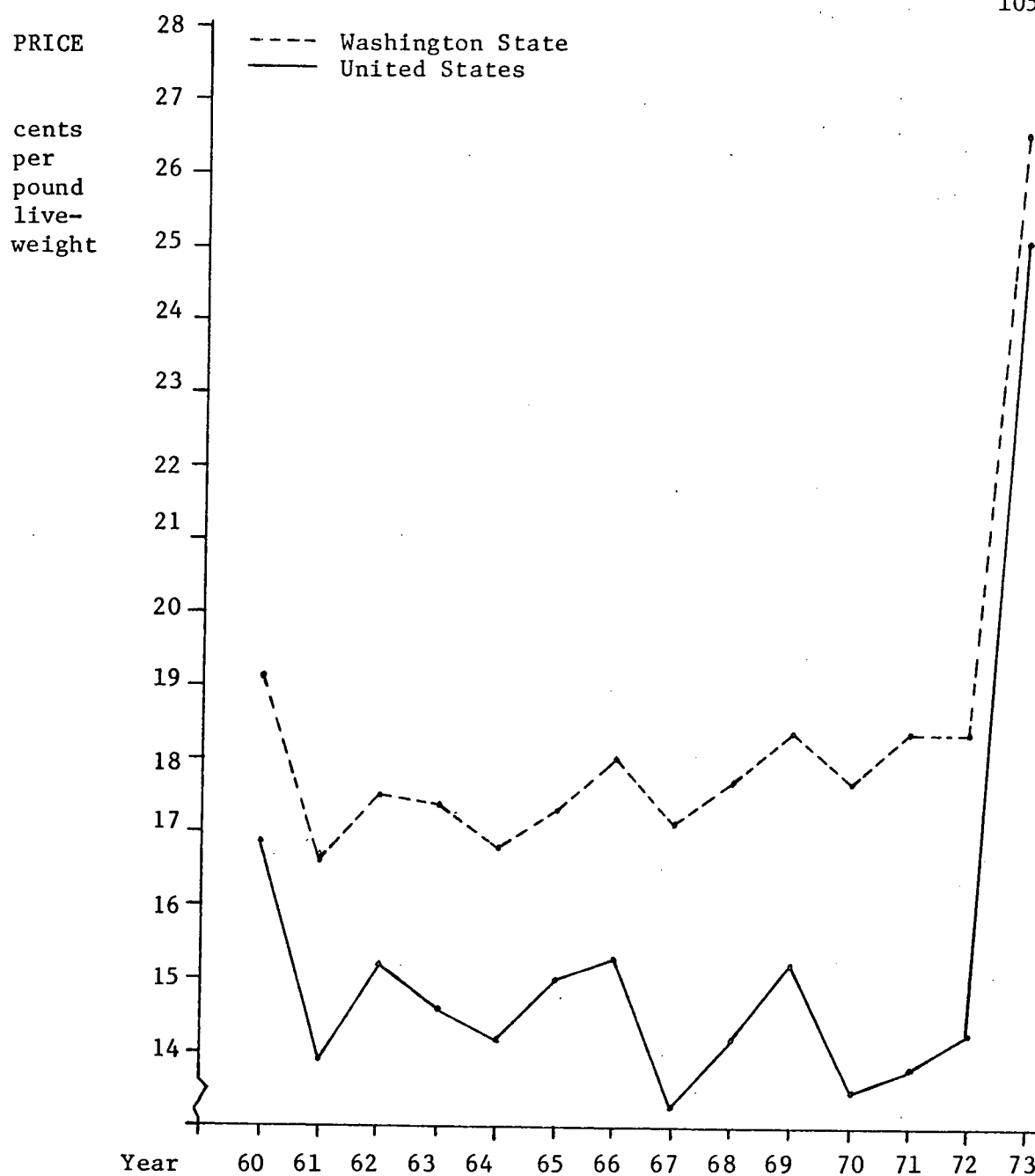


Figure 14. Annual Average Price Paid to Broiler Producers
United States and Washington State. 1960-1973

Source: Table 2 and 10 (pp. 67 and 85).

Table 15. Annual Average Price Per Pound Paid to Broiler Producers
Washington State and Arkansas. 1963-1973

Year	Washington State	Arkansas	Difference	Difference Per Cent
Cents per lb. liveweight				
1963	17.4	13.9	3.5	20.1
1964	16.8	13.4	3.5	20.2
1965	17.3	14.0	3.3	19.1
1966	18.0	14.7	3.3	18.3
1967	17.1	12.6	4.5	26.3
1968	17.7	13.6	4.1	23.2
1969	18.4	15.0	3.4	18.5
1970	17.7	13.2	4.5	25.4
1971	18.4	13.3	5.1	27.7
1972	18.4	13.7	4.7	25.5
1973	26.6	23.7	2.9	10.9

Source: U.S. Department of Agriculture, Chicken and Eggs, Pou 2-3
63-73).

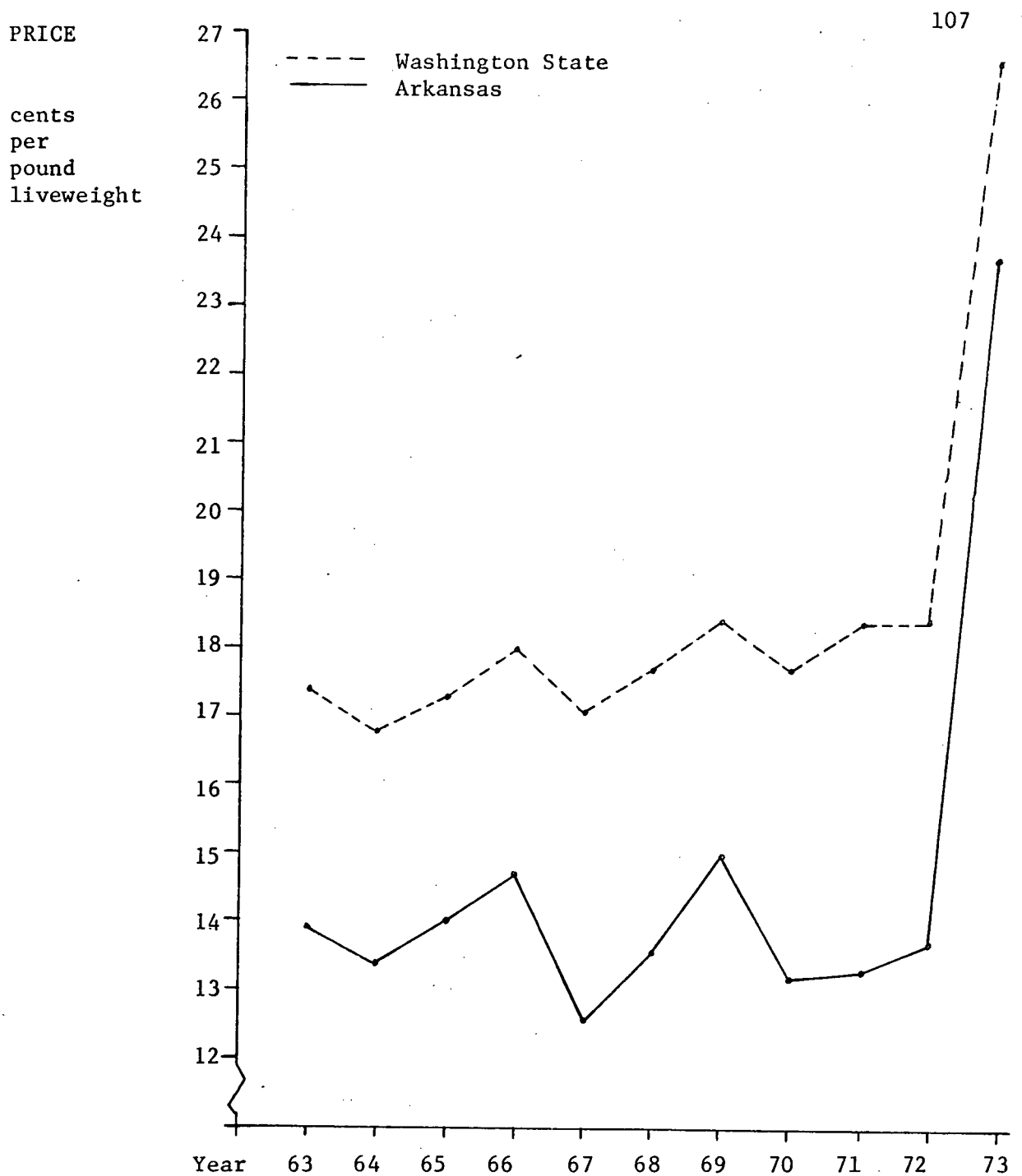


Figure 15. Annual Average Price Paid to Broiler Producer
Washington State and Arkansas. 1963-1973

Source: Table 15 (p. 106).

Table 16. Annual Average Price Per Pound Paid to Broiler Producers
Vancouver and Montreal. 1961-1973

Year	Vancouver	Montreal	Difference	Difference Per cent
Cents per lb. liveweight				
1961	18.2	17.3	0.9	4.9
1962	21.3	19.8	1.5	7.0
1963	22.1	20.1	2.0	9.1
1964	19.2	18.5	0.7	4.1
1965	25.5	27.0	-1.5	- 5.9
1966	21.1	21.2	-0.1	.5
1967	21.5	19.0	2.5	11.6
1968	22.0	19.8	2.2	10.0
1969	22.3	18.6	3.7	16.6
1970	20.7	17.2	3.5	16.9
1971	22.0	18.3	3.7	16.8
1972	22.8	21.3	1.5	6.6
1973	30.7	29.4	1.3	4.2

Source: Table 1 (p. 66).

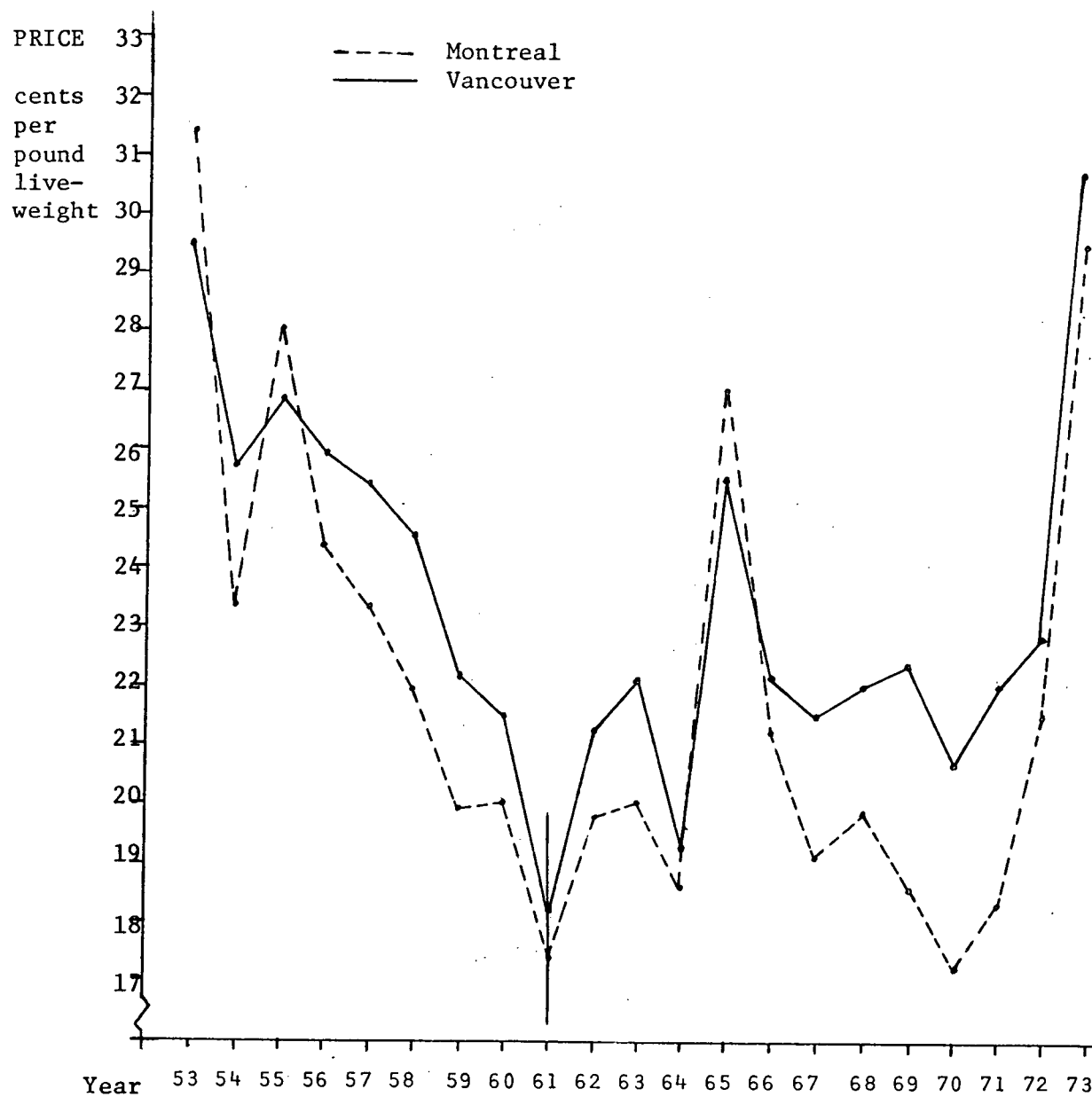


Figure 16. Annual Average Price Paid to Broiler Producers
Vancouver and Montreal. 1953-1973

Source: Table 1 (p. 66).

producers in the broiler industry in eastern Canada, it may be inferred that the higher level of producer prices in British Columbia relative to the national average reflects the influence of Quebec and Ontario, which hold a comparative advantage over broiler production in British Columbia.

In Washington, the comparative advantage of Arkansas broiler production is sufficient to offset transportation costs, and Arkansas' product competes with domestic product in the Washington market.

Table 17 presents the average annual wholesale prices for the Montreal and Vancouver markets during the years 1965 to 1973. This information is also presented in Figure 17. From this it may be observed that the average wholesale price in Vancouver has been consistently higher than that in Montreal. In British Columbia, due to regulations imposed by the Board restricting the entrance of any imported product, price differentials in the Quebec market have not been allowed to affect British Columbia's production.¹²

In summary, prices paid to broiler producers in both the British Columbia and Washington State market are higher than the national average. This indicates comparative advantages of production existing in other regions of the respective national markets. In both instances, the comparative advantage of production existing in other regions has

¹² Based on 1973 average wholesale prices in each market, the landed wholesale price for Quebec broilers in British Columbia would be 57.2 cents per pound versus 60 cents per pound for domestically produced product. (Based on rail transportation costs of 3.6¢/lb from Montreal to Vancouver).

Table 17. Annual Average Wholesale Broiler Price Per Pound
Vancouver and Montreal. 1965-1973

Year	Vancouver	Montreal	Difference	Difference Per Cent
Cents per lb. liveweight				
1965	37.4	37.8	- 0.4	- 1.1
1966	40.0	35.0	5.0	12.5
1967	38.4	32.6	5.8	14.4
1968	41.2	34.4	6.8	16.5
1969	43.3	32.6	10.7	24.9
1970	39.2	30.2	4.0	23.0
1971	41.9	33.4	8.5	20.3
1972	43.9	38.9	5.0	11.4
1973	60.0	53.6	6.4	10.7

Source: Table 1 (p. 66).

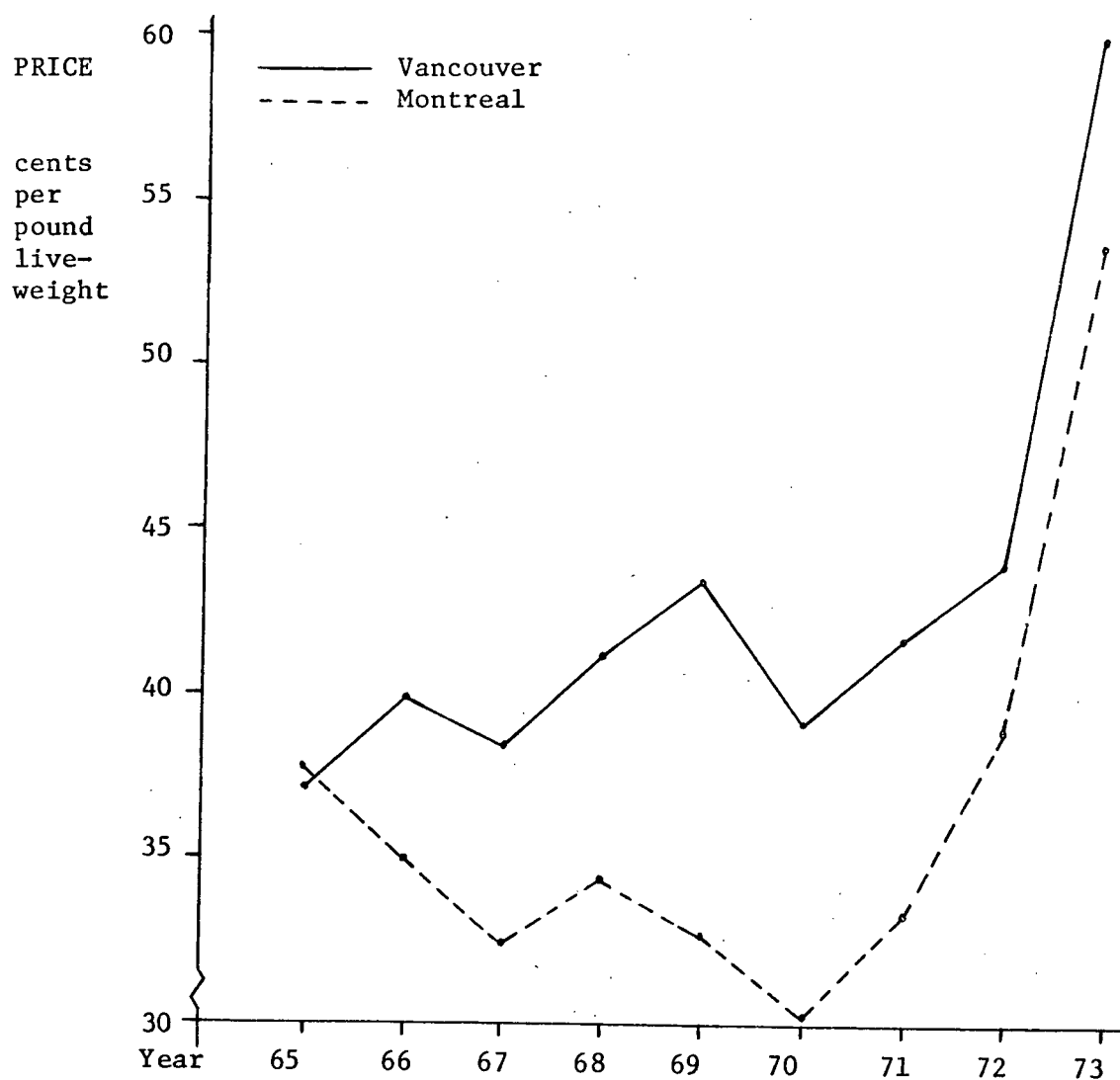


Figure 17. Annual Average Wholesale Prices
Vancouver and Montreal
1965-1973

Source: Table 1 (p. 66).

been sufficient to offset transportation costs to the domestic markets. In the Washington market, product movement has occurred, and broilers from the southern states compete with domestic production. In British Columbia, competing product does not enter the domestic market from regions of greater comparative advantage. Since the B.C. Broiler Marketing Board has the authority to restrict the interprovincial or international movement of competing product by preventing the sale of imported products on the domestic market, competition from areas of greater comparative advantage has been eliminated.

Channels of Distribution

Relationships with Processors and Retailers

In June of 1974, opinions were solicited from persons in the broiler industry in British Columbia and Washington regarding the interrelationships between the sectors.

From these it was observed that the British Columbia Broiler Marketing Board has not been as effective in facilitating productive communication between the industry sectors as has the Washington Fryer Commission.

Based on opinions solicited from representative persons in the processing and retail segments of the British Columbia market, the general feeling towards the Board is one of dissatisfaction. Those parties contacted stated that they felt the Board was unresponsive to their needs, and generally unwilling to consider their opinions regarding the marketing of broiler products.

From discussions with persons involved in the broiler industry in Washington State, it has been observed that both the processors and the retailers are considered to be a vital part of the marketing chain by the Washington Fryer Commission. Through the efforts of the Commission, a great deal of communication and cooperation has evolved between the processors, producers and retailers of broiler products. The opinions of the processors and retailers are solicited by the Commission, and contribute significantly to the development of programs designed to increase market efficiency. All of the processors and retailers contacted in the Washington market stated that the Commission had contributed significantly to overall market efficiency.

Market Expansion

(a) Advertising and Promotion

In 1973, the Washington Fryer Commission expended \$91,414 on advertising and promotion, representing approximately seventy-nine per cent of their operating budget, while the B.C. Broiler Marketing Board spend \$36,788 on advertising and promotion constituting approximately twenty-five per cent of their operating budget during the same period of time.¹³

While both the B.C. Broiler Marketing Board and the Washington Fryer Commission have conducted advertising and promotional programs,

¹³ As reported in the Washington Fryer Commission Annual Report 1973 and the B.C. Broiler Marketing Board Annual Report 1973, respectively.

the efforts undertaken in this area appear to have been greater on the part of the Washington Fryer Commission.

(b) Research

In 1973, the B.C. Broiler Marketing Board commissioned a market research study to determine the potential market for further processed broiler products in British Columbia.¹⁴

The Washington Fryer Commission has embarked upon several areas of research since their inception. These include:

- . research in the area of transportation of feed grains, seeking to obtain lower and more equitable rail freight rates. Through their cooperation with the Western States Feedstuffs Transportation Committee, they successfully obtained freight reductions for several feed grains used in broiler production
- . investigation of barley and kelp as components of feed rations for broilers
- . two studies to determine consumption patterns for broilers in Washington State
- . the award of research scholarships to two universities in Washington State to promote the study of broiler production and marketing

¹⁴ W. Dixon, Analysis of The Potential Market for Further Processed B.C. Broiler Products.

While the area of research has received attention from both the B.C. Broiler Marketing Board and the Washington Fryer Commission, it may be observed that the commission has placed a greater emphasis on research than has the Board.

Analysis of Factors Contributing to Observed Differences in Performance

Table 18 presents a summary of the observed differences between the broiler industries in British Columbia and Washington, with respect to structure, returns to growers, price, supply, competition, relationship to industry sectors, advertising and promotion and research.

When studying two industries which have in common production volume, size and geographical location, the differences observed raise fundamental questions.

It would appear valid to assume that the British Columbia Broiler Marketing Board is able to exert a greater degree of control in the marketplace than is the Washington Fryer Commission. By reviewing the elements of control held by each group, and the effects of the application of that control, a better understanding of the reasons behind the observed variations in performance may be approached.

Powers

In British Columbia, the B.C. Broiler Marketing Board has powers which effectively regulate production (volume, number of producers, and maximum producer size), establish prices to producers, and restrict imported product.

Table 18. Summary of Differences Observed in the
British Columbia and Washington State
Broiler Markets

	<u>British Columbia</u>	<u>Washington</u>
<u>Structures of Production</u>	concept of family farm	emphasis on vertical integration
<u>Returns to Producers</u>	higher	lower
1974 estimated returns to management and capital for 40,000 bird/cycle unit	\$42,700	\$17,270
<u>Price</u>		
levels	higher at all levels	lower at all levels
margins	higher at all levels	lower at all levels
producer	greater rate of increase	lower rate of increase
	price less responsive to surplus supply	price more responsive to surplus supply
<u>Supply</u>	greater stability	less stability
<u>Competition</u>	no	yes
<u>Relation to other industry sectors</u>	poor	good
<u>Advertising and promotion</u>	less intensive	more intensive
<u>Research</u>	less intensive	more intensive

The authorities vested in the Washington Fryer Commission are those of advertising and promotion, improvement of standards and grades, prevention of unfair trade practices, and the support of research. In conjunction with the improvement of standards and grades, the Commission has instituted state of origin labelling for all broiler products sold in Washington. Label enforcement, combined with prevention of unfair trade practices, are the strongest regulatory powers the Commission holds. The powers of the B.C. Broiler Marketing Board are far greater than those of the Washington Fryer Commission.

The following is an evaluation of how the differences in power held by each institution has contributed to the difference in performance observed in the criteria under question.

Effects on Structures of Production

In British Columbia, the B.C. Broiler Marketing Board has the ability to control both size and number of producing units through the use of quota. By stipulating that no quota may be issued or transferred to any grower who has received capital financing from any other part of the broiler industry or affiliated trades, as well as prohibiting a grower from being employed or owning shares in any hatching, processing, or feeding business, they have effectively prevented vertical integration from occurring in British Columbia.¹⁵ Due to the enforcement of these regulations, it is not surprising to find an industry in British Columbia

¹⁵ The notable exceptions include Panco Poultry Ltd., White Spot Ltd., and Pacific Poultry Cooperative, the latter a provincially sponsored vertically integrated grower cooperative.

consisting of a series of family farms.

In Washington, the Washington Fryer Commission does not have the authority to control production size, number of growers, or degree of integration. Due to the lower returns in the broiler industry in Washington, increased demands for efficiency have lead to the development of larger units, and vertically integrated approaches to production have evolved as a means of promoting efficiency.

Effects on Returns to Producers

Since net returns to producers may be expressed as liveweight price times quantity of output less cost of production, and since cost of production and quantity of output are relatively stable, net return to producers in the broiler industry is largely dependent upon price.

In British Columbia, the B.C. Broiler Marketing Board establishes liveweight prices to producers. Since the Board is comprised solely of directors elected by the growers, their interest lies with maximizing producer returns. Due to the lack of competition in the British Columbia market, the Board established price has traditionally been higher than in Washington. Consequently, returns to growers in British Columbia are significantly higher than those in Washington.

In Washington, the Washington Fryer Commission has no control over prices paid to producers. Due to competition in the Washington market from broilers produced in the southern states, liveweight prices to producers are also competitive, and therefore lower than in British Columbia. This results in lower net returns to Washington Broiler producers.

Effects on Price

In British Columbia, since the production liveweight price paid to producers is established by the B.C. Broiler Marketing Board and restrictions placed on competition, prices at the retail level are correspondingly higher. We may also observe that producer prices have increased at a faster rate in British Columbia, again due to the control of price, supply, and competition by the Board.

In Washington, due to the existence of competition in the market, as well as the lack of control over prices by the Washington Fryer Commission, prices for broiler products at the producer, processor, and retail level are correspondingly lower.

Effects on Supply

In British Columbia, since the B.C. Broiler Marketing Board establishes prices and regulates supply, through the use of quota, to maintain prices, supply has historically undergone a more stable growth.

In Washington, since the Washington Fryer Commission does not have the ability to influence price or supply, supply has been less stable than in British Columbia.

Effects on Competition

In British Columbia, the B.C. Broiler Marketing Board has the ability to restrict the entrance of any competing product through enforcement of Import Order No. 1. Since the institution of this Order in 1970, competition has been effectively eliminated in the British Columbia market.

In Washington, since the Washington Fryer Commission does not have the ability to restrict competition, the competing product flows freely into the market from areas of greater comparative advantage.

Effects on Relationship with Processors and Retailers

In British Columbia, since the B.C. Broiler Marketing Board has been given the power to establish producer price, maintain high price levels through supply control, and eliminate competition, producers enjoy a secure market and high returns. Consequently, the necessity for productive relationships with processors and retailers has been largely eliminated. It is not surprising, therefore, to find that the Board has not expended a great deal of effort in this area.

In Washington, since the Washington Fryer Commission is without the powers enjoyed by the B.C. Broiler Marketing Board, the establishment of productive relationships with processors and retailers is of vital importance in improving the market environment for domestically produced product. A great deal of effort has been expended in this direction by the Commission.

Effects on Advertising and Promotion

In British Columbia, the B.C. Broiler Marketing Board has effectively reduced the threat of competition. Since the growers in British Columbia supply close to one hundred per cent of their market, and since supply is regulated to conform to demand at Board established prices, the emphasis on advertising and promotion is understandably less than in the Washington market.

In Washington, since the Washington Fryer Commission does not enjoy the powers held by the B.C. Broiler Marketing Board, the need for effective and intensive advertising and promotion is vital. As of 1974, Washington supplies approximately forty-five per cent of the domestic market. Since retail prices for Washington Broilers are approximately five cents per pound greater than those of competing southern product, a great deal of the Commission's activity has successfully been expended in the area of advertising and promotion.

Effects on Research

In British Columbia, due to the regulatory powers held by the B.C. Broiler Marketing Board, the need for research in the areas of improved production methodology and market research and development to improve producer market power has not been as pressing as in Washington State. Correspondingly, there is significantly less emphasis placed in this area by the Board.

In Washington, since producers face a competitive market, the need for research in the areas of improved production methodology and market research and development has been far greater than in B.C. The Washington Fryer Commission has, appropriately, expended a greater effort in this area.

CHAPTER VI

EVALUATION OF PERFORMANCE

Introduction

An evaluation of market performance implies the existence of criteria against which observed performance may be assessed. The criteria which have been observed in this study are:

- . structures of production
- . returns to producers
- . price
- . supply
- . competition
- . relationships with processors and retailers
- . advertising and promotion
- . research

An evaluation of performance based on these criteria will be undertaken with respect to Stated Objectives, Industry Sectors, and the Concept of Organized Marketing.

With Respect to Stated Objectives

Both the British Columbia Broiler Marketing Board and the Washington Fryer Commission have been established under governmental authority to effect specific functions in relation to the marketing of broilers.

If we assume that these functions represent a subset of the objectives of organized marketing, the first basis upon which to evaluate the performance of the two institutions is with respect to the successful attainment of the objectives expressed in the legislation under which they function.

The objectives of the B.C. Broiler Marketing Board, as stated in their Scheme, are:¹

. . . to promote, control, and regulate the . . . marketing of British Columbia broiler chickens . . .

As is evidenced by the information reported under performance, the B.C. Broiler Marketing Board, through the regulation of production volume, maximum producer size, number of producers within the industry, and restriction on imported product, has successfully attained their objective of controlling and regulating the marketing of British Columbia broiler chickens.

While the Board spends significantly less of its total budget on advertising than does the Washington Fryer Commission² (twenty-five per cent as compared with seventy-nine per cent respectively for 1973), the need to maintain and increase the domestic market is not as critical from the point of view of the growers, since the Board effectively removes competition from outside of British Columbia and supports local price.

¹ British Columbia Broiler Marketing Scheme, BC Reg. 188/61.

² British Columbia Broiler Marketing Board, Annual Report, 1973. Washington Fryer Commission, Annual Report, 1973.

The objectives set forth in the Marketing Order for Broilers, Fryers and Roasters, as issued by the Director of Agriculture of Washington State are:³

to promote the general welfare of the state by enabling fryer, broiler, and roaster producers to help themselves in establishing orderly, fair, sound, efficient, and unhampered marketing, grading, and standardization of fryers, broilers, and roasters they produce, and in promoting and increasing the sale of such fryers, broilers, and roasters.

On the basis of the information collected in this study, the results of the activities of the Washington Fryer Commission also appear to be closely aligned with their objectives. Washington fryer producers now serve approximately forty-five per cent of the domestic market, despite price differences existing between domestic and imported product. This may be attributed to the intensive promotional efforts of the Washington Fryer Commission, their activities in the area of labelling and labelling enforcement, their improvement of standardization and grades, and monitoring of unfair trade practices, as well as the overall efficiency which has occurred in the broiler industry in Washington State, all of which have contributed to lowering their cost of production and enabling them to maintain a competitive position with respect to southern product.

Active participation from all sectors of the industry has been sought and obtained through the activities of the Commission. This has resulted in a greater spirit of cooperation and mutual understanding

³ Marketing Order for Washington Broilers, Fryers and Roasters.

between the sectors, and has increased the efficiency of the marketing process.

In summary it may be concluded that both the Washington Fryer Commission and the B.C. Broiler Marketing Board have successfully attained their stated objectives.

With Respect to Industry Sectors

It has been observed that the B.C. Broiler Marketing Board and the Washington Fryer Commission have been successful in attaining the objectives set forth in the respective legislation under which they operate. This alone does not imply, however, that the functions of the Board and Commission have contributed to improving overall market performance. The effect of the attainment of these objectives on the market environment provides a measure of market performance. By examining the effects of the market environment on producers, processors, retailers and consumers in British Columbia and Washington respectively, a comparison of the impact on the industry as a whole may be observed.

Producers

Washington

The Washington producers are faced with lower liveweight prices and therefore lower incomes than those enjoyed in British Columbia for the same sized units. Due to the vigorous competition in the Washington market from product produced in the southern United States, there is less security for any individual producer. While Washington producers

are free to expand, lower returns to producers--coupled with increasing building costs--limits individual expansion. Operating on a contract to a large processor also decreases the freedom of the individual producer to a certain extent.

Producers in Washington benefit from increased efficiency in the area of production and marketing. Because of the emphasis on efficiency, a producer with above average management expertise can increase the level of his returns through his own actions. Since barriers to entry and exit do not exist to the extent that they do in British Columbia, producers have greater freedom of movement.

British Columbia

In British Columbia, a highly motivated grower does not have the opportunity to increase his overall production and thereby to effect efficiency increases and yet higher income. Since the system does not provide for the natural attrition of inefficient producers, they tend to increase industry cost of production.

Producers who entered the industry after the initial allocation of quota must include the cost of quota as a capital investment. For a 40,000 bird/cycle unit, this increases capital requirements by approximately eighty per cent, thereby increasing cost of production. Since the Board controls quota on the basis of estimated demand, which will necessarily deviate from actual demand, the British Columbia producer is faced with fluctuating quota levels (production) due to the efforts of the Board to maintain price. This creates inefficiencies in scheduling for

the producers and processors alike. Further, if a broiler grower in British Columbia wishes to leave the producing sector, he is faced with the necessity of complete relocation in order to realize his quota investment.

The producers in British Columbia benefit from much higher returns than the Washington producers, and are afforded a greater degree of security. While maximum profits from quota allocation accrued to those who initially received them, all holders of quota have, in effect, been given an income producing asset, for as the poultry industry increases in value, so does the right to produce (i.e., quota).

Processors

Washington

The processors in Washington are faced with greater variations in volume (and therefore in returns), than those in British Columbia. They have, however, an increased ability to influence the supply and price of their inputs, since the majority are dealing with the growers on a contract basis. This also permits them to control the uniformity of their inputs, thereby decreasing costs. While profit margins in the broiler industry are, on the average, lower in Washington, the processors have the option of vertically integrating to capture more of these margins. Because they are not faced with an industry which exercises control of quantity and price, they have an increased ability to predict supply on the basis of economic criteria and therefore to respond faster. Since the Washington Fryer Commission is responsive to the needs of producers,

and considers them to be a part of the marketing chain, they are able to exert greater influence on the market environment.

British Columbia

Since the processors in British Columbia are faced with a broiler industry which places controls on quantity and price, they are in a weaker position than their Washington counterparts to predict supply on the basis of economic factors. Since their short run supply variations are determined by Board actions, their scheduling capabilities are decreased. Because, as a group, they do not have the option of selecting their suppliers (e.g., those growers who produce high quality birds), they are faced with a higher variation in quality and increased costs. Unlike Washington processors, they cannot exert any great amount of influence on supply or the price of their inputs (birds). Under conditions such as those being experienced currently, where surplus volumes are high, the processors must bear the costs of storage for the surplus. While there is an advisory committee of processors which meets monthly with the Board, the B.C. Broiler Marketing Board has been relatively unresponsive to this committee, thereby decreasing the processor's ability to influence the market environment.

Retailers

Washington

Retailers in Washington have the advantage of two sources of supply. They are, therefore, able to benefit from more competitive prices,

and a form of product which is more closely aligned with consumer demand. This situation increases sales potential for the retailer.

The retailers have benefitted from the promotional activities undertaken by the Washington Fryer Commission. Despite a price differential of from three to five cents a pound between the Washington and Arkansas grown fryers in the Washington market, effective promotion permits the Washington producers to supply approximately forty-five per cent of the market. The Commission makes free advertising available to the retailers, and solicits their opinion in advertising schemes developed. The retailers have effective channels of communication with the Commission, which is generally responsive to their needs.

British Columbia

In British Columbia, retailers do not have the advantage of competing product. They are offered one source of supply--domestic. The right of the retailer to seek alternate suppliers, and to purchase product from whomever they wish, had been effectively limited to domestic suppliers through regulations passed by the Board.

Consumers

Washington

In Washington, the consumer benefits from lower prices due to increased efficiencies and decreased costs of production. Retail costs are closely aligned with input costs, and price reflects any surplus production. Because of the competition from Arkansas, the consumer

benefits from the comparative advantages of Southern production, and the corresponding pressure of efficiency on domestic production.

British Columbia

In British Columbia, since the B.C. Broiler Marketing Board restricts the right to produce, and maintains high prices to producers through supply control and the elimination of competition, the consumer is placed in the position of subsidizing this situation through increased prices on the retail level.

With Respect to the Concept of Organized Marketing

It has been concluded that the performance of the B.C. Broiler Marketing Board and the Washington State Fryer Commission has correctly reflected the objectives set forth in the B.C. Broiler Marketing Scheme and the Marketing Order for Broilers, Fryers and Roasters respectively. It has been observed, however, that the market environment in British Columbia has had serious negative effects upon the industry as a whole. As was originally stated, to achieve many of the goals of organized marketing, a degree of control over individual producer behaviour is required. It has been observed that the powers of control held by the B.C. Broiler Marketing Board are far greater than those held by the Commission. If the stated objectives are viewed as a subset of the objectives of organized marketing, and the powers granted under each as a means towards achieving those objectives, we may evaluate the degree to which the powers held by the Board and Commission have contributed to

the successful attainment of the concepts of organized marketing. This will be accomplished by contrasting the effects of the two market structures upon production, response to market conditions, channels of communication, and market expansion.

Production

In Washington State, the emphasis on efficiency in broiler production is greater than that in British Columbia. Since there are no limitations placed on individual grower size, larger units, based on the concept of vertical integration, have evolved. Most of the broiler growers in Washington are producing on a contract basis. Since returns to producers on contract are based on feed conversion ratios, the incentive for efficiency is greatly increased. Improved production methodology is sought to decrease costs of production, thereby increasing grower returns. The powers of the Commission are supportive to both the producers and the concept of market efficiency.

In British Columbia, the powers of the B.C. Broiler Marketing Board, primarily restrictive in nature, have led to inefficiencies in production. The power to regulate price and production has led to a static industry wherein marginal producers are insulated, costs of production are increased, efficiency is decreased, normal economic response to price and supply is eliminated and valuable resources are misallocated.

Through the use of quota (the right to produce), entry and exit barriers have been created. Entry is based on quota availability, and quota availability is regulated by the Board. Although the Board has a

program for introducing approximately fifteen new growers per year, there is a waiting list of 400 applicants. While a potential new grower has the option of buying an existing farm, the relatively large profits accrued to British Columbia growers through price and volume controls tend to increase the stability of the grower population, thereby reducing the number of farms on the market. When farms are available for purchase by the new grower, included in the cost of the farm is \$3.75 per bird quota costs. For a unit of 40,000 birds per cycle, this represents an additional investment of \$150,000, a significant deterrent to entry. The stipulation by the Board that quota be tied to the land again restricts entry, since the new entrant may be forced to purchase land and buildings which are not of his choosing simply to obtain the right to produce. This also places geographical restrictions on production. Persons located in areas where there are no existing units for sale are often faced with the additional hardship of relocation if they wish to enter the industry. The Board's regulations regarding grower financing and maximum quota holdings also pose a barrier to entry.

Barriers to exit are created as a result of quota regulations as well. Since quota is tied to the land, for a producer to realize his quota valuation he must sell to a new broiler grower when exiting from the sector. This reduces the market for his property, since it is now restricted to new or small existing growers, and the valuation on his land and buildings is based on valuation in the poultry sector. The economic health of the sector will determine the worth of his property. This has the additional effect of restricting the movement of economic resources.

The valuation placed on quota not only stands as a barrier to entry and exit but also increases production costs. Since the quota valuation is included in capital investment figures, higher costs of production result--thereby increasing costs per unit and decreasing efficiency.⁴ If the grower who holds quota was allotted it under the initial quota distribution (i.e., before it attained monetary value), then the quota holder has, in effect, received a large unearned profit, at the expense of the rest of the industry as well as the consumer. The Federal Task Force on Agriculture describes the disadvantages of quota as follows:⁵

Economically, the rise in the price of quotas or inputs to which the rights are attached lead to more intense abuse of other inputs, resulting in increasing costs . . . from the national point of view, resources are allocated inefficiently. From the point of view of an owner of . . . (quota) . . . rights the program probably has the . . . result of providing him with a tax free capital gain.

Another interesting situation brought about by the use of quota is potentially inefficient use of human resources. If a person is an inefficient producer, this implies that transfer of that person to another sector will better serve the interests of society by increasing the

⁴ A holder of a 40,000 bird per cycle quota has an increased capital investment of \$150,000, representing an eighty per cent increase in capital requirement. Returns on this capital at six per cent per annum represent \$9,000 per year, or an increase in the cost of production of 4.8 cents per bird.

⁵ Canadian Agriculture in the Seventies, Ottawa, Queen's Printer for Canada, 1970, p. 316.

returns to human resources. If this transfer is restricted, it represents a high social cost. If the efficient person is driven out of the industry due to artificial restrictions on growth, this also represents a high social cost, as well as reducing the mobility of productive human resources within the sector. If an efficient producer leaves one area, for example broiler production, and wishes to transfer to another, for example broiler breeder hatching egg production, he may face barriers to entry in the latter, and the industry may lose the benefit of the years of experience and high efficiency potential.

As opposed to the conditions existing in Washington State, the British Columbia grower is less challenged to greater production efficiency, since price is based on supported Board levels for all producers and not on individual management expertise. Since the Board has placed a ceiling on maximum quota for any individual grower (now 1.25 per cent of total quota outstanding, or 50,000 birds per cycle, whichever is the lesser), any advantages which may be accrued through economies of size greater than 50,000 birds per cycle are not available, therefore decreasing potential production efficiency.

Since the Board has the power to control production, quantity is restricted to maintain higher price levels. As illustrated in Figure 18, this leads to an inefficient use of productive resources such as labour, land, and capital, increases costs to consumers, as well as decreasing the quantity of product offered.

Market Conditions

In Washington, price and supply are based on the principles of competition. The product flows freely into the Washington market

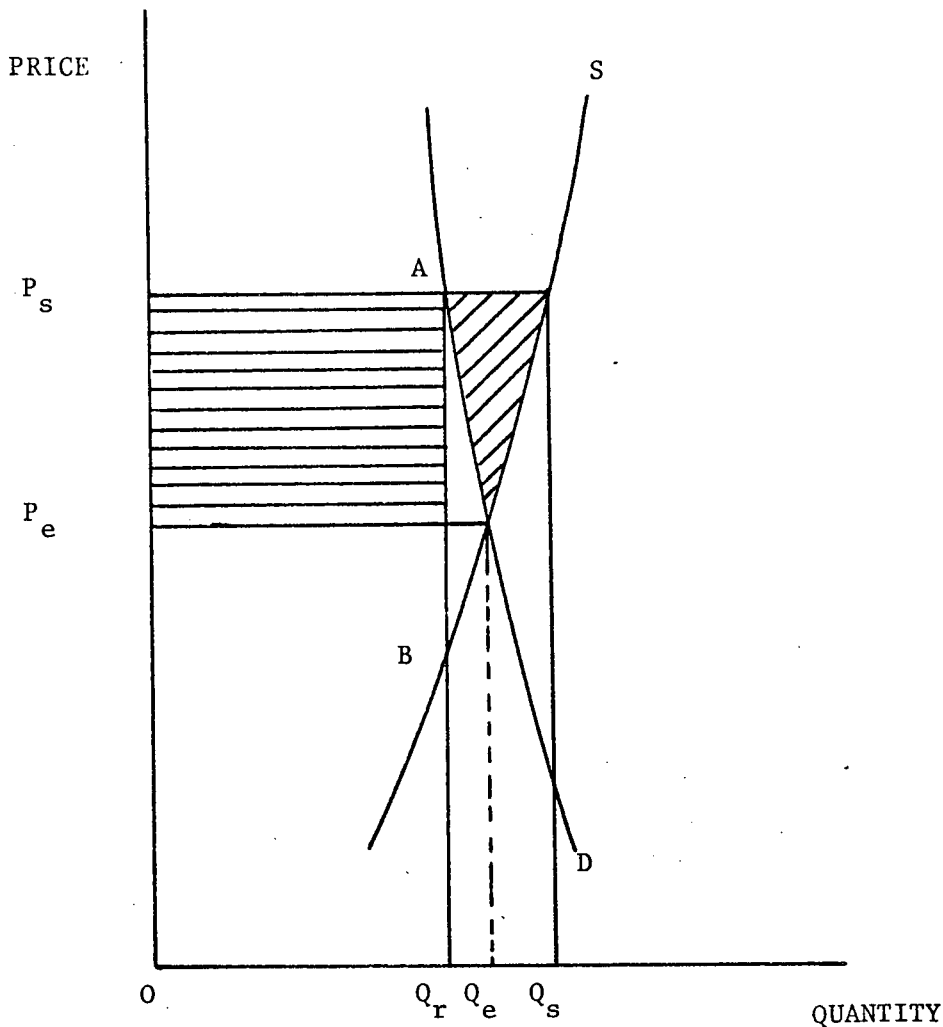


Figure 18. Effect of Supply Control on Price and Resource Use

P_s = supported price

P_e = equilibrium price



= measure of inefficiency in
resource allocation at
price P_e

$P_s - P_e$ = cost of support to
consumer/unit

$Q_e - Q_r$ = reduction in product
offered due to price support
and quota restriction--
social cost

$Q_e - Q_s$ = true economic surplus
if maximum utilization of
factors at P_s

Q_r = restricted quantity @ P_s

Q_e = equilibrium quantity

Q_s = quantity capable of being
produced at P_s

from the southern states, where a comparative advantage in broiler production exists. The existence of competition in the Washington market provides incentive for production and marketing efficiencies, resulting in lower costs of production, and consequently lower prices.

In British Columbia, the power of the Board to regulate competition has resulted in an inefficient market environment.

While the Board has the power to regulate quantity, imperfect market knowledge regarding demand indicates that "surplus" can and will be produced. Ideally, surplus production should indicate a drop in domestic prices. The creation of a "surplus" at a supported price indicates the price exceeds the equilibrium level and resource factors are inefficiently used. Surplus should, economically speaking, be placed on the market, causing price to fall to equilibrium (supply equals demand) and hence maximize returns to resources employed.

Since the Board uses production control as a tool to maintain supported liveweight price levels, reaction to surplus product is to decrease current production to accommodate the surplus. Since the Board cannot accurately predict consumer demand, their estimation of the amount of production which is "surplus" also stands to be incorrect. If the curtailment of current production is not sufficient to absorb the surplus at the supported price, further surpluses will occur. This situation is represented in Figure 19. An alternate approach to maximizing market potential would be to seek secondary markets to maintain domestic price, thereby avoiding production fluctuation while controlling surplus build-up. However, this approach is considered "dumping" by the B.C. Broiler

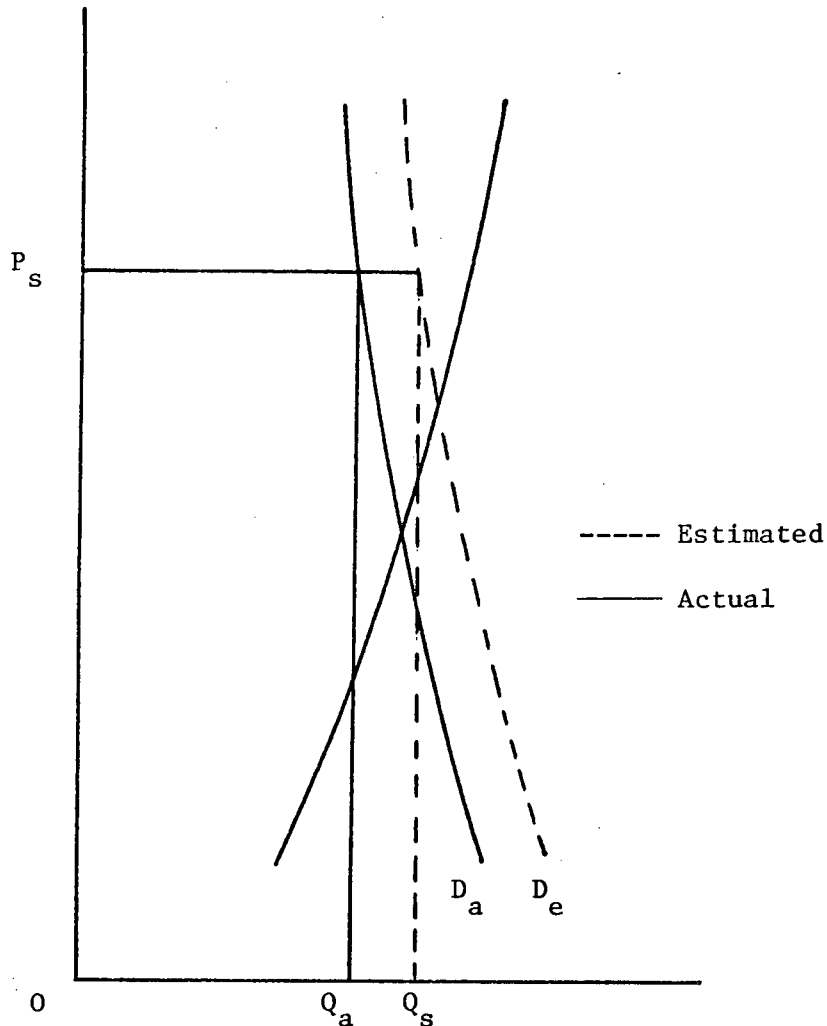


Figure 19. Effect of Overestimation of Demand in a Supply Control Program.

D_e = estimated demand

D_a = actual demand

P_s = supported price

Q_s = quantity produced at supported price given estimated Demand D_e

Q_a = actual quantity demanded at P_s where Demand is D_a

$Q_s - Q_a$ = Board's definition of "surplus"

Reaction: Board reduces the quantity produced based on estimation of $Q_s - Q_a$ hoping to absorb "surplus" thereby.

Marketing Board and not an acceptable solution. The Canadian Task Force on Agriculture has the following comment on the subject of "dumping":⁶

There is no doubt that multiple pricing can often produce greater revenue for the same quantity sold. Usually this involves the high price in the domestic market and the low price abroad where one must compete with the products of other countries . . . when it is done by others we call it dumping . . . a two-price system sound perfectly respectable; "acting as a discriminating monopolist" has questionable overtones, but "dumping" seems a despicable action, performed only by one's competitors (usually foreign).

The Board feels that the reduction of surplus through the use of export markets discriminates against local consumers,⁷ which is considered to be a greater evil than having the consumer pay for the inefficiency of production curtailment.

In British Columbia, since any product imported into the province must receive the express permission of the Board, and since the Board's aim is to promote self-sufficiency within the province, factors of comparative advantage in other regions are not permitted to influence British Columbia production. No demand is, therefore, placed on the local producers to increase efficiency to meet a competitive product. In a study conducted to determine the consumer cost of restrictions on the inter-provincial movement of chicken and poultry, broiler prices were monitored in five Canadian cities (Winnipeg, Vancouver, Toronto, Montreal and

⁶ Canadian Agriculture in the Seventies. p. 314.

⁷ Personal communication with Art Stafford, Manager, B.C. Broiler Marketing Board.

Halifax) and four American cities (New York, Detroit, Chicago and San Francisco), monthly from 1969 to 1973.⁸ Using a competitive model, consumer losses were determined by calculating the difference between the actual price in each region and the estimated landed price from the least cost alternative region. On the assumption that, in a free market situation, a consumer loss would indicate product movement, monthly marketing trade patterns for each of the Canadian cities were established. In addition, the extent of the total consumer loss was measured to provide an indication of market imperfections in prices and product flows. The following results were indicated:

1. The highest potential savings from freer trade and pricing in chicken would have accrued in Vancouver, where trade was indicated in every month during the four year period.
2. Improved trade and pricing would have produced savings to consumers in Winnipeg, Halifax and Toronto, with Toronto having the least frequent incentive for trade.
3. Montreal had the least opportunity for savings in chickens, implying that the market in that area best served the interests of the consumers.

An even greater comparative advantage in broiler production exists in the Washington market. Wholesale prices in June, 1974 were 44 cents per pound and 59 cents per pound in the Washington and Vancouver markets respectively. Based on these prices, the landed wholesale price for Washington broilers in the British Columbia market would be

⁸ R. M. A. Loyns and A. Pursaga, unpublished manuscript.

49 cents per pound.⁹ Since transportation costs are lower from the Washington market, trade would appear to be indicated.

Since 1970, free trade from areas of comparative advantage has been disallowed by the Board. This restriction of trade has been honoured by the wholesalers and retailers in British Columbia, and consequently has not been subject to legal test. The unwillingness on the part of these groups to exercise their right to purchase product on the free market may possibly be associated with the expense and publicity entailed in such an action.

Channels of Distribution

In Washington, since the emphasis has been placed on improved production and marketing efficiencies, the Washington Fryer Commission has actively solicited the support of handlers of the product. The philosophy of the Commission in the area of processor and retailer communication may be summarized by the following statement appearing in the 1973 Annual Report for the Washington Fryer Commission:

The last part of the year was spent . . . in visitations with our processors and executives of our grocery chains, our exchange of problems, ideas, and needs, whereby we may better help each other has been most gratifying. This avenue of three-way cooperation and communication is a "must" if we are to maintain ourselves as a viable industry.

The Commission appears to have been extremely effective in promoting

⁹ As of 1974, the MFNT (Most Favoured Nation Tariff) rate for eviscerated broilers is twelve per cent, but not greater than ten cents or less than five cents per pound.

productive, cooperative, communication between the industry segments, increasing the overall efficiency of the marketing program.

In British Columbia, since the Board has the power to enforce a stable and profitable environment for local producers through price support, production control, and elimination of competition, the emphasis on improved marketing efficiencies and effective channels of distribution to increase the market power of the producers has been substantially decreased.

Market Expansion

Again, due to the element of competition existing in the Washington market, the need for advertising, promotion, and market research and development is correspondingly high. The Washington Fryer Commission has provided a great deal of assistance in this direction through intensive promotional programs and, to a lesser degree, through support of market research.

In British Columbia, producers serve close to one hundred per cent of the domestic market.¹⁰ While the Board has expended efforts in the area of product promotion and research, since the stability and grower returns are ensured through regulation rather than improvement of market conditions, the emphasis has been less than in the Washington market.

¹⁰ The B.C. Broiler Marketing Board entered into an agreement with the Alberta broiler producers, allowing the latter to serve a very small northern market in British Columbia which, due to transportation costs, was deemed uneconomical for the Board to serve.

Conclusions

While the British Columbia Broiler Marketing Board has been vested with far more extensive powers to carry out the aims of their Scheme than has the Washington Fryer Commission, it is evident that the objectives of organized marketing have not been achieved. While grower stability and income has increased, this has been at the expense of market efficiency. By establishing artificial price supports, restrictions on production volume, barriers to entry and exit, and the elimination of competition, the Board has greatly increased producer power financially, but has contributed little in the area of improved marketing.

The powers vested in the Board are extremely extensive. Because the approach of the B.C. Broiler Marketing Board has been one of maintaining Board established prices through regulation of production and competition, rather than promoting production and marketing efficiency, a system of monopoly controls has evolved in place of orderly, organized marketing. As may be seen in Figure 20, monopoly rents accrue to the producers at the expense of the consumers, and resources are misallocated at the expense of society.

In Washington, while the producers lack the stability and financial rewards enjoyed by British Columbia producers, the functioning of the Commission more closely approximates an orderly, organized marketing approach. The marketing power of the sector has been increased through the actions of the Washington Fryer Commission in the areas of advertising and promotion, research, and improved channels of distribution. The industry is challenged toward greater efficiencies in production and marketing, and the role of the Commission is supportive to that end.

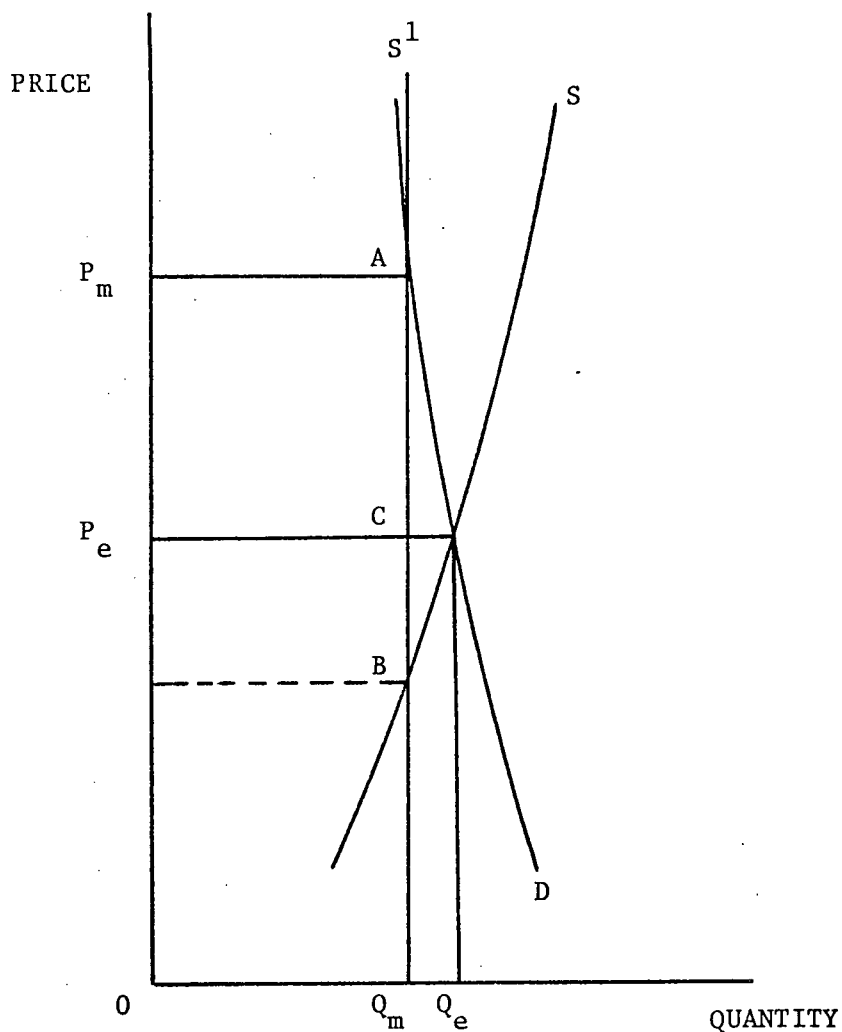


Figure 20. Monopoly Rents, Consumer Costs and Resource Allocation under Supply Control

P_e = Equilibrium Price

Q_e = Equilibrium Quantity

P_m = Board Supported Price
(Monopoly Price)

Q_m = Quantity Supplied at P_m

B = Marginal Cost at Q_m

S^1 = Supply when Board restricts
production

A-B = Measure of misallocation of resource
(price greater than marginal cost)

$P_m - P_e$ = measure of monopoly rent

$P_m - P_e$ = increase in cost to consumer

$Q_e - Q_m$ = Loss of product to society

CHAPTER VII

THE INFLUENCE OF PHILOSOPHICAL DIFFERENCES IN APPROACHES TO ORGANIZED MARKETING IN BRITISH COLUMBIA AND WASHINGTON STATE

In evaluating the performance of the B.C. Broiler Marketing Board and the Washington Fryer Commission, it has been observed that, although each institution has successfully attained the objectives set forth in their respective scheme and order, the Commission has had a far more productive effect on the market environment than has the Board. The functions of the Commission have been supportive in nature, while those of the Board have been regulatory. This has led to a market environment in Washington based on competition and free enterprise while in British Columbia the market has evolved as a system of restrictive controls. Given the industry similarities, such as size, age and geographical proximity, the differences in the two approaches to the organized marketing of broilers may be considered to reflect certain philosophical differences existing between the two markets.

Historically, a great deal of emphasis has been placed upon competition and free enterprise in the United States. The basis of the Constitution of the United States is the protection of individual rights and freedoms, a goal which has been vigorously defended by the American people.

In Canada, the concept of socialism is more widely prevalent. This has led to a greater emphasis upon regulatory controls designed to benefit segments of society.

The effect of these differences in national attitudes is naturally reflected in the legislation of the two countries, the broiler industry being no exception. The authority vested in the Washington Fryer Commission specifically precludes regulatory activities which might inhibit the development of the industry on a competitive, free enterprise basis. The powers vested in the B.C. Broiler Marketing Board specifically include regulations designed to attain social goals, among those being protection of local industry, raising distressed incomes in the farming sector, and maintaining the concept of the family farm.

That the production of the agricultural sector is of vital interest to society as a whole cannot be questioned. The need for a degree of agricultural self-sufficiency may be defended as well. In an economically rich nation, however, the concept of self-sufficiency in agricultural production must be tempered with the concept of comparative advantage, for it is only through the maximization of comparative advantage that valuable resources may be best employed.

The concept of integrating the principle of comparative advantage with domestic production appears to be more problematic on the provincial level than on the national level. Perhaps this may best be illustrated through the following example.

Supposing a group of producers decide they would like to grow bananas in Canada. Once they begin production, they realize that their costs are greater than those incurred in the larger banana producing countries in the world, and therefore their price must be higher. If they petition the government to restrict all imported bananas to allow

their product to be sold at the higher price--in the interest of Canadian self-sufficiency in banana production--the argument for self-sufficiency without the benefits of comparative advantage becomes clear. It would not be considered in the best interest of the Canadian consumers to support the increased cost of production of a small group in order to obtain a domestically produced banana in favour of a less expensive imported banana.

When the argument for self-sufficiency is applied on a provincial level it becomes less reasonable, since the exchange of products between one province and another does not additionally imply an effect on international trade. While a valid argument may be presented for spending Canadian dollars on Canadian goods, the argument for spending British Columbia dollars on British Columbia goods becomes less convincing, particularly when a proportion of the consumer dollar is devoted to maintaining a monopoly situation for the British Columbia broiler producers. Comparative advantage in broiler production exists in eastern Canada and the United States. The producers in British Columbia have been insulated from competition with those areas through a Board restraint of trade. Is it possible that the provincial government feels that British Columbia producers are incapable of the levels of efficiency reached elsewhere? Surely this cannot be the case. Removal of these barriers to inter-provincial and international trade should not be thought of as precluding provincial production but rather stimulating it to greater efficiency.

The attempt, on the part of the government, to increase the income of marginal producers through price supports is an inappropriate approach

to the problem of low incomes. This is particularly true in the case of the broiler industry. Due to the low income elasticity for chicken (.11),¹ increasing the returns to marginal producers by price support systems imposes a regressive tax on the consumer. Disregarding for the moment the negative effects of price support systems on industry efficiency, as a solution to low income they compound the problem by increasing the cost of food to low income consumers. This effect has been expressed as follows:²

Interfering with the competitive supply and demand mechanism is an inefficient way of correcting the income distribution. Whatever distribution you want to end up with can often be more efficiently attained by using the tax system to redistribute income rather than using ad hoc Robin Hood interferences with a single market.

Defending the concept of the family farm is often posed as a justification for marketing Boards. Since the concept of family farming is considered to be a social rather than economic goal, the equity in charging consumers (on a regressive basis) for a social good must be questioned. The implication of government support for family farms, as has occurred in the broiler industry in British Columbia, is that the family farm could not survive in a more competitive environment, and would fall below the poverty level or exit from the production sector. If this is true, then the problem is one of rural poverty and human

¹ R. M. A. Loyns and A. Pursaga, unpublished manuscript.

² Samuelson and Scott, p. 480.

resource mobilization. Without denying the significance of the problem, it cannot be considered one which should be resolved by increasing the cost of food.

In summary, it has been observed that there exist philosophical differences between British Columbia and Washington State which significantly affect the approach taken by the respective governments to agricultural marketing. The market for broilers in Washington State is relatively free from governmental regulation, reflecting the principles of free enterprise and competition, while in British Columbia, the market is characterized by strong, governmentally sanctioned producer-vested controls on price, supply and competition. While the objectives of the government may at first appear beneficial to the British Columbia broiler industry and to society in general, closer examination raises fundamental questions regarding both the objectives themselves and the appropriateness of the methods employed to achieve these objectives. The effects of regulatory over-kill are distressingly evident in the broiler market in British Columbia.

CHAPTER VIII

CONCLUSIONS

Through an analysis of the structure, conduct and performance of the B.C. Broiler Marketing Board and the Washington Fryer Commission, it has been observed that both institutions have successfully fulfilled the goals expressed in the legislation under which they were established.

In viewing the effects of the resulting market environment on the producers, processors, retailers and consumers, the two markets were sharply contrasted. In British Columbia, there appear to be significant negative effects as a result of the actions of the Board. In Washington, the efforts of the Commission appear to be far more productive.

When comparing performance of the two markets with respect to the principles of orderly, organized marketing, although complete success has not been achieved in either British Columbia or Washington State, the concepts of the approach have been closely adhered to in the Washington market, resulting in improved production and marketing efficiency for broilers. While the Commission lacks the powers to equalize income and provide increased stability for producers, it has been observed that the existence of these powers in the British Columbia market has led to decreased efficiency.

The approach taken by the B.C. Broiler Marketing Board, as created and supported by the government, has led to a situation wherein there exist decreased demands for efficiency, increased costs of production, artificially supported price (leading to inefficient resource use),

restriction on productive capacity, and higher consumer prices. The production of broilers in British Columbia, under the B.C. Broiler Marketing Board, may be more appropriately described as a system of monopoly control than an approach to organized marketing.

Since the powers of the B.C. Broiler Marketing Board are derived from enabling governmental legislation, it is the government who must bear the responsibility for the situation which has been created. When powerful tools of regulation are placed in the hands of groups whose primary interest is self-improvement rather than the improvement of the market as a whole, it is unrealistic to expect that those groups will not attempt to maximize their control capability to benefit their own self-interest.

The powers given the B.C. Broiler Marketing Board by the government to regulate supply, price and competition are being used not to benefit the marketing process but to create a monopoly situation for the producers, wherein prices are being maintained at higher than competitive levels, and inefficiencies in production are fostered through the creation of artificial security buffers.

The government's responsibility is not limited to the creation of a monopoly situation for the producers, however. The allocation of power to the Board has had extreme effects on the behaviour of the industry as a whole. One of the more interesting effects has been the pricing behaviour of the retail sector.

The Board regulates supply on the basis of estimated consumer demand at a given price. Since the Board attempts (successfully) to

maximize producer returns, the price upon which demand is estimated is higher than equilibrium price ($p=MC$) and production of broilers is restricted to match supply to demand at a non-equilibrium price.

Since the board regulates production on the basis of consumer demand, and since retail price is established by the retail sector, not the Board, the Board's ability to curtail production to match demand at retail price allows the retailer to drive up the price to consumers and, in effect, function as a secure monopolist, extracting large profits by raising the retail price, confident that the Board will curb production to ensure demand at that price.

The processor is caught in a cost-price squeeze. The volume and costs of inputs (birds) to all processors is determined by the Board. Hence the processors have little influence over these input prices. They must take the price as established by the Board if they wish to remain in the broiler processing business. Since they must also bear the high costs of storage (one cent per pound per month), in order to operate efficiently they must have a rapid turnover of product to cover operating costs. Since the processor's turnover is dependent upon retail buying behaviour, the ability of the processor to bid up wholesale price by reducing supply to retailers is reduced. Since the retailer is selling many products, his dependence on the broiler processor is very small. The processor, on the other hand, is largely dependent on the retailer. Since the wholesale cost of his product has been inflated due to monopoly powers of the producing sector, he does not have the alternative of secondary markets. He must sell in the retail sector of British Columbia

or go out of business. The processor hence becomes a price-taker at both ends, prices being established by the B.C. Broiler Marketing Board on one side and the collective action of the retail industry on the other.

Under the guise of marketing, a situation has been created by the government wherein two sectors of the industry exert considerable monopoly power in the broiler market, and the concepts of organized marketing have been ignored. Both the processor and the consumer are adversely affected by this situation, however it is the consumer who must bear the largest burden. The processor has the option of discontinuing his operation if his costs become too high. While the consumer has the choice of reducing consumption of broilers as price increases, a government policy which forces this decision upon consumers must be seriously questioned, particularly when considering the importance of broiler meat as a low priced protein source.

On the basis of the findings presented in this study, it appears evident that the vesting of powerful tools of market regulation with primary producer groups by the government has had a detrimental affect on market performance in the broiler industry in British Columbia. While the broiler producers in Washington do not enjoy the security and financial gains available in British Columbia, since the powers of the Washington Fryer Commission are far less than those held by the B.C. Broiler Marketing Board, the market power of producers has been effectively increased through improved production efficiency, improved response to market conditions, improved channels of distribution and market

expansion. In British Columbia, the power of the producing sector has evolved as one of monopoly power, at the expense of market efficiency.

The improvement of agriculture is vital to the economy and to society in general. The question is not one of whether agriculture deserves government assistance, but rather a question of the degree, type, and direction of such assistance.

On the basis of the analysis of these two structures, we may conclude that, in devising systems to increase orderly, organized marketing of products, the inclusion of controls on price, supply and competition as a means toward increasing producer market power tends to remove the incentive to efficiency and thereby endanger the marketing process as a whole. Efficiency cannot be legislated. It must evolve as a response to market conditions and is vital to the economic health of any given sector. The most beneficial contribution which organized marketing can offer to increase the market power of producers is to improve the overall industry response to market conditions through promotion of greater market and production efficiencies.

*Power tends to corrupt
and absolute power
corrupts absolutely.*

*Sir J. Dalberg Acton
1834-1902*

*What need we fear
who knows it
when none can call our
power to account?*

*William Shakespeare
1564-1616*

CHAPTER IX

RECOMMENDATIONS

Based on the information presented in this study, it appears evident that certain fundamental modifications to the market environment for broilers in British Columbia are warranted if the industry is to function in an efficient, productive fashion. Among these are the following:

- A. That the government give prompt and serious consideration to the question of producer-vested market control, and the effect of this type of control upon the market environment.
- B. That the government take strong action to eliminate non-tariff barriers which restrict the interprovincial or international movement of broiler products.
- C. That the government give serious consideration to the combined effects of price support and supply control programs on production and market efficiency and on the cost of food to consumers.
- D. That the role of the B.C. Provincial Marketing Board be strengthened, with the intent of establishing a central body to which the individual commodity boards are answerable,

which can function in a responsible fashion to coordinate the orderly marketing of agricultural commodities and insure that the actions of the individual boards contribute beneficially to the market environment rather than reflect narrowly defined self-interests to the detriment of market performance.

- E. That investigation of possible solutions to the problems of resource misallocation, restriction of production and distribution patterns, and increased cost of production arising from the current quota policy of the B.C. Broiler Marketing Board be undertaken as soon as possible.
- F. That the powers held by the B.C. Broiler Marketing Board be recognized by the government as excessive and detrimental to market performance, and that prompt consideration be given to revision of the legislation under which the board functions.

CHAPTER X

SUMMARY

The purpose of this study has been to compare and contrast the structure, conduct and performance of two institutions established to provide a degree of organization by producers in the marketing of broiler chickens. The two institutions which have been studied are the B.C. Broiler Marketing Board, in the Province of British Columbia, Canada, and the Washington Fryer Commission, in the State of Washington, United States of America. To evaluate the two approaches to the organized marketing of broiler products, an objectives model for organized marketing in the agricultural sector has been presented. The objectives set forth in this model are to (a) improve production, (b) improve response to market conditions, (c) improve channels of distribution and (d) expand markets.

In contrasting the approaches to organized marketing taken by the B.C. Broiler Marketing Board and the Washington Fryer Commission, the first area of comparison has been that of structure.

The historical development of enabling agricultural legislation in each market has been examined. Several differences in the existing enabling legislation in each market have been highlighted. In Canada, all producer boards are initiated and operate under provincial jurisdiction and may be established to regulate the movement of any agricultural or natural product produced. In the United States, orders and

agreements may be instituted under either federal or state legislation, and commodities which may be regulated are specifically designated. Responsibilities to other sectors of the economy are more clearly defined in the American enabling legislation, and the controls available to commodity boards are far less extensive than those permitted under Canadian Legislation.

The organizational structure of the B.C. Broiler Marketing Board and the Washington Fryer Commission has been examined and contrasted. The most significant difference in this area has been found to be in the degree of market control held by each institution. The B.C. Broiler Marketing Board has the authority to (a) regulate aggregate and individual amount of product marketed, (b) establish the price growers receive for the product and (c) restrict the importation of any competing product in the British Columbia market. The authority of the Washington Fryer Commission is limited to advertising and promotion, product research, the improvement of standards and grades, and the investigation of unfair trade practices.

In contrasting the approaches to organized marketing taken by the B.C. Broiler Marketing Board and the Washington Fryer Commission, the second area of comparison has been that of conduct. An analysis of the conduct of the Board and Commission has been presented. From this it may be observed that the activities of the Board have been focussed mainly in the area of production regulation, while those of the commission have been primarily concerned with advertising and promotion.

A detailed analysis of performance of the B.C. Broiler Marketing Board and the Washington Fryer Commission has been presented as the third area of comparison. Eight criteria of performance were identified and observed for each market: structures of production, returns to producers, price, supply, competition, relationships with processors and retailers, advertising and promotion, and research. From this it has been observed that:

Structures of Production tend to be larger and more vertically integrated in the Washington market.

Returns to Producers are significantly higher in British Columbia. Based on June 1974 estimated returns for an average size unit in each market, annual returns to British Columbia producers are approximately 250% of those received by Washington producers.

Prices received for broilers by producers, wholesalers and retailers are substantially higher in the British Columbia market, and less responsive to fluctuations in supply levels. Price margins in each market appear to be closely aligned at the processor level, but are substantially higher at the producer and retail level in British Columbia.

Supply of domestically produced broilers is more stable in the British Columbia market.

Competition from imported product is strongly evident in the Washington market, however non-existent in the British Columbia market.

Relationships with Processors and Retailers appear to be productive in the Washington market. In the British Columbia market, there appears to be a greater separation of aims and objectives between the sectors.

Advertising and Promotion is given considerably more attention in the Washington market.

Research is conducted on a more intensive level in the Washington market.

An analysis of the factors contributing to the observed differences in the market performance has been presented. It has been observed that the differences existing in the market environment for broilers in Washington and British Columbia may be largely attributed to the degree of market control vested in the Commission and Board respectively.

An evaluation of performance with respect to (a) stated objectives, (b) effects on industry sectors and (c) the concept of organized marketing has been presented. While it has been shown that both institutions have successfully attained the objectives set forth in the legislation under which they operate, it has also been observed that the actions of the B.C. Broiler Marketing Board have had serious negative effects on market performance, while the actions of the Washington Fryer Commission have benefitted market performance. Successful attainment of the objectives of organized marketing has been more closely approached in the Washington market.

The market control exercised by the B.C. Broiler Marketing Board has resulted in a market environment in British Columbia wherein costs of production have been inflated. Incentives to efficiency have been decreased, resources have been potentially misallocated, and competition from areas of greater comparative advantage has been eliminated. In the place of organized marketing, a system of monopoly control by producers has evolved. This has had a significant impact on the market performance of the industry as a whole. It has been observed that, since the B.C. Broiler Marketing Board derives its authority from Governmental Legislation, it is the government who must bear the responsibility for the situation created.

On the basis of the findings presented in this study, it has been concluded that, in devising systems to promote orderly, organized marketing of broiler products, the provision of producer-vested controls on price, supply and competition as a means toward increasing producer market power tends to remove the incentive to efficiency and thereby endanger the marketing process as a whole.

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