



June 8, 2020

Peter Donkers
Chair
BC Farm Industry Review Board
PO Box 9129 Stn Prov Govt
Victoria, BC V8W 9B5

Dear Mr. Donkers:

PRICING IN THE BC HATCHING EGG SECTOR

The BC Broiler Hatching Egg Commission is in receipt of the May 26, 2020 letter from the BC Egg Hatchery Association (BCEHA). The response is provided so that the BC Farm Industry Review Board has a more complete picture of pricing and pricing-related issues in the BC hatching egg sector. Part of the Commission's response will refer to the May 25, 2020 letter from the Primary Poultry Processors Association of BC (PPPABC) as it applies to the hatching egg sector.

The Commission agrees with the BCEHA about the need for a new hatchery margin. The following will outline the initiatives the Commission has undertaken to resolve the hatchery margin specific issues raised by the BCEHA as well as other related matters.

Under the British Columbia Broiler Hatching Egg Scheme, the Commission has the statutory authority to set the price for hatching eggs, saleable chicks, and broiler breeders. This is an authority that the Commission has exercised appropriately throughout the duration of the linkage and would continue to do so through fully transparent, effective, and responsible regulation under its proposed new approach to pricing in the BC hatching egg sector.

In addressing to the BCEHA's request for an updated hatchery margin, the Commission recognized that negotiating the hatchery margin on an *ad hoc* basis led to difficulties and delay. At the same time, the Commission also recognized that given the BC Chicken Marketing Board's current live price formula, increasing the hatchery margin through the difference between the price paid by hatcheries for hatching eggs and the price paid by chicken growers for saleable chicks would impact on both chicken growers and processors through the linkage.

Consequently, a small committee consisting of Commission and BCEHA representatives was established to review the hatchery margin and two related issues, the pricing of breeder chicks and the cost of vaccines. Breeder chicks are a major cost input for hatching egg producers. Vaccines are also a significant cost for producers and at times the difference in vaccine costs charged by individual hatcheries has varied widely. These costs are ultimately reflected in the linkage also.

A formulae-based approach was identified and examined at length by this committee. There was a constructive exchange of information and pricing data between the Commission and BCEHA representatives on the committee in support of developing these formulae. Together these formulae would provide for transparent pricing on an ongoing basis, indexing and processes by which the formulae could be reviewed. The Commission regularly discussed the

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development of these formulae with its Pricing and Production Advisory Committee (PPAC) throughout 2019, including at a joint meeting with the Chicken Board PPAC on March 6, 2019.

Although the detailed calculations used by the committee in developing the formulae will now need some updating, this agreed upon formula-based approach will:

- a. increase the hatchery margin by 1.75 cents with an annual index that would be verified every third year based on actual labour and hydro costs;¹
- b. regulate the breeder chick price through a formula covering breeder chick cost, the US exchange rate, specified service charges and a fixed margin for the hatcheries; and,
- c. establish a vaccine price formula based on a weighted average with a process in place to revise the list of vaccines in general use and pricing as required.

On October 24, 2019, the Commission-BCEHA committee met for the final time. The underlying data and calculations were confirmed as accurate and the formulae agreed to in principle. The BCEHA representatives were to consult with the hatcheries and their parent companies (processors) prior to the Commission engaging in a formal consultation process with all stakeholders, given the potential impact on the linkage. The updated formulae and process expectations were shared with the Commission's PPAC on November 8, 2019. BCEHA representatives provided no further updates at subsequent PPAC meetings.

Although not included in the Chicken Board's Pricing Working Group process, it was the Commission's expectation that the formulae – of great importance to hatching egg producers and hatcheries – would be included in that process. Especially given that the formulae would impact on both chicken growers and processors. However, to date there is no evidence that the formulae were discussed at all. In fact, the May 25, 2020 PPPABC letter is critical of "adding" the Commission and the hatcheries to the live pricing discussions. It seems from that letter the only thing the processors and growers could agree on – to the extent that they did – was to evenly split the benefit if Ontario made any adjustments to its own pricing formulae.

As again pointed out in its May 22, 2020 letter to the BC Chicken Growers' Association, the BC hatching egg sector is at the tail end of a linkage that is driven by posted prices for chicken in Ontario and BC that do not represent the real price of chicken in either province. When the Commission acts to place hatching egg producers in the same position as chicken growers (the intent of the linkage) and implement a different kill age (a standard mechanism in the hatching egg industry and specifically a factor in the linkage by agreement), it is opposed. Further, when the Commission works with hatching egg stakeholders to develop transparent, effective, formulae-based regulatory pricing proposals that provide pricing stability and certainty, the interests of the hatching egg sector are subordinated to those of other stakeholders. Other stakeholders, the Commission notes, that have not been able to find their own long-term pricing solutions.

On April 29, 2019, the Commission announced its intention to exit the linkage and nothing that has happened since has given the Commission any confidence that remaining in the linkage is in the best interests of the BC hatching egg sector. The satisfaction of other stakeholders with the linkage appears to be conditional on the hatching egg sector being disadvantaged.

¹ Analysis showed that if this indexing had been put in place at the time of the previous hatchery margin increase, the BCEHA's concerns about the margin spread between BC and Ontario would have been addressed.

COVID-19 has underscored the long-term planning and production structure of the hatching egg sector and the vulnerabilities that result. The nature of the BC hatching sector means that it should have the same pricing stability and certainty provided to hatching egg sectors in other Canadian jurisdictions through their own cost of production formulae, all of whom exist within the larger Canadian chicken industry. As the first instance regulator of the BC hatching egg sector, the Commission is of the view that the interests of its producer and hatchery (affiliated and non-affiliated) stakeholders are not being served by being tied to a linkage that is subject to the ongoing pricing disputes between chicken growers and processors.

During the impasse on live pricing, the Commission had not been idle. Although it has not yet been successful in promoting a national cost of production formula (COPF), it has engaged with the other western provinces and is working with Alberta and Saskatchewan counterparts toward a common cost of production formula (COPF). A COPF that, except for Manitoba, will match the processor and hatchery footprint across Western Canada while at the same time allowing for regional (provincial) variations like the egg COPF. It has engaged in a third-party verification of its new COPF, as well as of its hatchery margin, breeder chick pricing and vaccine pricing formulae. In addition to providing hatching egg producers with stability and certainty going forward, this new standalone COPF will enable the Commission to address the hatchery-specific concerns raised by the BCEHA in its May 26, 2020 letter.

The Commission is preparing to submit its proposal for a transparent, effective, and formulae-based regulatory pricing system for the BC hatching egg sector. This will ensure that pricing in the BC hatching egg sector is regulated responsibly and in accordance with the sound marketing policy rationale underlying the original intent of the linkage. It will reduce the current scope of pricing issues facing the BC chicken industry. The hatching egg sector will not be adding “complexity” to the issues the Chicken Board has to address with chicken growers and processors in regulating the live price.

Even after determining that it must take this position for the reasons articulated above, and as it has stressed many times previously, the Commission understands it is part of a larger BC chicken sector. The Commission continues to support working with all stakeholders on a Chicken Industry Strategic Framework in the longer term. Accordingly, the Commission intends proposing that once implemented, its new approach to pricing be staged through a transition period to assist the Chicken Board in making regulatory adjustments in its own sector. At the same, the Commission will be working with its producers and hatcheries in putting into place measures that will result in a more efficient and cost-effective hatching egg sector. A sector that will be sustainable, better serve the larger industry and the BC public through a continued supply of high quality, BC-produced hatching eggs and chicks.

Yours truly,

A handwritten signature in black ink that reads "Jim Collins". The signature is written in a cursive, flowing style.

Jim Collins
Chair

cc: Ryan Whitmore, President
BC Egg Hatchery Association

Bryan Brandsma, President
BC Broiler Hatching Egg Producers' Association

Harvey Sasaki, Chair
BC Chicken Marketing Board

Dale Krahn, President
BC Chicken Growers' Association

Blair Shier, President
Primary Poultry Processors Association of BC

Craig Evans, Executive Director
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