

# AGENDA

## PPAC Meeting

November 20, 2017

1:30pm- 3:00pm

Hatching Egg Boardroom

### Invited Attendees:

Chair: Brian Bilkes

Egg Hatchery Association representatives: Ernie Silveri, Ryan Whitmore, John Franck,

BC Hatching Egg Producer Association representatives: Bryan Brandsma, Art de Ruiter, Angela Grothof,

BC Hatching Egg Commission Observer: Joe Neels

BC Chicken Marketing Board representative: Derek Janzen

**Invited Guests:** Stephanie Nelson, Bill Vanderspek, Ron Kilmury

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### Discussion Topics:

1. Review of Agenda
  2. Review of Consideration letter from the Commission
  3. Other Considerations?
  4. Review and SAFETI Analysis of Breeder Options
    - Decoupling
    - Formula as presented by the Egg Hatchery Association
  5. Review and SAFETI Analysis of Vaccine Program Options
    - Decoupling
    - Indexing of Vaccines as presented in the Commission's Recommendation Report
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## Key Initiative #2: Input Cost Analysis

### Deliverables:

- A presentable index of all vaccine administered in hatching egg flocks
- A parameter of cost associated with hatching or flying in breeder stock in BC.

### *Phase 2: Develop indexes*

The Key Questions that will be addressed in this Phase include:

1. Can a parameter be developed in terms of vaccines?
2. Can an internal COP be developed for breeder stock in BC

### Approach:

- Identify and meet with outliers from the predictable vaccine schedule.
- Identify individual vaccine costs- consultation will need to take place
- Create anticipated costs for each vaccine program- Dr. Bill Cox
- Create a defensible vaccine index- consultation will need to take place.
- Identify costs to breeder stock (services, medications etc...)
- Create an internal COP mechanism

### Expected Outcome:

- A defensible way to maintain the linkage with the BCCMB

### Deliverables:

### *Phase 3: Implementation*

The Key Questions to be addressed in this Phase include:

1. How can costs be added to either index?
2. How can the linkage be quickly updated to reflect changes to the industry in real time?
3. How can outdated costs be eliminated from the formula?

### Approach:

- Develop parameter paradigm from updated COP surveys using third party consultant- Serecon
- Review process with the BC Chicken Marketing Board.
- Review process with the hatchery management

### Expected Outcomes:

- Lateral input costs to all BC hatching egg Producers.
- Defensible indexing to the linkage agreement between BCBHEC and BCCMB

### Deliverables:

- Lateral input costs for all BC hatching egg Producers, regardless of receiving hatchery.
- Efficient and accountable way to update the linkage agreement amid the agreement.

## *Input Cost Analysis: Work Action Plan*

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### **Stakeholders:**

- BC Broiler Hatching Egg Producers Association (BCBHEPA)
- BC Chicken Growers Association (BCCGA)
- BC Chicken Marketing Board (BCCMB)
- BC Egg Hatchery Association (BCEHA)
- All licensed BC Hatcheries
- All Licensed BC Producers

### **Purpose:**

- To undertake the requisite due diligence incumbent on the Commission to ensure fair and orderly marketing by establishing the lateral fairness of input costs to BC hatching egg Producers.

### **Outcomes:**

- A lateral, transparent and effective way to ensure that external costs associated with producing hatching eggs are kept within acceptable parameters.

### **Scope:**

- This undertaking will identify and assess current the costs associated with producing hatching eggs.
- This undertaking will identify and assess the critical control points of input costs.
- This undertaking will identify and assess the input costs impact to the linkage agreement with BCCMB

### **Background:**

- The BC hatching egg Producer relies on the hatchery to import and hatch the breeder stock necessary to producer broilers.
- The BC hatching egg Producer is committed to purchasing the shipping hatchery's vaccine program.
- To date the Producer has had no options or recourse if the costs associated with shipping to one hatchery are greater than another hatchery.

### **Phase 1: Identify costs**

The Key Questions that will be addressed in this Phase include:

1. What are the costs associated with purchasing breeders and vaccines at each hatchery?
2. What are the philosophies identified at each hatchery that create value or do not create value for the supply chain?

### **Approach:**

- Identify the cost differences and research context for them.

### **Expected Outcome:**

- A vaccine index for BC hatching egg Producers.
- An internal COP index for breeder stock in BC.

## *Input Cost Analysis: Work Action Plan Edited and Extended*

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### **Stakeholders:**

- BC Broiler Hatching Egg Producers (BCBHEPA)
- All Licensed BC Hatching Egg Producers
- BC Chicken Growers Association (BCCGA)
- BC Chicken Marketing Board (BCCMB)
- BC Egg Hatchery Association (BCEHA)
- All licensed BC Hatcheries
- Commission Pricing and Production Advisory Committee (PPAC)

### **Purpose:**

- To ensure equity in the costs associated with the purchase of breeder stock and vaccinations for all BC Hatching Egg Producers.

### **Outcomes:**

- A lateral, transparent and effective way to ensure that breeder stock and vaccination costs are kept within acceptable parameters.

### **Scope:**

- Identify and assess current costs association with breeder stock pricing and vaccination costs.
- Identify and assess the critical control points of input costs and where costs can fluctuate or be subject to change.
- Identify and assess the input costs impact to the linkage agreement with the BCCMB.

### **Background:**

- The BC Hatching Egg Producer currently relies on their shipping hatchery to import and hatch the breeder stock necessary to produce broiler hatching eggs.
- The BC Hatching Egg Producer is committed to purchasing and producing the breeder genetics of the shipping hatchery's choice.
- The BC Hatching Egg Producer is committed to the shipping hatchery's vaccination program from the supplier of the hatchery's choice.
- BC Hatching Egg Producers historically have no options or recourse if the costs associated with shipping to one hatchery are greater than another hatchery.
- The Commission has worked on this Key Initiative for several years most recently circulating an update on September 25, 2017 addressing what it believed were the options available.
- Unfortunately, the Egg Hatchery Association's formula outlined in the report was incorrect and an updated version has been presented to the Commission by the Egg Hatchery Association.
- The Egg Hatchery Association latest breeder chick pricing proposal will be considered against the option of decoupling as identified in the Commission's September Report.

## Key Initiative #2: Input Cost Analysis

### Review of Options:

The Key Questions that will be addressed in this Phase through a SAFETI analysis include:

1. What are the costs associated with purchasing breeders at each hatchery?
2. What are the philosophies identified at each hatchery that create value or do not create value for the supply chain (for example hatching locally vs importing birds in)?
3. Can the costs be determined and to what extent for the development of an appropriate formula?
4. What are the advantages and disadvantages to Hatching Egg Producers and to hatcheries in decoupling?
5. Can decoupling add incentive to keep hatcheries competitive?

### Approach:

- A review of the “decoupling” option as identified to Stakeholders in the September 25, 2017 Update.
- A review of the “formula” option submitted to the Commission on October 11, 2017.
- Submissions of the breeder chick options to the Commission (will be published on website) by November 10, 2017.
- Referral – with questions and instructions as deemed necessary – by the Commission of the breeder chick options and vaccine options to PPAC by November 15, 2017.
- Recommendation, supported by SAFETI analysis, from PPAC to the Commission by November 24, 2017.
- Other as determined by the Commission as necessary.

### Expected Outcome:

- The Commission’s final decisions on which options will be pursued and resources directed toward.

### Deliverables:

- A parameter of cost associated with vaccines administered in BC hatching egg flocks.
- A parameter of cost associated with the local hatching or importing of breeder stock into BC.

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***Anticipated Decision December 1, 2017***



# Input Cost Analysis Update

September 25, 2017

## History:

The BC Broiler Hatching Egg Commission (“the Commission”) and the BC Chicken Marketing Board (“BCCMB”) renewed the linkage agreement in 2015. As a part of the negotiated updates the BCCMB raised linkage input concerns including breeder and vaccine pricing. Both of these inputs have historically not been closely monitored by either board and require some additional accountability, transparency and defensibility.

The Commission requested 2 cycles to work with the BC Hatcheries to ensure that all costs inputted into the linkage met the standards of good governance and are defensible. It has since ensured that the BCCMB has been kept apprised of all further consultations and developments as the two cycles is long past.

Vaccine Programs and Breeder pricing represent two of the larger input costs for a Hatching Egg Producer. Currently Producers are obligated to use their hatchery, the hatchery to which they ship their hatching eggs, to purchase both vaccines and breeder stock.

The Commission acknowledges the concerns from the hatcheries that Producers are obligated to place the genetic stock the processor requires and to fulfill the vaccination requirements of their hatchery to protect the progeny.

The Commission also acknowledges that Producers have historically paid varied vaccination costs and different breeder pricing depending on their hatchery. This is of concern and therefore their input costs should be similar.

## Review of Options:

After much time and consultation<sup>1</sup> the Commission has identified two options regarding Breeder Pricing:

Option 1: The Commission circulated a Recommendation Report<sup>2</sup> detailing the “decoupling” concept developed as a result of challenges in receiving necessary breeder costing information.

“Decoupling” allows a Hatching Egg Producer to shop for their breeder stock. It decouples them from the current expectation of having to purchase breeders from their hatchery and frees them to request pricing from other hatcheries. Natural market pressure could ensure that the sales of breeder stock will become competitive. There are concerns about logistics of Producers organizing their own birds being placed and possible impacts to the Official Flock Schedule.

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<sup>1</sup> Timeline provided as Appendix 1

<sup>2</sup> August 19, 2016 Input Cost Recommendation Report provided as Appendix 2



Option 2: This concept originated in the Egg Hatchery Association and discussed with the Commission. In this option the Producer would pay for breeders using the following formula:

***Price provided by the breeder company + Exchange Rate + 18 cent margin (includes labor on local hatches and transportation on fly- ins) = Breeder price to BC Producers***

This option provides a straightforward formula that is transparent to all Producers and Stakeholders. The 18 cent margin is the same margin as the broiler Grower pays as it is the margin from saleable chick to placeable chick. This margin is a part of the linkage formula and is reviewed at linkage renewal and posted every cycle.

This option also raises some concerns. While the 18 cents is the current margin between saleable chick and placeable chick it is still not clear as to what is all represented in this margin on the breeder stock side and if 18 cents is the appropriate number. The Commission and the Egg Hatchery Association continue discussions about regulatory transparency required by the Commission with respect to margins while protecting the business confidentiality of hatcheries.

The hatchery margin has also been discussed between the Egg Hatchery Association and the Commission. *This issue remains in process as the Commission awaits further substantiating information from the Egg Hatchery Association.*

Process is also an outstanding issue on this option. The Commission would need to work closely with the Egg Hatchery Association to create a finite timing for inclusions such as the exchange rate.

After much time and consultation<sup>3</sup> the Commission has two options to consider regarding Vaccine Pricing:

Option 1: The Commission is currently considering the “decoupling” concept for the vaccine input cost as well. This option was also reviewed in the Commission’s August 19, 2016 Recommendation Report.<sup>4</sup> Decoupling allows a Producer to shop for their vaccines and releases the expectation that a Producer is to purchase from their shipping hatchery. Natural market pressures could ensure that the pricing of vaccines remains competitive.

The Commission will consider this option balanced against concerns that Producers may struggle to acquire vaccines as they are currently sourced and planned by the hatcheries. Additionally each hatchery has a different philosophical view of vaccination programs that the Commission does not challenge.

Option 2: Discussions around the indexing of diseases that require progeny protection as a minimum standard have progressed in the past months. This option would require the Commission to hire a third party veterinarian to review the current programs and create an indexed standard. After that the Commission would need to look at setting a price point for Producers to pay and to include in the linkage.

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<sup>3</sup> Timeline provided as Appendix 1

<sup>4</sup> August 19, 2016 Input Cost Recommendation Report provided as Appendix 2



This option requires more time and development to move forward and the private veterinarian community becoming involved. If chose, the Commission will finalize this development on an expedited basis.

### Process and Final Consultation:

The BC Hatching Egg Commission has been reviewing this file for more than a year and feels that the options represent ways to balance the Hatching Egg Producer's needs and costs against the Industry needs and costs. While also ensuring the hatcheries are not operationally hindered in providing a high quality chick to the supply chain.

The Commission will be reviewing the options and making their decision on **October 19, 2017**.

The Commission will be using a SAFETI analysis in support of determining sound marketing policy for the regulation of these input costs.

Stakeholders have until **October 11<sup>th</sup>, 2017** to provide a written submission to the Commission with respect to their position on this issue. It is recommended that the stakeholders use their own SAFETI analysis in supporting their arguments to the Commission.

Stakeholders will have until **October 16, 2017** to reply to those submissions.

This notice, appendices and other supporting documents will be posted on the Commission's website.

Regards,



Jim Collins, Chair  
BC Broiler Hatching Egg Commission



## Appendix 1: Consultation Timeline



2016-08-19	Recommendation Report	Posted to the website and emailed to listed stakeholders
2016-09-15	Commission presentation at Producer Meeting	Producer Meeting Invitation circulated to all stakeholders
2016-10-25	Stakeholder Invitation to consult with the Commission	Posted to the website and emailed to listed stakeholders
2016-11-23	Stakeholder face to face meetings with the Commission	
2017-01-24	Stakeholder face to face meeting with the Commission	
2017-03-03	Commission presentation at Annual General Meeting	Annual General meeting posted to the website
2017-03-29	Stakeholder face to face meetings with the Commission	
2017-09-22	Update Communication Letter	Posted to the website and emailed to listed stakeholders
2017-09-27	Commission presentation at Producer Meeting	Producer Meeting Invitation circulated to all stakeholders
2017-10-11	Commission Presentation at Hatchery Meeting	
2017-10-19	Commission Decision	Rationale and SAFETI report to be circulated at a later date



Appendix 2: August 19, 2016 – Input Cost Analysis Recommendation



# Input Cost Analysis Recommendation

August 19, 2016

## History:

The BC Hatching Egg Commission and the BC Chicken Marketing Board renewed the linkage agreement in 2015. As a part of the update both commodities addressed linkage input concerns including breeder and vaccine pricing. Both of these inputs are not closely monitored by either board and require some additional accountability. The BC Hatching Egg Commission requested 2 cycles to work with the BC Hatcheries to ensure that all costs inputted into the linkage met the standards of good governance and are defensible.

The BC Hatching Egg Commission requested a line by line of the breeder costs to ensure the cost input met the criteria decided upon by the BC Chicken Marketing Board and the BC Hatching Egg Commission on March 7<sup>th</sup>, 2016. The information was not provided by the BC Hatchery Association.

Subsequently 2 more letters were sent to the Egg Hatchery Association in April and May requesting pertinent information on how the input costs are calculated and what is inclusive in those prices. To date the requested information has not been provided.

## Review of Inputs:

Currently the hatcheries decide what costs are associated with the purchase of breeder stock and what is included in the vaccination programs.

Hatching Egg Producers have no control in where they are able to source both of these large cost components. Further to that, the hatchery is under no obligation to provide any rationale on how the costs of either of these inputs are calculated.

## Recommendation:

The BC Hatching Egg Commission is reviewing the current orders and is in discussions on changes to the regulations that would decouple Producers from sourcing their breeder chicks from the hatchery they are assigned to ship to according to the Official Flock Schedule.

It is the Commission's position that orderly marketing can be maintained by ensuring that chicks are placed according to the Official Flock Schedule by continuing to assign Producers their placement date and allowing the Producer to "shop" hatcheries for their breeder chicks.

Vaccination programs could be reviewed and indexed. Cost parameters could be put in place to ensure that all Producers have similar input costs regardless of each hatcheries philosophical differences. No changes will be made to the regulations requiring Producers to adhere to the vaccine requirements of each hatchery only that the costs would be lateralized.

#### Consultation Recommendation:

The BC Hatching Egg Commission will circulate this report with the attached SAFETI Rationale, the draft amending order to changes, the Input Cost Work Action Plan and the minutes from the Special Meeting dated June 16, 2016 to all stakeholders and the [bcbhec.com](http://bcbhec.com) website.

The stakeholders will be asked to respond to the Consultative Package within 30 days.

The Commission will consider the stakeholders responses and may meet with consultation report submitters.

A Decision report and SAFETI analysis will be released upon the Commission making their decision.

#### FIESTAS Analysis: Decoupling Input Costs from Producer to shipping hatchery

##### FAIR

- Same costs for each Producer regardless of the shipping hatchery
- Producers can choose which product they would prefer to purchase

##### INCLUSIVE

- All stakeholders will be engaged in the decision making to ensure the COPs stay competitive and all stakeholders' interests are protected.

##### EFFECTIVE

- Effective transparency by providing producers with costs associated with the input costs

## STRATEGIC

- Ensuring the Producer have options to choose input cost variable inclusive of quality and value

## TRANSPARENT

- The BC Hatching Egg Commission will circulate this report with the attached SAFETI Rationale, the draft amending order to changes, the Input Cost Work Action Plan and the minutes from the Special Meeting dated June 16, 2016 to all stakeholders and the bcbhec.com website.

## ACCOUNTABLE

- Accountability derived by transparency

## SUSTAINABLE

- Ensure the COP costs are lean to ensure the recovery and parity of the Chicken sector.

Regards,

A handwritten signature in black ink, appearing to read 'Casey Langbroek', with a stylized, looping flourish at the end.

Casey Langbroek  
BCBHEC Chairman

**AMENDING ORDER ?  
TO THE  
CONSOLIDATED ORDER OF MAY 1, 2016**

**MADE BY  
THE BRITISH COLUMBIA BROILER HATCHING EGG COMMISSION  
ON \_\_\_\_\_, 2016**

The British Columbia Broiler Hatching Egg Commission orders as follows:

1. *Section 2 of the Consolidated Order of May 1, 2016 is amended by replacing the definition for "Official Flock Schedule" with the following:*

**"Official Flock Schedule"** means the schedule established, maintained and revised from time to time by the Commission, for the purpose of recording:

- (a) The aggregate number of day-old broiler breeder pullets to be placed by Registered Producers in a Quota Period under the Placement Quota allotted by the Commission;
- (b) For each Registered Producer, the date of placement of each flock of day-old broiler breeder pullets;
- (c) For each Registered Producer, the size of each flock of day-old broiler breeder pullets;
- (d) For each Registered Producer, the kill age directed by the Commission after consultation with the Hatchery, for each flock of day-old broiler breeder pullets;
- (e) For each Registered Producer, the Hatchery that is responsible:
  - (i) to order and place each flock of day-old broiler breeder pullets for that Producer, unless the Producer has elected to order and place a flock of day-old broiler breeder pullets; and
  - (ii) to pick up Marketable Eggs produced under each such flock; and

- (iii) to place Marketable Eggs produced under each such flock in that Hatchery's incubator.

2. *Paragraph 6(1)(a) 6 of the Consolidated Order of May 1, 2016 is replaced with the following:*

- (a) order and arrange for the placement of day-old broiler breeder pullets in accordance with the Official Flock Schedule, unless the Producer has elected to order and arrange for the placement of day-old broiler breeder pullets in accordance with the Official Flock Schedule;

3. *Paragraph 18(1)(a) of the Consolidated Order of May 1, 2016 is replaced with the following:*

- (a) order and arrange for the placement of day-old broiler breeder pullets in accordance with the Official Flock Schedule, unless the Producer has elected to order and arrange for the placement of day-old broiler breeder pullets in accordance with the Official Flock Schedule;

4. *Section 26 of the Consolidated Order of May 1, 2016 is replaced with the following:*

**Payment of Base Price for Broiler Hatching Eggs**

26. (1) Every Hatchery shall pay for Broiler Hatching Eggs at the base price set out in Schedule 2 without deduction, set-off or abatement except as expressly provided herein:

(2) Notwithstanding subsection (1):

(a) a reasonable surcharge may be imposed by a Hatchery to recover additional costs actually incurred by the Hatchery as a direct consequence of having to pick up Broiler Hatching Eggs from a Producer who keeps less than 12,000 broiler breeders per Quota Period

(b) Where a Producer has failed or refused to pay for a flock of day-old broiler breeders ordered

and arranged by a Hatchery on behalf of that Producer within 30 days from the date of placement of that previous flock, or within such other time as may have been agreed in writing between that Hatchery and that Producer with respect to that flock, the Hatchery may withhold the amount so due from any payments due to that Producer by that Hatchery.

- (c) A Hatchery may impose a charge to recover the cost of vaccinations actually administered by the Producer at the request of the Hatchery, provided that the vaccinations and the cost thereof have first been prior approved by the Commission after consultation with Hatcheries and the British Columbia Chicken Marketing Board.

5. *Section 28 of the Consolidated Order of May 1, 2016 is repealed.*

6. *Section 33 of the Consolidated Order of May 1, 2016 is replaced with the following:*

#### **Hatchery Reporting to Commission**

33. (1) Every Hatchery shall, on or before the 5th day of the next Reporting Period, furnish the Commission with a true and detailed report disclosing:
- (a) the name and address of each Producer from whom the Hatchery received Broiler Hatching Eggs;
  - (b) the number of Broiler Hatching Eggs received from each Producer;
  - (c) the number of Saleable Chicks derived from Broiler Hatching Eggs received from each Producer;
  - (d) the number of Broiler Hatching Eggs received from other than Registered Producers;
  - (e) the number of Saleable Chicks derived from Broiler Hatching Eggs received from other than Registered Producers;

- (f) the amount of levies deducted from amounts payable by the Hatchery to each Producer;
  - (g) the amount of levies remitted by the Hatchery with respect to Broiler Hatching Eggs received from other than Registered Producers;
- (2) The true and detailed report described in subsection (1) shall be submitted in the manner, and using such systems, as the Commission may direct from time to time.
  - (3) Every Hatchery shall complete and submit weekly to the Commission the "B.C. Broiler Hatching Egg Market Summary". The "B.C. Broiler Hatching Egg Market Summary" shall be completed and submitted in the manner, and using such systems, as the Commission may direct from time to time.
  - (4) Every Hatchery shall complete and submit to each Producer, at the conclusion of each hatch, a hatch report in a form approved by the Commission. The hatch report shall be completed and submitted in the manner, and using such systems, as the Commission may direct from time to time.
  - (5) Every Hatchery shall notify the Commission of its intention to sell chicks to a Grower not then purchasing chicks from that Hatchery at least 16 weeks before commencing selling chicks to that Grower.

7. This Order comes into effect on \_\_\_\_\_, 2016.

**DATED at Abbotsford, British Columbia, on \_\_\_\_\_, 2016**

**BRITISH COLUMBIA BROILER HATCHING EGG COMMISSION**

\_\_\_\_\_  
Casey Langbroek, Chair

## *Input Cost Analysis: Work Action Plan*

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### **Stakeholders:**

- BC Broiler Hatching Egg Producers Association (BCBHEPA)
- BC Chicken Growers Association (BCCGA)
- BC Chicken Marketing Board (BCCMB)
- BC Egg Hatchery Association (BCEHA)
- All licensed BC Hatcheries
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- To undertake the requisite due diligence incumbent on the Commission to ensure fair and orderly marketing by establishing the lateral fairness of input costs to BC hatching egg Producers.

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- The BC hatching egg Producer is committed to purchasing the shipping hatchery's vaccine program.
- To date the Producer has had no options or recourse if the costs associated with shipping to one hatchery are greater than another hatchery.

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The Key Questions that will be addressed in this Phase include:

1. What are the costs associated with purchasing breeders and vaccines at each hatchery?
2. What are the philosophies identified at each hatchery that create value or do not create value for the supply chain?

### **Approach:**

- Identify the cost differences and research context for them.

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- A vaccine index for BC hatching egg Producers.
- An internal COP index for breeder stock in BC.

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### Deliverables:

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### *Phase 2: Develop indexes*

The Key Questions that will be addressed in this Phase include:

1. Can a parameter be developed in terms of vaccines?
2. Can an internal COP be developed for breeder stock in BC

### Approach:

- Identify and meet with outliers from the predictable vaccine schedule.
- Identify individual vaccine costs- consultation will need to take place
- Create anticipated costs or each vaccine program- Dr. Bill Cox
- Create a defensible vaccine index- consultation will need to take place.
- Identify costs to breeder stock (services, medications etc...)
- Create an internal COP mechanism

### Expected Outcome:

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### Deliverables:

### *Phase 3: Implementation*

The Key Questions to be addressed in this Phase include:

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- Develop parameter paradigm from updated COP surveys using third party consultant- Serecon
- Review process with the BC Chicken Marketing Board.
- Review process with the hatchery management

### Expected Outcomes:

- Lateral input costs to all BC hatching egg Producers.
- Defensible indexing to the linkage agreement between BCBHEC and BCCMB

### Deliverables:

- Lateral input costs for all BC hatching egg Producers, regardless of receiving hatchery.
- Efficient and accountable way to update the linkage agreement amid the agreement.



## SPECIAL COMMISSION MEETING MINUTES

June 16, 2016

### CALL TO ORDER

Vice Chair, Allan Cross called the meeting to order at 12:40 p.m.

In attendance: Calvin Breukelman, Joe Neels, Allan Mulder, Stephanie Nelson, and Veronica Kushnerenko (Secretary).

### PURPOSE

This meeting will discuss the Key Initiative - Input Cost Analysis. The goal is for each producer to have the same standards and costs from their hatcheries, while protecting the linkage and the cost of production.

### DISCUSSION

#### 1) The letter from the Egg Hatchery Association regarding SE in hatcheries

- A response letter has been drafted by staff.
- Additions to the letter included embracing new technology and utilizing the risk mitigation strategies developed by staff and veterinarians.
- The board approved the amended letter for distribution.

#### 2) The Work Action Plan

- The Commission is currently on Phase three of three of the work action plan and await the input costs from the Egg Hatchery Association.
- Staff will compile a consultation package consisting of the work action plan, a SAFETI analysis, the vaccine program, these meeting minutes and the draft response letter. The board will review the package at the next meeting.
- Staff continue to have monthly meetings with hatchery managers allowing numerous opportunities to consult.

- If hatcheries offer vaccines and chicks at cost to producers, verification will be required and producers would have the option to shop around.
- The Consolidated Orders stipulate a hatcheries' responsibility to order breeders, place flocks, pick up and set eggs. In order to decouple vaccine services and chick purchases, contractual agreements and insurances would need to be in place. Stakeholders will have the opportunity to voice their preferences on contractual services via the consultation process.
- Staff will develop a letter to all hatcheries and copy the BC Chicken Marketing board; advising that an extension has been granted for the Egg Hatchery Association to provide their cost details and the final package will be delivered in August after board review.

### 3) Third Party Audit request for the Animal Care Program

- Third party audits are required annually to a portion of producers via the new program.
- The premises to be audited are randomly chosen and the amounts from each province are calculated by the square root base of Canadian hatching egg producers' production proportions, amount of premises and the number of producers per province.
- BC requires four audits per year.
- There are concerns that each province would be responsible to hire the third party Auditor. An auditor from the BC Chicken Marketing board could be the third party auditor but it is not certain if there is a conflict as they are part of the hatching egg supply chain. The third party auditor will require certification from PAACO in order to qualify.
- Joe will get clarification as to which auditors are considered third party and if there are personnel available, from Viki Sikur.
- The Animal care program will be complete in the fall.

## ADJOURNMENT

The meeting adjourned at 2:46 p.m.

## SIGNATURES



Recording Secretary



Chair



October 25, 2017

Ernie Silveri  
President  
BC Egg Hatchery Association  
c/o 505 Hamm Street  
Abbotsford, BC V2T 6B6

Dear Mr. Silveri:

### **INPUT COSTS AND HATCHERY MARGIN**

Thank you for your correspondence of October 11, 2017 concerning the subject.

At its October 19, 2017 meeting, the BC Broiler Hatching Egg Commission spent much time reviewing these matters.

The initial confusion between the Commission and the BC Egg Hatchery Association about the actual formula for breeder chicks being proposed by the Egg Hatchery Association is acknowledged. That confusion resulted in an incorrect formula being identified in the Commission's September 25, 2017 Input Cost Analysis Update. As the actual formula being proposed by the Egg Hatchery Association was not confirmed until October 11, this impacted the timing of the Commission's decision-making with respect to the pricing of breeder chicks.

The Commission has deferred its decision with respect to the two options for breeder chicks (decoupling or formula) pending the outcome of a short extension to review questions and concerns about the Egg Hatchery Association's proposal for breeder chick pricing. A Work Action Plan is forthcoming so that this specific issue can be finalized on a priority basis.

The September 25 Update separately invited final submissions about the vaccine input costs issue. As no stakeholder made new submissions on that issue, that process is now closed.

The Commission appreciates that the Egg Hatchery Association raised the hatchery margin issue in December 2015 and that this issue should be addressed. It is timely given the upcoming chicken pricing formula review and the updating of the cost of production formulas and linkage. The Commission is also interested in developing a mechanism by which the hatchery margin can be regularly reviewed and updated on an ongoing basis. Further information on a separate process by which we can follow up on this issue with all affected stakeholders is forthcoming as well.

Although there are questions and concerns about the separate proposals the Egg Hatchery Association has submitted, it is helpful and constructive to have stakeholders submit substantive proposals. This supports informed decision-making by the Commission.

Yours truly,

A handwritten signature in black ink that reads "J. K. Collins".

Jim Collins, Chair  
BC Broiler Hatching Egg Commission

**BC Broiler Hatching Egg Commission**



cc: Bryan Brandsma, President  
BC Broiler Hatching Egg Producers Association

Ryan Whitmore, BC Egg Hatchery Association  
John Franck, BC Egg Hatchery Association  
Scott Thiessen, BC Egg Hatchery Association

Stephanie Nelson, Executive Director  
BC Broiler Hatching Egg Commission

Ron Kilmury, Secretary  
BC Egg Hatchery Association

Bill Vanderspek, Executive Director  
BC Chicken Marketing Board

**BC Broiler Hatching Egg Commission**

#180 – 32160 South Fraser Way, Abbotsford, BC V2T 1W5 • [www.bcbhec.com](http://www.bcbhec.com)

**Breeder Input Cost Review**  
**Gross Profit / Markup Calculations**

0.7436	Markup / Gross Profit
0.5543	\$0.1893
	Saleable Chick
0.0000	\$0.5543

Issue: % versus cents

(1)

**EHA Calculation:**

$$\text{Margin} = \frac{\text{Markup/GP}}{\text{Sales}}$$

$$\text{Margin} = \frac{0.1893}{0.7436}$$

$$\text{Margin} = 25.46\%$$

(Expressed as a %)

**BCBHEC Calculation:**

$$\text{Margin} = \frac{\text{Markup/GP}}{\text{Breeder Cost}}$$

$$\text{Margin} = \frac{0.1893}{9.0000} \quad (2)$$

$$\text{Margin} = 2.10\%$$

(of the Breeder Cost)

- Markup / GP: (1) Never meant to be expressed as a fixed %  
 (1) A variable as it can fluctuate with the formula  
 (1) Placeholder for COP Review (PWC Report)  
 (2) Also a variable

To: Jim Collins

October 11, 2017

Executive Director,

BC Hatching Egg Commission

Dear Mr. Collins,

Please find with this letter a spread sheet setting out a proposal on behalf of the BC Egg Hatching Association for pricing of breeder stock supplied to the hatching egg producer. Enclosed as well is a SAFETI document. This proposal is made in good faith and is a consequence of your Commissions request for a transparent and uniformly priced breeders method. The BC Egg Hatching Association (BCEHA) would be pleased to discuss this further as necessary and looks forward to resolving this outstanding issue on the part of your commission.

As you are aware a significant proportion of BC's breeding stock 2018, may be imported from the USA. BC hatcheries are working on this with USA suppliers. This is a new trend, as the majority of breeding stock supplied to BC producers has historically been hatched locally from breeding stock eggs supplied by USA breeder companies. As a consequence the BCEHA is proposing a costing and pricing model based on the costs related to importation of breeder chicks directly from the USA, which in turn are placed on breeder grower/producer farms. This is not meant to imply that all breeder chicks supplied to breeder producers will be hatched in the USA. The model is intended to be a transparent and consistent pricing method.

Following are comments and suggestions with respect to pertinent line items of the attached spread sheet;

- forex : the BCEHA suggests that the Bank of Canada exchange rate be utilized to convert from USA to Canadian funds the cost of imported USA breeder chicks. In a prior series of exchanges S Nelson suggested that this be done on a period by period basis. This is acceptable to the BCEHA. The specifics of which Bank of Canada rate, on the specific pricing day, will have to be considered.
- distribution of different breeds/USA suppliers : for purposes of this model the split between Cobb and Ross is put at 50/50. Upon agreement of a this model going forward the actual representative split between representative breeds will be established and adjusted from time to time as necessary to accurately reflect current status.
- cost of USA breeder chicks : typically the USA breeder companies set out the pricing for their breeder chicks once per year. The BCEHA would supply verifying copies of these costs.
- other costs : the USA breeder companies charge Canadian importers for other costs such as debeaking, Merek, Coccivac and ILT vaccines. The BCEHA would provide verifying copies of these and any other directly invoiced costs.
- brokerage : the BCEHA would provide verifying information for the purposes of establishing brokerage costs.

- other local costs : there are local costs incurred by producers for lab and blood work. This is a cost that varies farm to farm and is done by either company or independent vets. The BCEHA proposes that these costs be billed directly by the vet to the farm.
- transportation from airport to the producer farm : the BCEHA proposes to cover these costs at this time.
- cost mark up or margin : the BCHEC has provided to the BCEHA figures representing their Gross profit/Markup calculation on chick sales, as follows;

EHA Calculation:

Margin = <u>Markup/GP</u>	Margin = <u>0.1893</u>	Margin = 25.46%
Sales	0.7436	

The BCEHA has proposed (as set out in the attached spread sheet) a mark up on cost of 25 %. To compare this directly with BCHEC calculations results in a margin on sales of 20.0%.

20.0 % is directly comparable to the HEC's calculation of 25.46%. There is a need for the BCEHA and the BCHEC to have a discussion related to what is an appropriate sales margin and should they be consistent.

- the method of pricing proposed is as a maximum price. Member companies of the BCEHA reserve the right to sell breeder chicks at a lower price than the model, should circumstances warrant.

The BCEHA trusts that this proposal is consistent with the expectations of the BCHEC as understood by the BCEHA.

Sincerely,



E Silveri

President, BCEHA

CC: R Whitmore, BCEHA

S Thiessen, BCEHA

J Franck, BCEHA

S Nelson, BCHEC

**DRAFT** Broiler Breeder pricing Without Prejudice

forex	Bank of Canada spot October	0.8013	
USD	US breeders:	USD cost/net	% utilization
	Ross308/308F	5.85	50%
	Ross 708		
	Ross Male	8.15	50%
	Yeild Plus Male		
	Cobb 500 Female	6.00	50%
	Cobb MV Male	7.90	50%
USD	Other costs/bird		
	debeaking		
	Merek 2177		
	Coccivac		
	Merek Innovac ILT		
	other		
	Total	0.1444	
USD	weighted average cost,USD		
	female	5.93	
	male	8.03	
CDN	weighted average cost, CDN		
	female	7.39	
	male	10.01	
CDN	Brokerage	0.10	
	Blood work and lab		
	total cost per bird	0.10	
CDN	total cost female	7.49	
	total cost male	10.11	
CDN	margin markup	1.25	
	selling price female	9.37	
	male	12.64	
	margin on sales		
	female	0.200	
	male	0.200	

## SAFETI Rational for BCEHA Proposed Breeder Pricing Method

### Strategic and Effective

The BCHEC has requested of the BC Egg Hatching Association (BCEHA) that a transparent pricing method be developed that would, for their purposes, provide a consistent and equal price to their producers, for female and male broiler breeder chicks. This matter has been under discussion for some time.

The proposal made by the BCEHA is consistent with this requirement. It also reflects that for the majority of the industry in 2018 breeder chicks may be sourced directly from the USA, rather than be hatched from USA sourced breeder chick eggs and hatched locally.

The pricing model presented by the BCEHA is sufficient and upon implementation, with appropriate to the moment updates, will be highly accurate. It is fact based, simple, transparent, predictable and stable.

### Accountable

The clarity and simplicity of the model allows easily accomplished updates, utilizing inputs from accessible and transparent sources and as such is highly accountable.

### Fair

The proposal meets expectations as set out and understood by the BCEHA. The resultant margin for hatcheries is reasonable and is significantly less than the margin already established by the Commission for grower chick sales. It provides for transparent and easily accomplished, regular updating to ensure timeliness.

## Transparent

The model is transparent and, excepting for brokerage costs which will require some subsequent to agreement detailing, is 99% 3rd party verifiable.

## Inclusive

This proposal is directly as a consequence of BCHEC requests and is fully supported by the BCEHA. It meets all the criteria, as understood by the BCEHA, as set out by the BCHEC. The proposal reflects current trends in the industry.

To: J Collins

October 11, 2017

Chair, BC Hatching Egg Commission

Dear Mr. Collins;

In its August 8th, 2017 letter concerning proposed changes to draft proposed changes to the Consolidated Orders, the BC Egg Hatchery Association (BCEHA) advised the Commission that it did not agree with the proposed 'decoupling' regulation change, allowing producers to purchase breeders from a hatchery of their choice.

The BCEHA remains strongly opposed to the Commission with regard to this proposed change.

In its own correspondence the Commission states that this option is under consideration as a consequence of challenges in receiving necessary breeder costing information. The Commission suggests that 'natural market pressures could ensure that the sales of breeder stock will become competitive'.

The BCEHA takes some exception to these characterizations, as a proposed model for costing has been under discussion for some months and in July (July 26th) the BCEHA believed that this issue had come to a resolution. Further, in the same July 26th meeting, between Executive Director S Nelson and BCEHA representative R Kilmury, S Nelson made the clear statement that 'it was never the intention to decouple and that this recommendation was on a means of getting the BCEHA's attention ...with respect to the breeder costing issue.'

With respect to sales prices not being competitive, the Commission provides no information with respect to this issue that would demonstrate that the prices paid by producers currently is not competitive.

Today the Commission has taken the view that there was no formal proposal or agreement with respect to breeder costing and as a consequence, in separate correspondence, the BCEHA has submitted further information with respect to a transparent and verifiable breeder costing method.

Primary processors, as well as hatcheries, are opposed to the proposed de-coupling under consideration by the HEC. The selection of breeding stock is a long process time wise, in terms of getting the best genotype 'on the ground' and into production. Breed and type selection is significantly driven, not by hatcheries or processors, but the customers of processors who have very specific requirements for proportions and weight. This is a very specific company driven process which can be unique to that individual company. Variances in product type and size of birds coming into the primary processing plant can have very negative productivity and cost consequences not only at primary processing plant but also as well at further processing facilities. In addition, variances at further processing could have negative food safety consequences. This is a very important part of managing the value chain product production process and is an important competitive factor for BC's hatchery, primary and further processing companies.

The BC Egg Hatchery Association asks that the de-coupling option under discussion by the Hatching Egg Commission be struck from any considered amendments to the Consolidated Orders.

Sincerely,



E Silveri,

President,

BC Egg Hatchery Association

CC: R Whitmore, BCEHA

J Franck, BCEHA

S Thiessen, BCEHA

S Nelson, BCHEC



November 9, 2017

Brian Bilkes, Chair  
BC Hatching Egg Commission Pricing and Production Advisory Committee

Dear Mr. Bilkes,

## **INPUT COSTS**

As you are aware this key initiative has been under development since December 2015. The BC Broiler Hatching Egg Commission's initial goal<sup>1</sup> was to lateralize the costs associated with two of the largest inputs into a hatching egg flock, the breeder stock and the vaccines as some producers were paying different costs depending on where they shipped their eggs.

Since that point there have been many interactions with stakeholders with many concerns shared. The Commission has determined that it is time to finalize its decisions with respect to these issues. In doing so, and given the time that has elapsed and changing industry circumstances (e.g., the move toward importing breeder chicks), the Commission also established a clear, transparent final submissions process in support of informed, defensible decision-making<sup>2</sup>.

That process includes consulting the Pricing and Production Advisory Committee (PPAC) as required by s. 9 of the British Columbia Broiler Hatching Egg Scheme, which states that the Commission "must consult with the committee and consider the committee's advice before the commission makes any decision relating to pricing or production".

Although this does not limit other consultation by the Commission, the intent of this regulation is to ensure that stakeholders are provided with a clear, transparent mechanism – at arm's length from the Commission – through which stakeholder concerns and issues can be discussed and brought to the attention of the Commission. As this regulatory requirement provides stakeholders with a defined opportunity to have their issues heard, it is incumbent upon stakeholders to engage constructively in the process so that the PPAC provides considered advice to the Commission.

Such advice should be supported through SAFETI-based discussion by the PPAC and SAFETI-based advice by the PPAC to the Commission.

Although it is up to PPAC to determine any other relevant information and advice it will discuss and provide to the Commission on this matter, today the Commission is asking you to also consider the following key questions which are outlined in the Commission's Work Action Plan of October 2017.

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<sup>1</sup> 2015-12-15 Input Costs Work Action Plan attached

<sup>2</sup> 2017-10-26 Input Costs Work Action Plan Edited and Extended



The Key Questions that will be addressed in this Phase through a SAFETI analysis include:

1. What are the costs associated with purchasing breeders at each hatchery?
2. What are the philosophies identified at each hatchery that create value or do not create value for the supply chain (for example hatching locally vs importing birds in)?
3. Can the costs be determined and to what extent for the development of an appropriate formula?
4. What are the advantages and disadvantages to Hatching Egg Producers and to hatcheries in decoupling?
5. Can decoupling add incentive to keep hatcheries competitive?

Also attached, for discussion by PPAC, is a calculation document<sup>3</sup> used by Commission staff and Egg Hatchery Association representatives earlier in this process.

A recommendation supported by a SAFETI analysis is the Commission's expectation of the PPAC on breeder options.

The Commission circulated a Report on September 25<sup>th</sup>, 2017<sup>4</sup> outlining 2 options for the lateralization of vaccine costs. A recommendation supported by a SAFETI analysis is the Commission's expectation on vaccine options.

Working with the BC Chicken Marketing Board, the Commission has started a review of the COP and Linkage formulas. The hatchery margin<sup>5</sup> issue will be addressed in conjunction with that process. This process is in its initial stages and the Commission is not seeking a recommendation on the hatchery margin from the PPAC at this time.

The Commission appreciates the time commitment of PPAC members in reviewing these important initiatives and looks forward to their considered advice on these matters. If you or the PPAC have any questions prior to the November 20 meeting, please direct them to the Executive Director.

Regards,

A handwritten signature in black ink that reads "J. K. Collins".

Jim Collins

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<sup>3</sup> 2017-09-26 Gross Profit calculation

<sup>4</sup> 2017-09-24 Input Cost Analysis Update

<sup>5</sup> 2017-10-31 Letter to the Egg Hatchery Association from J. Collins