

# Input Cost Analysis Decision

December 8, 2017

The BC Broiler Hatching Egg Commission (Commission) reviewed the Input Costs Analysis Work Action Plan at its November 29, 2017 special meeting. The Commission has assessed the input costs issue strategically in the past, current and future context of input and other pricing matters as they relate to all stakeholders.

The Vaccination Input component of the Work Action Plan was unanimously supported by the Pricing and Production Advisory Committee (PPAC) and will continue to completion as described in detail in the latest Work Action Plan. The completion of this will satisfy this scope of the Input Cost Analysis Work Action Plan for vaccines and vaccinations. In summary:

1. A base vaccination program for all Hatching Egg Producers (Producers) to follow will be established;
2. Any additional vaccines requested by hatcheries will be fully paid for by the hatchery making the request; and
3. A clear process for modifying and reviewing the base vaccination program will be established, allowing for its utilization by Producers, hatcheries, processors and the BC Chicken Marketing Board (BCCMB).

In consideration of the breeder chick pricing input, the Commission is satisfied that present breeder chick pricing in the current marketplace meets the main criteria set out in the original Work Action Plan. The pricing spread that initiated the Work Action Plan has narrowed substantially over the course of this review. The Commission will continue to monitor this input, and reserves the right to reopen this or take action if the need arises.

The Commission also acknowledges the need to review thoroughly the hatchery margin as per the Egg Hatchery Association's (EHA) formal request, as well as the (currently underway) review of the 'Linkage Agreement' (Linkage) between the Commission and BCCMB and review of the chicken pricing formula. These issues involve substantial review processes that are linked to the inputs of this Work Action Plan, and potentially linked to many other inputs and pricing factors utilized by the Commission for pricing hatching eggs and broiler chicks.

## Background:

The Commission and BCCMB last renewed the Linkage Agreement in 2015. As a part of the negotiated updates, the BCCMB raised certain Linkage input concerns, including vaccine and breeder pricing. Both of these inputs have historically not been closely monitored by either board and required some additional accountability, transparency and defensibility.

The Commission originally requested two cycles to work with BC Hatcheries to ensure that all costs inputted into the Linkage met the standards of good governance by the Commission and were defensible.

Vaccine Programs and Breeder pricing represent two of the larger input costs for a Producer. Currently, Producers are obligated to purchase and place both vaccines and breeder stock from the hatcheries to which they ship their hatching eggs. The Commission continues to acknowledge the concerns of hatcheries that Producers must 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 respective hatchery. The objective of lateralizing these costs was incorporated into the Commission's input costs initiative.

### Process:

Commencing in late 2015, stakeholders received many engagement opportunities inclusive of: producer meetings; BC Broiler Hatching Egg Producers' Association meetings; hatchery meetings; and, extensive, transparent correspondence. In August 2016, the Commission proposed decoupling as an option but remained concerned that the full implications, consequences and risks of all options had not been fully examined. These concerns grew as a result of other industry pricing-related developments.

The Commission's September 26, 2017 Input Cost Analysis Update provided opportunity for further examination of those concerns. At its October 19, 2017 Board meeting, the Commission also tasked PPAC to review the input costs issue.

The PPAC process resulted in general agreement between the Producers' Association and the EHA on an approach to vaccine costs. Although there was disagreement between PPAC members on the specifics of a breeder cost formula, neither association was in favour of decoupling. The Producer's Association would be prepared to revisit decoupling if a longer-term resolution cannot be found.

Producers still have concerns about pricing of both breeder chicks and vaccination programs but also express worry about the impact of the current relationships with their hatcheries if there are dramatic changes in the industry.

Hatcheries are also concerned with the relationship damage that may occur if some of the proposed options are effected. Operational concerns have also been expressed by hatcheries as they are a part of larger companies and potentially the protection of the customer/supplier relationship may be severed resulting in a "ripple effect" of issues.

During the most recent phase, Hatcheries have made efforts to propose options for both breeder chick and vaccine program costs in response to the Commission's original concerns that costs be lateralized to ensure the Linkage is properly administered and Producers are paying comparable costs. As these options have been reviewed through PPAC and will provide a benchmark in support of more transparent Linkage pricing, the Commission is prepared to further pursue these options as part of a more fulsome and strategic review of pricing in the B.C. hatching egg and chicken industries. It is the Commission's expectation that the current lateralization costs for breeder chick and vaccine program pricing will continue while the Commission, the BCCMB and industry stakeholders engage constructively in a larger review of industry pricing.

## Commission's Input Cost Review Decision

The Commission has decided to include the breeder pricing discussion in a more fulsome review of Linkage, Cost of Production models, hatchery margin mechanisms, input costs and pricing generally as a part of a larger project. This project will be the Commission's top priority in cooperation with the BCCMB and will include engagement with both the Producers' Association and the EHA.

The Commission has decided to work with stakeholders and the poultry veterinarian community to create a lateral, contemporary base vaccination program for all Producers. This decision will ensure that there is a base vaccine program to facilitate the movement of domestic product and ensure that producers are paying comparable costs.

## Industry Developments:

Significant changes have taken place in the industry since the Commission commenced the Input Cost Analysis Review.

There is now a question as to how breeder stock will be brought into BC (eggs vs chicks) in the near future. While this is a decision for the hatcheries, it is an issue that potentially affects all stakeholders and worthy of discussion and risk assessment so that this potential transition can be managed across the value chain.

The EHA has now also updated its 2015 request to the Commission for a hatchery margin increase. Work needs to be done on both a review of a potential increase now and whether there is opportunity to develop more effective ways of addressing the hatchery margin issue on an ongoing basis.

The BCCMB and the Commission are obligated to review and update both their COPs and the Linkage agreement starting in period A-150. As a separate but relevant piece of these discussions is the BCCMB's one-year review of their new pricing model and the impacts on all stakeholders that is to take place in period A-149.

The Commission has completed Phase 1 of the ECC Software Program and is currently working on a web-based reporting mechanism for hatchery use. This will create a greater ability to work cooperatively with hatcheries on forecasting.

Further research across Canada may also be an important element in moving forward. Other provinces have models that may be helpful when looking at the best model for hatching egg pricing in BC.

Given all of these inter-related factors, a more fulsome review of Linkage, Cost of Production models, hatchery margin mechanisms, input costs and pricing generally as a part of a larger project should be prioritized. This will also enable the Commission to focus its resources on this important overarching initiative.

### Interim Steps:

The Commission has committed to continue work with hatcheries and private poultry veterinarians on a base vaccination program and inclusion to the Linkage mechanism. This base vaccination program will ensure that all Producers are vaccinating for the same diseases and that new vaccines can be easily updated into the Linkage Agreement. This work has already begun.

The Commission acknowledges that Producer concerns remain regarding the specifics of the breeder chick margin proposal. The Commission has included that work in the COP review and Linkage update initiative. Additionally, the PPAC may wish to review that matter further but must be mindful of the Commission's overall priority to review pricing more generally.

### SAFETI Analysis:

The Commission used SAFETI as a tool in making its determination of sound marketing policy. That analysis includes the following:

**Strategic:** This decision allows the Commission appropriate time to adjust their focus, in coordination with the BCCMB, to a larger, industry wide picture and research potential risks with a broader scope. Additionally, allows for the evaluation of both the short and long-term risks to the stakeholders.

**Accountable:** In accord with language in s. 21(a) of Farm Products Agencies Act (Canada) which states that a purpose of national agencies (and by extension other supply management decision makers) is to promote "strong, efficient and competitive production and marketing industry for the regulated product". In accord with the Regulated Marketing Economic Policy (BC) "The regulated marketing system operates in the interests of all British Columbians. Boards and Commissions...are responsive to the needs of British Columbia producers, as well as to processors, consumers and other participants..." Supports the BCCMB in responding to objectives of its federal-provincial agreement to "enhance competitiveness and efficiency in the chicken industry". Supports interests of producers through full engagement with all stakeholders on systemic pricing issues affecting hatching eggs. Targets resources to strategic objectives.

**Fair:** The Commission has ensured that stakeholders have had many engagement opportunities. Process was and will be communicated through work action plans and supporting documentation. All correspondence circulated for comments and posted to the public side of the Commission's website.

**Effective:** The Commission has met the initial targets of lateralization of input costs and will set new targets as a part of a larger picture that supports the chicken value chain. It will work on a broader scope of concerns inclusive of the Linkage, the COP model, pricing and the potential for a tripartite pricing relationship with both BCCMB and Hatcheries.

**Transparent:** The Commission ensured transparency with Work Action Plans and supportive documentation which laid out the work to be done on the initiatives. The Commission also engaged with stakeholders in face-to-face meetings and routine public website posts.

**Inclusive:** The Commission documents all affected stakeholders in the Input Cost Review Work Action Plan, circulates directly with those stakeholders and posts routinely to the website.