

COP Pricing Framework Review & Implementation Plan

Decision Document

Background

As part of its pricing authority, the BC Broiler Hatching Egg Commission (the Commission) regularly reviews its COP Framework and seeks and receives advice from the Pricing and Production Advisory Committee (PPAC) from time-to-time, in accordance with the *British Columbia Broiler Hatching Egg Scheme*.

As part of that review, five areas for updating were identified:

- COP surveys
- Vaccine pricing
- IBI inclusion rate
- SE monitoring program costs
- Hatchery margin

An overview of each area is provided, along with a proposed timeline for implementation. It is noted that each area can be implemented individually or en masse.

Cost-of-Production Surveys

The pricing framework currently makes use of surveys conducted in 2020. The costs identified in these surveys are indexed each pricing period to ensure that they remain relevant and are close as possible to actuals until the next producer surveys are conducted. It would be cost prohibitive to update surveys each pricing period, so indexing of costs is performed.

The Commission engaged Serecon, Inc. (Serecon) to perform cost of production surveys of its producers. Similar to the previous process, the scope, sample, approach, new considerations, specific methodology, timing and budget were determined and signed off on June 4, 2024. Draft results were presented on December 18, 2024, with acceptance of the finalized results on January 20, 2025.

New Considerations

Labour Costs

Brought forward from the previous Implementation Plan was labour costs as identified under the 'Next Iteration of the Hatching Egg COP' section. The Commission worked collaboratively with Serecon to develop an app-based time sheet, which was trialled by Board members before being used by certain survey participants. Although significant progress was made, the results were skewed towards larger producers and such data was not able to be extrapolated. Labour hours were estimated using the Activity Based Labour Model and producer records of arm's length labour as was the case in prior surveys, both COP-based and Linkage-based.

The Commission seeks meaningful progress in developing a more viable labour app for use by producers and increasing participation rates.

Stratified Size Categories

The size categories were aligned to those used internally by the Commission and reported in the Public Accountability and Reporting Program. Small-size farms are those with up to 24,999 quota hens (approximately double the minimum farm size of 12,000). Medium-size farms are those with 25,000 to 49,000 quota hens. Large-size farms are those with 50,000 quota hens or greater.

New entrant producers with only 5,000 quota hens were excluded from the sample due to their operations not being representative of the population.

On-Site Attendance

All producer sites were attended this survey period; the previous surveys were conducted in 2020 during the pandemic which restricted this. Serecon was able to move from the 'Model Farm Approach' and employ the 'Valuation Approach' individually at each farm. This permitted actual age of barns, other buildings and equipment to be used.

Results

All results are sourced from Serecon's presentation and final results report.

Sample

	# of Producers	% of Producers	Annualized Quota (2023)	% of Quota
Population	41	100%	867,497	100%
Sample	21	48%	388,535	45%

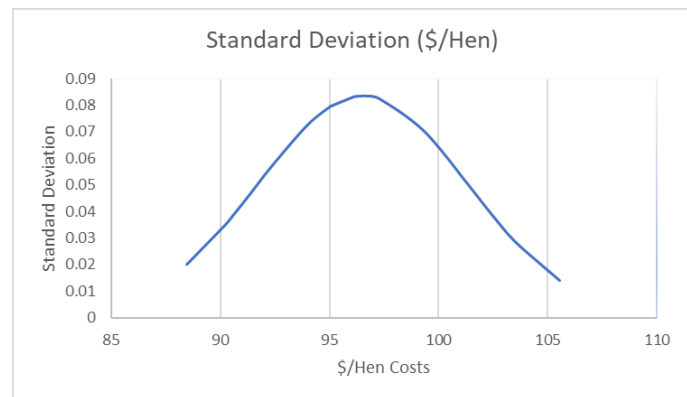
Stratified Size Categories	Population %	Sample %
Small: 5,000 to 24,999 quota units	33%	33%
Medium: 25,000 to 49,999 quota units	50%	51%
Large: 50,000+ quota units	17%	16%

	Average	Median	Minimum	Maximum
Population	19,278	15,825	6,003	57,413
Sample	18,502	15,310	6,938	57,413

Statistical Significance

	Mean	Median	Minimum	Maximum
Survey Results	\$96.54	\$96.27	\$88.48	\$105.56

Sample Mean	\$96.54
Confidence Level	95%
Standard Deviation	\$4.78
Coefficient of Variation	0.05
Margin of Error	2.12%
Upper	\$101.32
Lower	\$91.76



Key Components Overview

Capital Costs – Barns and Equipment

- Usable space data provided by the Commission
- Barn age, size, condition and recent renovation data collected
- Aerial photos of farms used to validate barns
- Valuation Approach used
- 2024 build cost estimates (Douglas Cost Guide) converted to cost in year of construction using Marshall Swift Index.
- Depreciation and ROE applied to barns
- Useful life assumptions: 40/15/5 depreciation (building/fixed equipment/control equipment)
- Average barn ages (pullet barns 20 years old (2004) and lay barns 13 years old (2011))

Capital Costs – Other Buildings and Equipment

- Detailed survey data collection with detailed lists generated for each farm
- Valuation Approach used
- Marshall Swift Index used to convert Replacement Value to Purchase Price
- Purchase Price used to estimate depreciation and ROE
- Various useful life assumptions (e.g., generator 30 years, incinerator/composter 15 years, manure spreader 15 years)

Return on Equity

- The Capital Asset Pricing Model approach remains the same as in the prior survey period
- Variables such as risk-free rate, beta of security, expected market return, and interest rates were updated accordingly
- Then weighted average cost of capital (WACC) is 8.38%
- Consistent with prior surveys, land costs are based on a rental rate (3%) applied to land valuations from 20 years prior (Model Farm Approach) – ROE is not applied to land

Land Costs

- FCC value is currently \$112,200/acre
- Maintained 20-year-old land value (Model Farm Approach)
- 20-year-old value is up 248% from \$32,247/acre
- Pullets are estimated at 5 acres
- Breeders are estimated at 10/20/30 acres (small/medium/large-sized)

Capital Costs – Changes in COP

- ROE increased primarily because of newer barns (13 years vs. 20-year assumption)
- ROE on land increased because of the underlying increase in 2000 to 2004 land values
- Inflation and higher WACC have impacted ROE more strongly than depreciation
- Depreciation impacted by survey data revealing older equipment and other buildings than assumed

Capital Costs	2024 COP	A192 Index	Diff (\$/Hen)
Depreciation	\$5.98	\$8.90	(\$2.93)
ROE (inc. Land)	\$11.30	\$8.66	\$2.64
Total	\$17.28	\$17.56	(\$0.28)

Labour Costs

- Wage rates applied: General labour at \$28.01/hr and management labour at \$46.75/hour using publicly available sources such as BC Stat Earnings and Employment Trends reports
- Labour costs increased \$0.15/hen relative to the updated index

Feed Costs

- 11-12% increase in feed consumption and feed costs
- \$22.39/hen vs. \$19.97 hen in the A192 indexed results (\$2.43/hen difference)
- Statistical analysis did not reveal it was based on the bird genetics
- Ross 308 FF vs. Ross 308 AP differences appear to be based on less variance in the more established genetic line

Key Production Elements

	2024	2020
Weighted average annual quota	24,822	24,442
Production as a % of quota	99.8%	105.3%
Age at transfer to lay barns (weeks)	17.8	18.5
Length of production cycle (weeks)	60.5	56.1
Female mortality (at transfer into lay barn)	2.90%	3.74%
Saleable eggs/hen	145.9	133.5
Pullet barn space/quota bird (ft²/bird)	1.62	1.65
Lay barn space/quota bird (ft²/bird)	1.99	1.95

2024 COP Converted to 58 Weeks (Benchmarked to A192)

COP - \$/hen	2024 COP	A192 Index	Difference	Difference
Cycle length	58 Weeks	58 Weeks		At 112.4 Saleable Chicks
A) Operating Costs				
Pullets	\$32.11	\$32.37	(\$0.27)	(\$0.0024)
Feed	22.39	19.97	2.43	0.0216
Veterinary & Medicines	0.21	0.12	0.09	0.0008
Utilities	1.77	1.39	0.38	0.0034
Vehicle & Equipment Operation (fuel & oil)	0.42	0.30	0.13	0.0011
Repairs & Maintenance	2.15	1.50	0.65	0.0058
Bedding	0.18	0.15	0.03	0.0003
Administrative & Office Costs	0.69	0.97	(0.28)	(0.0025)
Insurance	0.88	0.73	0.15	0.0014
Custom charges	0.50	0.61	(0.11)	(0.0010)
Other/Miscellaneous Costs	0.00	0.00	0.00	0.00
Operating Costs	\$61.31	\$58.10	\$3.20	\$0.0286
B) Labour				
Full-Time Hired Labour	\$5.31	\$8.33	(\$3.02)	(\$0.0269)
Owner/Manager Labour	5.29	2.35	2.94	\$0.0262
Labour Costs	\$10.60	\$10.68	(\$0.08)	(\$0.0007)
C) Capital Costs				
Depreciation & Amortization	\$5.98	\$8.90	(\$2.93)	(\$0.0261)
ROE	11.30	8.66	2.64	0.0235
Operating Interest	2.35	2.86	(0.51)	(0.0046)
Taxes	0.74	0.58	0.17	0.0015
Capital Costs	\$20.36	\$20.99	(\$0.63)	(\$0.0056)
Total Costs	\$92.27	\$89.78	\$2.49	\$0.0222
Less:				
Salvage Egg Revenue	\$0.32	\$0.22	\$0.10	\$0.0009
Spent Hen Revenue	0.61	0.72	(0.11)	(0.0010)
Total	\$0.92	\$0.93	(\$0.01)	(\$0.0001)
Total COP (\$/hen)	\$91.35	\$88.85	\$2.50	\$0.0223

Implementation

As shown in the Key Production Elements table above, the average lay cycle for the survey period was 60.5 weeks, whereas the lay cycle in A192 was 58.0 weeks. The results were converted to permit a comparison between the two. The net change in cost per hen is \$2.50, or \$0.0223 per saleable chick, which is close to fluctuations in pricing experienced between one or two pricing periods.

An example of current price fluctuations under the 2020 COP: the saleable chick price decreased \$0.0190 from \$0.7864 to \$0.7674 from period A193 to A194. This is a 2.4% price change.

Specific to part of this decrease in period A194 was the lay cycle increase to 59.0 weeks which reduced cost by \$0.0125 per saleable chick. An anticipated increase to 60.0 weeks on average would yield a total reduced cost of approximately \$0.0250 per saleable chick.

This knowledge, coupled with anticipated increases in lay cycle resulting in reductions in cost, would ostensibly support a decision by the Commission to apply the 2024 COP cost immediately without causing undue disruption or pricing instability for those further down the value chain (e.g., Growers, Processors). As there is a lag of one period, any cost changes in A195 would affect the chicken Live Price in period A196.

The Commission has monitored BC Chicken Marketing Board's implementation of its COP and understands that Growers will be receiving 100% of their costs as of period A195 – there would not be additional unrecoverable costs borne by Growers. The Commission does remain aware of the pressure any of its input prices, and the hatchery margin, may exert on Live Price.

Vaccine Pricing

With the update of the COP, the weighted-average price paid by producers per the surveys was \$1.88 per bird. This is due to varying prices charged by hatcheries and/or third-party veterinarians, some in excess of the pre-established \$1.61 per bird price limit. Upon implementation of the 2024 COP surveys, the 'average' producer will only then start to recover vaccine costs.

Implementation

Vaccine pricing at \$1.88 per bird will be implemented as part of the COP surveys. The process to future changes to this rate is to be determined in collaboration with the BCEHA.

IBI Inclusion Rate

The COP-Based Pricing Framework introduced in 2022 made use of a then-newly developed 'Industry Benefit Index' that linked the management and costs of the Official Flock Schedule and industry initiatives such as SE sampling, blood work programs, and audit verification processes that benefit the entire chicken industry (e.g., chick quality concerns). Costs were forecasted for the year and divided by the anticipated eggs to be produced in that year.

Since its introduction, the work of attributing or drawing a line between Commission work that benefits the hatching egg sector solely versus the entire chicken industry continues to become more difficult. The calculations also require a forecast of costs and hatching eggs in the forthcoming year. There have been many years of impacted domestic hatching egg production due to HPAI and costs that are less reasonably estimable at the beginning of the year, resulting in an IBI inclusion being both less accurate and under-representative of the true costs borne by the Commission.

Such work includes the review and analysis of data now necessary with the Hatching Egg Reporting System initiative; external crises support with permits and rebalancing of supply; and increased stakeholder reporting requirements.

As well, the Commission is developing a two-year pilot project for a definition change to 'Marketable Egg'. This initiative will require nimbleness – it is not lost on the Commission that previous periods of product removal resulted in costs in excess of \$1 million. These costs were based on prices over a decade ago.

With ever increasing regulatory demands of the supply-managed sector and certain chicken industry initiatives requiring further availability of resources (both at the staff and Board level), it appears consistent with sound marketing policies to move towards a full levy inclusion in its COP Framework. This is in accord with counterparts in the supply-managed sector and through recent decisions affirming this position.

Implementation

The IBI is currently set at 0.28 cents per saleable chick. The Commission currently levies production at 2.00 cents per saleable chick, a figure that has not been adjusted during the recent HPAI infections and reduced domestic production. The increase would be 1.72 cents per saleable chick.

If a decision to implement this change is made, it may be prudent to layer this update in over two or more periods. Although separate from the implementation of the COP survey update, should the lay cycle be increased as anticipated there would be pricing 'room' of 0.27 cents (difference between \$0.0250 reduction in costs realized and the \$0.0223 higher costs in the underlying surveys). The net impact is estimated at 1.45 cents. For simplicity, an implementation over either one or two pricing periods is proposed.

Again, the Commission has monitored BC Chicken Marketing Board's implementation of its COP and understands that Growers will be receiving 100% of their costs as of period A195 – there would not be additional unrecoverable costs borne by Growers. The Commission does remain aware of the pressure any of its input prices, and the hatchery margin, may exert on Live Price.

SE Monitoring Program Costs

Beginning in November 2023, the Commission enhanced its SE Monitoring Program in compliance with revised federal Hatchery Regulations that came into effect. Namely, a pre-lay test (T2) was required to be completed by hatcheries.

To assist BC hatcheries in meeting their new obligations under the regulations, the Commission assembled sampling kits and provided these to hatcheries to perform on-site shortly before birds are transferred to the lay barn. Hatchery personnel were already on-site to perform blood work sampling – there are generally no additional transportation costs, and minimal additional labour costs.

The Commission also worked with the Ministry of Agriculture and Food to secure funding that covers the additional expenses relating to the purchase and assembly of the T2 sampling kits; this funding is expected to end on March 31, 2025.

The purchase and assembly of testing kits, a hatchery responsibility taken on by the Commission during this transition period, is to move to the hatcheries. The SE Monitoring Program benefits the entire chicken value chain, and these costs must be recognized. As hatcheries will directly be incurring the cost, recognition within the hatchery margin is required (the payment mechanism for hatcheries).

The pre-lay T2 sampling kit, as assembled, contains the following:

Item	Units	Cost per Unit	Extended Cost
Large Ziploc bags	2	\$0.14	\$0.28
Small Ziploc bags	3	\$0.04	\$0.12
Dust container	1	\$0.56	\$0.56
Boot swabs	1 ft	\$1.69 / ft	\$1.69
Total			\$2.65
Lab fee*	1	\$80.00	\$80.00

*The lab fee is paid by the Commission and is included in the IBI rate.

The components of the kits would require purchasing and assembly. Assuming we attribute 1 hour of labour to this (\$28.01 general labour rate), the cost would be around \$30.66.

With approximately 115 placements per year, the estimated cost is \$3,525. On 100 million chicks placed in BC, this equates to 0.003 cents per saleable chick. Although the cost is not zero, the 0.003 cents per saleable chick does not round to even a hundredth of a cent. This amount instead appears best addressed through the broader context of the 4.0-cent hatchery margin increase, below.

Implementation

Implemented in the broader context of the hatchery margin increase.

Hatchery Margin

Previous consultation and an approval decision for a hatchery margin increase of up to 4.0 cents per saleable chick was made by the Board on October 8, 2024. Although this is generally not included in this document beyond recognition in the overall implementation schedule, it is acknowledged that the approach to implementing the final portion of the hatchery margin may change based on recent discussions between the Commission and BCEHA (as of February 26, 2025).

Implementation

The Commission's approval decision provided for the balance of the 2.59-cent increase to be recognized over two pricing periods. Depending on consultation, it may be possible to recognize the increase in one period.

Consultations

This document does not preclude other costs (e.g., the expression of the breeder chick margin) from being reviewed and updated by the Commission as it begins consultations.

February 27, 2025 – document provided to PPAC in advance of their meeting.

March 3, 2025 – opportunity provided to PPAC Chair to ask questions on this document in advance of the meeting.

March 6, 2025 – PPAC meeting was held. An overview of the document was made. Responses to it were required to be received by the Chair of PPAC by March 11, 2025. This is to include downstream stakeholders (e.g., PPPABC for BCEHA, and BCCGA for BCCMB).

March 10, 2025 – the Commission received a letter in response to its February 27, 2025 letter of intent regarding the hatchery margin increase from PPPABC.

March 12, 2025 – the PPAC Chair provided a report dated March 12, 2025 expressing the positions of BCEHA, BCBHEPA and other observers (namely BCCMB) on the matters of COP Pricing Framework Review and Implementation Plan, the hatchery margin increase, and the Marketable Egg Definition Pilot Project. A letter from BCBHEPA to PPAC was also provided.

March 20, 2025 – the Commission received a letter in response to its February 27, 2025 letter of intent regarding the hatchery margin increase from BCCMB.

March 25, 2025 – the Commission responded to BCCMB’s March 20, 2025 letter.

March 27, 2025 – the Commission held its meeting and considered all stakeholder feedback.

Decision

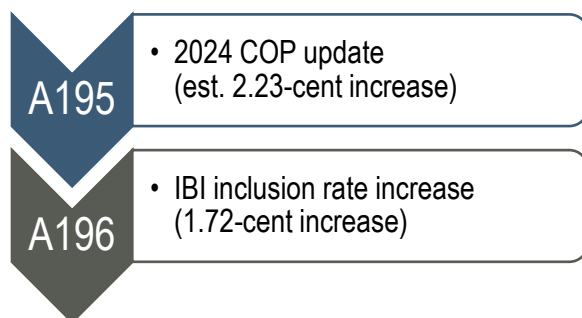
At its March 27, 2025 meeting, the Board approved over one period the 2024 COP survey update and 2.59-cent hatchery margin increase effective pricing period A195, and over one period the 1.72-cent increase to the IBI inclusion rate effective pricing period A196, per the COP Pricing Framework Review & Implementation Plan.

Regarding vaccines, as noted previously, the process for future changes to this rate is to be determined in collaboration with the BCEHA. No decision on adjustment to the vaccine pricing process was made.

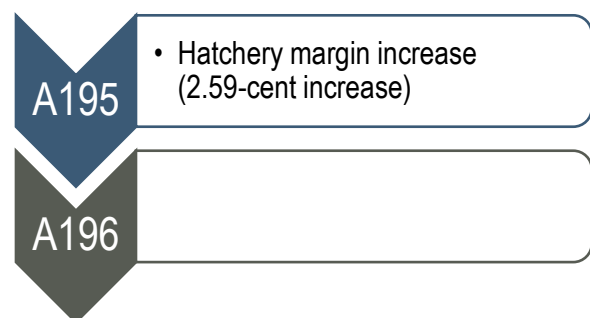
Overall Implementation Schedule

An implementation schedule for the decision is provided below:

COP Framework Update



Hatchery Margin Update



SAFETI Analysis

Strategic

The BC Broiler Hatching Egg Commission (the Commission) is making necessary cost-of-production (COP) adjustments rooted in sound marketing policy principles to address the rising costs facing our sector today. These updates reflect the increases in operational expenses and adjustments to the Industry Benefit Index (IBI) costs, and hatchery margin, reinforcing our transparent commitment to the cost-of-production process.

Our sector benefits from a vital assurance of supply, managed by the Commission through the 'Official Flock Schedule (OFS).' This regulation guarantees stability, ensuring that hatcheries receive the hatching egg products they need to fulfill their grower customers' demands and ultimately meet the market requirements of processors. The stability of the sector is the result of the work done by the Commission to continually balance domestic production, further supported through a change to the IBI, after any impacts to the OFS.

By empowering efficient hatching egg producers to fully recoup their production costs through the COP and the hatcheries to keep up with their costs, we collectively strengthen the entire value chain.

As previously stated, with ever increasing regulatory demands of the supply-managed sector and certain chicken industry initiatives requiring further availability of resources (both at the staff and Board level), it appears consistent with sound marketing policies to strategically move towards a full levy inclusion in its COP Framework. This is in accord with counterparts in the supply-managed sector and through recent decisions affirming this position.

Accountable

Our commitment to accountability in the COP process is unwavering. We strive to ensure that hatching egg producers recover their costs and have a transparent and identifiable pricing structure that the Commission regulates.

The COP survey updates, inclusive of the IBI, are accountable to the stakeholders by ensuring that hatching egg producers recover their costs and continuing to ensure that all aspects of pricing for hatching egg producers are identifiable, transparent, and regulated by the Commission.

The Commission appreciates the concerns of stakeholders regarding the change to the Commission's previously prescribed process to the hatchery margin increase, but as shared in previous correspondence, there are challenges in agreement to long-term strategies that need more fulsome review and, in the time and space required for that review, the hatcheries cannot be left behind in the current climate of economic challenge and uncertainty. The Commission takes accountability for the pivot in the process but remains steadfast that it was necessary to ensure the hatcheries remain sustainable.

Effective

These updates demonstrate the effectiveness of the process. The Commission has shown that the COP can be nimble in the case of the breeder chick foreign exchange issue, be challenged in the case of the vaccination input, and address the needs of the value chain stakeholders.

While the Commission does not claim, in its entirety, effectiveness for the hatchery margin decision as a long-term strategy, for the short-term, addressing hatcheries' needs is a priority for the value chain. This decision effectively brings all stakeholders back to the table via a reset.

Fairness, Transparency, and Inclusiveness

Since its inception, we continue to keep all stakeholders in the BC chicken sector fully informed about changes, updates, and refinements to the Hatching Egg COP. Our approach involves a robust stakeholder engagement process, which includes face-to-face meetings with the Pricing and Production Advisory Committee (PPAC) and valuable feedback gathered through comprehensive reports from its chair. Additionally, we engage in one-on-one discussions with key stakeholders—such as the BC Chicken Marketing Board, the BC Egg Hatchery Association, and the Primary Poultry Processors Association of BC—to ensure that every voice is heard and considered.

The Commission acknowledges that the departure from the previous approach to the hatchery margin increase was necessitated by the underlying information available. Additionally, the Commission and BC Chicken Marketing Board anticipated that fulsome information would have furthered a long-term solution in the form of a hatchery COP following the BC Farm Industry Review Board's decisions to approve the Commission and the BC Chicken Marketing Board's COPs. That said, the Commission recognizes the need to provide time and space for the development and implementation of long-term solutions; hatcheries should not be further impacted while the sector works through these processes.

Together, we are building a more resilient and responsive hatching egg sector that benefits all participants and drives the industry forward.