



Quota Task Force Recommendation to the BC Hatching Egg Commission

August 19, 2016

History:

The Quota Task Force was struck to work through the Commission's key initiative "Quota Allocation" on the 2015/16 Strategic Plan.

The Commission felt that a devoted group of people reviewing the detailed information was an effective way to ensure that the work action plan would be followed and purposeful recommendation would be developed. The Quota Task Force is comprised of 3 Commission members, 1 Producer Association Director and 2 Commission staff.

Work Action Plan:

The Work Action Plan served as a guide through the quota review process. Both the work action plan and the notes from each meeting were reviewed by the Commission members and were subsequently posted to the website upon approval.

The Commission oversaw the Task Force in both its regulatory capacity and by its representation on the Task Force.

Recommendation:

The Quota Task Force recommends the following plan:

1. Allocate Quota to Hatching Egg Producers expressed in eggs.
 - a. The Hatching Egg Commission's national agency, The Canadian Hatching Egg Producers (CHEP) allocates BC's Market share of eggs expressed in hatching eggs. BC Commission staff calculate the number of hens required

and transition that into placeable hens otherwise known as “hen based quota”.

- b. Historically there have been a number of issues in maintaining “hen based” quota. These issues include: surplus production of hatching eggs during times of the year the hatching eggs are not required, changes to the hen genetics that increase or decrease the hatching eggs anticipated per hen versus actually produced and fertility ups and downs.
 - c. Hatching Egg based quota expression allows each Hatching Egg Producers the freedom, within Animal Care Standards, to make decisions regarding their individual business models. Each Producer can manage their efficiencies by controlling the number of birds that are put into production to produce a finite amount of hatching eggs.
 - d. The Commission production team can forecast more accurately by ensuring each Producer is represented as a percentage of the CHEP allocation expressed in hatching eggs without the further hen calculation, this limits margin of error during the forecasting process.
 - e. Genetics can be managed by each Producer and their relationship with their breeder stock supplier.
2. Express payment to hatching egg Producers in saleable dozen.
- a. Currently the Hatching Egg Producer is paid by their hatchery as expressed as saleable chick. Producers ship their eggs in buggies to the hatchery twice per week and receive payment 30 days post hatch.
 - b. Each hatchery reports to Producers differently. Some include the other areas of results such as cull chicks and rotten eggs but mainly the hatchery reports on how many eggs were hatched and placed on a broiler farm. This is an obvious critical control point within the supply chain.
 - c. Hatching Egg Producers ship one product to the hatchery and receive payment on another product. Hatcheries control the picked up Hatching Eggs from the moment that they are put on the hatchery truck. Temperature and humidity, which are large factors in embryotic development, are controlled by the hatcheries from pick up until hatch.
 - d. Machine maintenance and egg room monitoring are all under hatchery control with no accountability to the Hatching Egg producer when issues arise. No compensation models exist to deal with hatchery errors.

- e. Hatchery management complains of difficult relationships with individual Producers. Some are “constant complainers” and expect to be compensated for many things out of the hatchery’s control. More quality control staff is required to keep up with the constant requests from Producers to share information regarding each hatch from each flock. Information vital to the Producer but often costly to the hatchery to provide. Hatcheries have recently requested a hatchery margin increase from the Hatching Egg Commission to recoup these reported increased costs.
- f. The Quota Task Force reviewed several models of payment mechanisms. BC has very specific industry issues inclusive of higher costs and lower returns. The Task Force found the saleable chick model to a more costly of payment systems due to the reporting required to ensure its fairness throughout the supply chain.
- g. Saleable dozen served both sides of the supply chain resulting in lower costs to both the hatchery and the Producer. Incentives can be developed to ensure both the Producer and Hatchery remain committed to high quality product. Payment expressed in saleable dozen limits the relationship between the hatchery and the Producer and garners a transactional based interaction.

3. Final Considerations

- a. The Quota Task Force spent time considerable time discussing input costs such as breeder pricing as areas of concern. Regulation in this instance has not been beneficial for the chicken supply chain. Breeder stock pricing and quality has become an issue due to the Hatching Egg Producers’ dependency on their hatchery.
- b. Risk of cross contamination of Salmonella Enteritidis by hatching locally continues to be a critical control point of the breeder stock suppliers. To date no reassurances have been made to the Hatching Egg Producers that the proper protocols to hatch breeder stock safely have been made by the hatcheries.
- c. Natural competition has not been allowed to ensure prices remain competitive and quality remains high. These higher inputs are reflected in the Hatching Egg Producers’ Cost of Production and added to the linkage algorithm with the BC Chicken Marketing Board.
- d. Decoupling the Hatching Egg Producer from the obligation of purchasing chicks from one supplier allows the market to shift to a customer dynamic

allowing both sides to benefit from reasonable competitive marketing and creates the opportunity to fix costs. Fixed costs can create stability in the industry allowing both sides to reinvest to improve efficiencies.

- e. The Quota Task Force acknowledges that the BC Hatching Egg Commission must review the recommendation and ensure that the SAFETI standards of good governance are met.
- f. The Quota Task Force also acknowledges that a consultative process must take place in order to meet those standards.
- g. The Quota Task force believes that Phase 1 of the Work Action Plan assigned to them has been completed and will await further instruction from the Commission on Phase 2.

Regards,

A handwritten signature in black ink, appearing to be 'Casey Langbroek', written in a cursive style.

Casey Langbroek
BCBHEC Chairman

Quota System Review: Work Action Plan

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 Hatching Egg Producers
- Canadian Hatching Egg Producers (CHEP)

Purpose:

- To undertake the requisite due diligence incumbent on the Commission to ensure fair and orderly marketing.

Outcomes:

- A fair and orderly way to market Hatching Eggs that serves the stakeholders equitably that is operationally functional and not relationship dependent.

Scope:

- This undertaking will identify and assess the current “Hen Based” quota allocation system.
- This undertaking will identify and assess options other than “Hen Based” quota allocation system.
- This undertaking will identify and assess product payment methodology.
- This undertaking will identify and assess the ability to address “problem flocks”.
- This undertaking will identify and assess production lease options.
- This undertaking will ensure that the 80/20 system is upheld in all registered BC hatcheries.

Background

- Concerns have been raised regarding the current quota system and areas of issue have been identified by Industry Stakeholders.
- Industry stakeholders have suggested that changes would be beneficial to the current quota system.
- Several committees were put in place to research and develop outcomes toward the development and/or revision of the Quota System.
- The review was put on hold after determining that historical data was insufficient and would not lend itself well to addressing quota and production concerns.
- More pressing issues of higher priority such as data capture (software program) were developed.
- A software system is in the implementation phase to offer that data capture, staff is confident on the timing for the quota review in the current strategic planning year.
- Verification protocols were developed by the Hatchery Inspection team.

Process:

Phase 1 – Review of Systems of Quota

The key questions to be addressed in this Phase include:

- Does the system quota system need to change or do individual components of the system need to change?
- Can a system be developed that serves the stakeholders equitably that is operationally functional and not relationship dependant?
- What are the critical control points within the system?
- What areas are in need of verification and accountability?
- Where are the deficits in the system?
- What are the benefits to the system?

Approach:

- The Quota Task Force will develop a pros and cons list for each selected methodology of quota. Highlighting the critical control points within each system.
- Meetings and consultation in line with the SAFETI principles to ensure Stakeholder feedback and sound market policy decision making.

Expected Outcome:

- A clear concise direction that the Commission board will use to develop the next phases and instruct staff on.

Deliverables:

- A Decision on which Quota methodology ensures orderly marketing in BC.
- The foundation on which to build the mechanisms.

Phase 2 – Further development of the mechanisms within the optimal system

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

- What are the narrowed critical control points within the system?
- What areas are in need of finer verification and accountability?
- Where are the deficits in the system?
- What are the benefits to the system?

Approach:

- Identify and review the critical control points (pricing mechanism, lease valve, problem flocks, 80/20, premiums).
- Balance the critical control points with verification and accountability.
- Engagement in Industry consultation to ensure all stakeholder interests are reviewed.
- Model and Pilot optimal system alongside current system to ensure accuracy and ease of implementation.

Expected Outcome:

- Accountable and verifiable information flow between hatchery and producer.
- Operationally driven transactions that are not dependant on relationships.

Deliverables:

- Components of a Quota System that identify critical control points and counterbalance with verification and accountability.

Key Initiative #1: Quota System Review 2015-2016

- Built onto the foundation of a Quota methodology that ensures orderly marketing in BC.
- A program that can be implemented with ease.
- An Operational driven transaction based system that is not dependant on relationships.

Phase 3 – Implementation

The Key Questions to be addressed in this Phase include:

- What are the alignment concerns with the software program?
- What are the impacts to the Hatcheries workload?
- What are the impacts to the Producer's workload?
- What are the impacts to the Commission's staff and resources?

Approach:

- Present the system to the Industry Stakeholders in its entirety.
- Train Commission staff
- Train Hatching Egg Producers
- Review all Quota Policies to ensure consistency

Expected Outcomes:

- Industry stakeholder engagement
- Address stakeholder concerns

Deliverables:

- A fair and orderly way to market Hatching Eggs that serves the stakeholders equitably that is operationally functional and not relationship dependent.