



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 consultation¹ the Commission has identified two options regarding Breeder Pricing:

Option 1: The Commission circulated a Recommendation Report² 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.

¹ Timeline provided as Appendix 1

² 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 consultation³ 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.⁴ 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.

³ Timeline provided as Appendix 1

⁴ 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 11th, 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 7th, 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 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, looped 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

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.

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.



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