

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.