



April 18, 2019

## **To BC HATCHING EGG PRODUCERS AND OTHER INDUSTRY STAKEHOLDERS**

The purpose of this notice is to advise stakeholders of the current context within which certain decisions the BC Broiler Hatching Egg Commission is making or may make. The Commission has routinely updated stakeholders on pricing-related matters since its initial April 2018 position outline. It has also consulted with the BC Chicken Marketing Board (“BCCMB”), its Pricing and Production Advisory Committee (“PPAC”) and the BC Broiler Hatching Egg Producers’ Association regarding this background generally, and with respect to period A-156 pricing specifically. Further consultation with stakeholders will occur throughout the timelines referenced in this document as the Commission continues to consider options.

For the past year, the Commission and the BCCMB have been involved in both the COP update and the Linkage scheduled three-year renewal. Both organizations established the Linkage/COP Update Committee and worked hard to meet the planned deadline for a completed update implementation scheduled for period A-156.

Cost of Production (“COP”) producer/grower surveys were completed in the fall. Serecon presented their draft report on February 11, 2019 to both boards. Several in-depth meetings followed with both the Committee and with the boards. A follow-up meeting was conducted for a review with both boards’ PPACs in attendance on March 6, 2019.

PPAC members were given until March 22, 2019 to submit a response regarding the presentation.

Representatives from the BC Chicken Growers Association (“BCCGA”) and the BC Processors provided feedback. Those responses were reviewed by the Committee and the boards, with follow-up information being provided as appropriate.

Hatching egg producers and stakeholders have been made aware of the overall three-year renewal schedule at both producer meetings and in correspondence from the Commission’s chair.

The Commission’s overarching objective is a long-term sustainable price that meets the Overall Priorities and Industry Efficiencies of the 2019 Strategic Plan’s Annual Target which is 100% of the Cost of Production.



## OUTSTANDING ISSUES

### **1. Three Cent Premium Inclusion into the Linkage**

When the Linkage was updated in 2016, concerns regarding the premiums not being a part of the Linkage were raised by the Commission representatives. In the Commission's view, the absence of premiums in the Linkage is contrary to the purpose of the Linkage to ensure the same level of return to both chicken growers and hatching egg producers; however, premiums were not included in the 2016 update.

When negotiations began for the latest iteration of the Linkage formula, the Commission tabled their concerns once again with the BCCMB. The Commission continues to be of the view that premiums are contrary to the purpose of the Linkage and that the now long-standing presence of premiums reflect the "actual price" for chicken in BC. The BCCMB agreed to review the inclusion of a three-cent premium in Linkage. The Commission hosted several meetings with its PPAC, updating them on both the COP/Linkage progress, but also the three-cent premium inclusion concept and the hatchery margin increase request made by the Egg Hatchery Association ("EHA").

Three-cent premium inclusion was first formally introduced to the BCCMB stakeholders at the March 6, 2019 PPAC meeting, and stakeholders had feedback on this adjustment to the Linkage formula. Although the Commission has done its own investigation, the BCCMB feels it does not yet have sufficient supportive data regarding the variety of premiums being paid to chicken growers.

### **2. Hatchery Margin**

The Commission and Commission staff have been working on a committee with the EHA regarding a hatchery margin increase which the EHA believes is overdue. The Commission tabled several areas of its own concerns including software implementation, vaccination indexing, and breeder chick pricing. There has been agreement on the software implementation, and preliminary agreement on vaccination indexing and a margin formula. These will be assessed going forward, including when the three-year Linkage reviews are conducted, so that updated information can be incorporated into future Linkage COPs. Breeder chick pricing remains an outstanding issue, and negotiations are ongoing.

### **3. BCCMB's Pricing Appeal**

In July 2018, the processors and the BCCGA appealed the BCCMB's interim pricing decision. BCFIRB heard the appeal, and their decision remains outstanding. The Commission sat as intervenors on this appeal as Ontario's live price is fed through BCCMB's pricing formula and then the Linkage agreement. BCCMB's live price is the Commission's price.

The much-anticipated BCFIRB decision directly impacts hatching egg producers through the live price and may impact any decisions the Commission makes in reference to pricing strategy. Some initial discussion has taken place regarding a bridging agreement for BC live pricing, pending the BCFIRB decision.



Given the Linkage between the live price and the hatching egg and chick pricing, the Commission remains of the view that it must be involved directly in any future live price formula decision-making while the Linkage remains in place.

**4. Ontario's COPF Update**

Ontario is also conducting a COP update. As Ontario's live price is what all other provinces' formulas price off, it is important to understand the ramifications of that update and how it will impact other parts Canada. Additionally, reviews will potentially need to be conducted to examine how long that pricing structure is sustainable if based on Ontario's new COPF without, for example, moving toward a national COP in which provinces other than Ontario have input.

**5. Western Pricing**

As part of addressing several issues affecting the western provinces, the Commission chair held an initial meeting with the other western hatching egg board chairs about examining common pricing principles for the western provinces. Another option is to look at the current Alberta COP model as an approach to pricing. This discussion will be ongoing over the longer term.

**6. National COP**

The Commission has also broached this concept to CHEP, and CHEP is currently seeking initial responses from stakeholders to determine whether this approach should be pursued. The Commission supports a national COP (with regional variations) similar to that in the table egg industry. It would reduce pricing tensions and potentially enable pricing that supports all stakeholders in meeting increasing demands (e.g., SE, animal care, etc.). If pursued, this will be ongoing over the longer term.

**7. Team BC/Strategy Committee**

Although not directly related to pricing, the Commission, BCCMB, PPPABC and BCCGA have established a small committee to begin looking at how a long-term, strategic vision for the BC chicken sector might be established through consultation with all BC stakeholders. This approach has worked very well for Ontario and would enable the Commission and BCCMB (and others) to develop strategic plans in support of that vision.

**OPTIONS**

BC hatching egg producers have been given a timeline that the Commission would have preferred keeping. Unfortunately, outside contributors and events have left the Commission in a position where a full promised implementation of the Linkage is not possible for period A-156. Many outstanding decisions and stakeholder feedback are under review, BCCMB did not table the three-cent premium discussions with their PPAC in a timely manner, and the EHA hatchery margin negotiations remain slowed over breeder chick pricing. Although the Commission could make certain decisions unilaterally, potential conflicts arising (e.g., PPPABC, BCCMB and BCCGA all oppose implementation of margin increase at this time, impact on agreed software implementation) would likely result in inconclusive, if not negative, outcomes. As a result, the Commission has adjusted their timeline to the following roll out:



### **Step 1: Period A-156 - April 14, 2019**

- The updated COP information will be mechanically added to the updated Linkage model. This is representative of an approximate one-cent increase to Hatching egg producers. This mechanical update to the COP accurately reflects the results of the COP review and can be included as soon as both parties to the Linkage agree (which the Commission and BCCMB have).
- Give two cycles' notice to BCCMB and to BCFIRB as per the Linkage MOU between the Commission and BCCMB that should a three-cent premium not be included in the Linkage, the Commission would consider the Linkage broken and will investigate another pricing mechanism.
- The Linkage was created to ensure that there is parity between BC hatching egg producers and chicken growers. One group having a separate stream of income such as premiums defeats this concept. It is unacceptable to the Commission to continue in the Linkage without the inclusion of premiums.
- Leave the hatchery margin as is for this period and continue the negotiations with the EHA, advising them of the one-cycle extension for negotiations and confirming the potential implementation of resolution via regulatory decision if an agreement cannot be reached.

### **Step 2: Period A-157 - June 9, 2019**

- Roll in three-cent premium (and a mechanism to review status of premiums) in agreement with the BCCMB.
- Roll in agreed-to hatchery margin, inclusive of vaccination indexing and breeder chick costs, as agreed to by the EHA and BCCMB.

***OPTION 2 to be implemented during period A-157 if negotiations in Option 1, Step 2 are not acceptable.***

### **Step 1: Period A-157 - June 9, 2019**

- Develop and implement a new pricing strategy based on a COP concept similar to Alberta's approach, including an efficiency factor, using BC data.
- Draft Amending Order to align vaccination costs and to confirm a formula for the pricing of breeder chicks, adding software reporting to ensure compliance is maintained.
- Review of this strategy and approach with the PPAC and other industry stakeholders.

### **Please note the following:**

1. As noted in previous correspondence, the Commission continues to reserve the right to make other pricing decisions when and as necessary in the case of exceptional circumstances arising.
2. Going forward, the outcome of Ontario's COPF update and the establishment of a new live pricing formula for BC are other issues the Commission will take into consideration, as appropriate.



### Rationale

Commission staff will have enough time to do the appropriate updates and drafting of changes to the Commission's pricing approach prior to period A-159 (when the Linkage would expire), should they be required.

The two-period notice provides the Commission space and time to further consider issues, developments as they occur, and to engage in further consultation with its PPAC and other stakeholders.

Again, as the BCFIRB pricing decision could impact the approach to how chicken is priced in BC, this interim period will allow the Commission and other stakeholders to respond, as appropriate.

Finally, this interim period will allow the Commission to continue its full, formal SAFETI review to ensure its decision-making recognizes and considers a strategic approach that will enhance the sustainability of the BC hatching egg sector as part of a successful BC chicken sector.

Regards,

A handwritten signature in black ink, appearing to read "J. Collins".

Jim Collins, Chair  
BC Broiler Hatching Egg Commission




**AMENDING ORDER 21  
TO THE  
CONSOLIDATED ORDER OF MAY 1, 2016**

The British Columbia Broiler Hatching Egg Commission orders as follows:

1. *Subsections 1(1) and 1(2) of Schedule 2 are replaced by the following:*
  1. (1) For Period A156 the base price to be paid by Hatcheries to Producers for Broiler Hatching Eggs is **\$0.5743** per Saleable Chick.
  - (2) The listed price for Broiler Hatching Eggs is **\$5.5134** per dozen.
2. *Subsection 2(1) of Schedule 2 is replaced by the following:*
  2. (1) For Period A156 the base price to be paid by Growers to Hatcheries for day-old Saleable Chicks hatched from Broiler Hatching Eggs (exclusive of any charges that may be imposed by the Hatchery for vaccination or sexing services requested by the Grower) is **\$0.7637** per day-old Saleable Chick.
3. *Subsection 1(2) of this amending order comes into effect on April 14, 2019.*
4. *Subsections 1(1) and 2(1) of this amending order come into effect on May 5, 2019.*

**DATED at Abbotsford, British Columbia on April 17, 2019.**

BRITISH COLUMBIA BROILER HATCHING EGG COMMISSION

  
Jim Collins, Chair