



November 27, 2019

VIA EMAIL

Peter Donkers, Chair
BC Farm Industry Review Board
PO Box 9129 Stn Prov Govt
Victoria, BC V8W 9B5

Dear Mr. Donkers:

**RE: ADJUSTMENT TO THE BC HATCHING EGG COST OF PRODUCTION FORMULA
AND PRICING VIA THE LINKAGE**

On October 15, 2019, the BC Broiler Hatching Egg Commission (“the Commission”) advised the BC Farm Industry Review Board (“BCFIRB”) that it had reversed its decision to remove revenue from spent hens and salvage eggs from the hatching egg cost of production (“COP”) effective Period A159. The Commission reversed its decision because, despite meetings at which this option was discussed as an alternative to the BC Chicken Marketing Board’s (“Chicken Board”) refusal to include premiums in the linkage, the Chicken Board had not formally agreed to the Commission’s proposal. Consequently, the adjustment was deferred to Period A160.

In the attached October 15, 2019 letter, the Commission requested the Chicken Board:

...formally communicate its position on the proposed revisions no later than October 21, 2019. That way, if the Chicken Board formally confirms its agreement to the proposed revisions, they may be implemented in time for Period A160. On the other hand, if the Chicken Board chooses to oppose this interim adjustment, the Commission asks that the Chicken Board fully articulate the reasons for its opposition.

In its October 18, 2019 response (attached), the Chicken Board acknowledged the meetings and correspondence identified by the Commission but suggested it better for the “two boards to engage in a dialogue to establish and agree upon a process on (sic) to enable either or both parties to consider and approve “adjustments” to the elements of the linkage calculation”. The boards agreed to meet to discuss this and other issues.

At that meeting on November 5, 2019, a quorum of the Chicken Board advised that they supported, in principle, the removal of revenue items from the hatching egg COP. However, they also advised that they might not be able to make a formal decision until at least Period A161, to allow consultation with their stakeholders. The Chicken Board did not then, and has not since, put forward any substantive reason as to why revenue from spent hens and salvage eggs should not be removed from the COP.

Although the Commission also believes there should be a more formal process going forward, including as to the future of the linkage itself, it did not agree that the revenue adjustment should be further delayed past Period A160. It is important that the linkage be seen as supporting the principle of equity between producers and growers. The Commission confirmed that its Pricing and Production Advisory Committee (“PPAC”) was meeting on November 8, 2019 to again examine this issue, and the Commission would also be meeting on November 14, 2019 to consider the matter again, following which the Commission would communicate its decision to the Chicken Board and stakeholders.

Since April 2018, the Commission has been very transparent in communicating to the Chicken Board and other stakeholders its concerns and positions with respect to premiums – generally and in terms of including that revenue in the linkage. An April 18, 2019 notice to BC hatching egg producers and other industry stakeholders provided an update on “the current context within which certain decisions the (Commission) is making or may make”. This update also noted that the Chicken Board had formally introduced the inclusion of premiums at the March 6, 2019 meeting of its PPAC. The Chicken Board later advised the Commission it could no longer agree to including premiums in the linkage as this was opposed by the chicken processors and chicken growers. No substantive reasoning was provided.

In response, the Commission determined that hatching egg producers should be treated the same as chicken growers by removing revenue from the hatching egg COP as part of the linkage calculations. Since that time, this issue has been put to the Commission’s PPAC on three occasions, been the subject of notices to other stakeholders, and has been discussed directly with representatives of the Chicken Board on several occasions, including on November 5, 2019. The Commission has provided its sound marketing policy rationale, illustrated the impact on stakeholders, and provided several opportunities for stakeholders to provide input. Other than written submissions expressing support from the BC Broiler Hatching Egg Producers’ Association (following Commission requests to PPAC for comments), no stakeholder has provided any substantive comment on the merits of the proposal.

Pricing is a critical issue for hatching egg producers, as it is for all stakeholders. The Commission has been fully transparent about all its pricing initiatives, including with respect to national pricing and its negotiations with hatcheries regarding the hatchery margin and breeder chick/vaccine pricing. This informs other stakeholders about hatching egg pricing issues that they should consider in their own processes (e.g., in developing a live price formula). Here, the Commission has addressed a historical imbalance in the approach to the linkage between hatching egg producers and chicken growers by removing revenue from the hatching egg COP to match the chicken COP.

It is now 19 months since the Commission advised stakeholders in its April 18, 2018 position paper that to protect the integrity of the linkage, “any premium, bonus or other similar advantage should be accounted for in the linkage”. This was an issue throughout the 2018-19 Commission/Chicken Board COP and linkage update process. It is six months since the Chicken Board advised that as this was opposed by growers and processors, it could not support the inclusion of premiums in the linkage. It is also six months since

RE: Adjustment to the BC Hatching Egg Cost of Production Formula
and Pricing Via the Linkage
November 27, 2019



removing revenue from the hatching egg COP was first discussed as an alternative. It is four months since the Commission first notified its PPAC and the Chicken Board of its intention to proceed.

As stressed at the November 5, 2019 meeting, the Commission is not prepared to wait past Period A160 for the Chicken Board to decide to do its own due diligence. Therefore, the Commission is advising BCFIRB and the industry that spent fowl and salvage eggs revenue will be removed from the hatching egg COP effective Period A160.

Should the Chicken Board or any other stakeholder advance a substantive reason as to why these revenue items should not be removed from the hatching egg COP, following stakeholder consultations or otherwise, the Commission will give due consideration to such objections at that time, updating the attached SAFETI analysis as may be required. In the interim, the Commission cannot sit idle.

Yours truly,

A handwritten signature in black ink that reads "J. K. Collins".

Jim Collins, Chair
BC Broiler Hatching Egg Commission

Attachments

cc: BC Chicken Marketing Board
BC Broiler Hatching Egg Producers' Association
BC Egg Hatchery Association
BC Hatching Egg Producers

BC Chicken Growers' Association
Primary Poultry Processors Association of BC

Commission Website

November 27, 2019

TO: BC CHICKEN MARKETING BOARD

**RE: INITIAL SAFETY ANALYSIS FOR BC HATCHING EGG COST OF PRODUCTION
FORMULA ADJUSTMENT IN A160**

Strategic

This adjustment is in accord with the sound marketing policy principles underlying the linkage that returns to hatching egg producers and chicken growers should be equitable. Prior to the adjustment, hatching egg producers were excluded from the benefits of revenue stream premiums provided to chicken growers while all chicken growers were benefitting from other revenue streams provided to hatching egg producers. Ensuring the ongoing validity and operation of the linkage is an important factor in determining the future of the linkage. It resolves a long-standing irritant between hatching egg producers and growers and enables other pricing-related issues to be addressed without that complicating factor.

The hatching egg sector has retained a form of 'assurance of supply' in which the Commission regulates production to hatcheries through the 'Official Flock Schedule'. This ensures stability in the sector and that hatcheries will receive the amount of regulated product required to meet the needs of their grower customers and, ultimately, the market demands of their processors. To date, the Commission has declined to reconsider 'assurance of supply' as although this could enable producers to seek their own 'premiums', it is not considered sound marketing policy for the BC hatching egg sector. Ensuring that hatching egg producers receive the full benefit of their own revenue streams by not including them in their COP supports that position.

Revenue streams are not a "COP" and separating the two ensures that linkage calculations going forward will be calculated solely on costs for hatching egg producers. At the same time, the hatching egg COP, pricing and other revenue streams for hatching egg producers will remain distinct, identifiable and transparently administered by the Commission. Premiums will be an issue solely for the chicken sector.

Accountable

The adjustment is accountable to the linkage by ensuring that hatching egg producers are treated the same as chicken growers. It is accountable by continuing to ensure all aspects of pricing for hatching egg producers are identifiable, transparent and regulated by the Commission.

The Commission's position in premiums and the linkage have been clearly communicated to all industry stakeholders on numerous occasions. In respect of the pricing adjustment, the Commission twice provided notice to stakeholders and twice provided opportunity for its PPAC to provide advice with respect to the adjustment.

Fair, Transparent, Inclusive

Since April 2018, the Commission has ensured that all BC chicken sector stakeholders were advised of its concerns with respect to premiums. Not only regarding the linkage but about the impact of premiums (here and in Ontario) on pricing in a supply managed sector. Stakeholders have been made well aware of the Commission's position on premiums and their effect on pricing, including the linkage.

Upon being notified by the Chicken Board that chicken growers and processors opposed the inclusion of premiums in the linkage – for which no substantiating analysis was supplied – the Commission ceased its reliance on that option and focused instead on a more transparent and accountable approach by removing its revenue streams from the hatching egg COP.

The Commission provided notices to stakeholders on August 9 and 23, 2019 with respect to its intentions, the financial impact of the adjustment and the rationale for the adjustment. The Commission has met twice in person with its PPAC and on both occasions received no opposition to the adjustment on its merits at or after those meetings. Stakeholders have been invited to submit their concerns directly to the Commission or through its PPAC. Other than the concerns discussed with the Chicken Board on November 5, 2019, the only response received in opposition was through the appeal by the BCCGA, which focused on process vs. the sound marketing policy merits of the adjustment.

There has been no change to the cost factors included in the hatching egg COP and reviewed with stakeholders during the 2018-19 COP/linkage update process conducted by the Commission and the Chicken Board.

The Commission understands and appreciates the efforts being undertaken to establish a new live price formula. Given that the linkage currently remains in effect, it is the Commission's view that hatching egg pricing issues such as this and other adjustments be known and factored into the live price formula discussions. This also applies to the hatchery margin and breeder chick and vaccine pricing initiative which the Commission is also pursuing in consultation with stakeholders.

Effective

The adjustment is effective as it does not change the period-by-period process by which the linkage is calculated based on the posted Ontario live price and therefore continues to provide pricing certainty to other stakeholders within a linkage.

The adjustment separates hatching egg pricing from premiums, thereby ensuring regulatory transparency with respect to pricing in the BC hatching egg sector. This will complement another Commission initiative to establish a formula-based, index-based hatchery margin, breeder chick and vaccine pricing.

Together with an updated, verifiable COP, these pricing mechanisms combined with ongoing improvement in production management and reporting provides an effective foundation, upon which all stakeholders can rely within or without a linkage. This supports the Commission's objective to have a stable, efficient and sustainable BC hatching egg sector as part of a successful BC chicken industry.



October 15, 2019

Mr. Harvey Sasaki, Chair
BC Chicken Marketing Board
32450 Simon Avenue
Abbotsford, BC V2T 4J2

Dear Harvey,

RE: ADJUSTMENT TO PRICING LINKAGE

As you know, representatives of the BC Broiler Hatching Egg Commission ("Commission") met with representatives of the BC Chicken Marketing Board ("Chicken Board") on April 8, 2019 and July 24, 2019. In the April 8, 2019 meeting, the Commission proposed that revenue from spent hens and salvage eggs could be removed from the hatching egg cost of production formula (COP) in order to address the inequity arising from the failure or refusal to include premiums in the linkage calculation. This interim adjustment was discussed again at the July 24, 2019 meeting.

The removal of revenue from spent hens and salvage eggs from the COP is not regarded by the Commission as a departure from the linkage. On the contrary, it is our view that this revision is best regarded as an interim measure that can be implemented within the existing linkage arrangement as a mechanism to address the absence of premiums from the linkage calculation. We have been proceeding on the understanding that these views are shared by the Chicken Board, and we invite you to let us know if our understanding is inaccurate.

The Commission clearly communicated its intentions to implement this adjustment by letter dated August 9, 2019 addressed to its Pricing and Production Advisory Committee ("PPAC"). In that letter, the Commission asked that the PPAC advise the Commission by the close of business on Wednesday, August 14, 2019 of its comments with respect to this change and the relative impacts and/or exceptional circumstances involved in implementing this change in Period A158 versus A159.

By letter dated August 23, 2019, the Commission again expressed its tentative decision to implement the adjustment commencing with the start of Period A159, subject, of course, to the ongoing consultations with its PPAC and the Chicken Board.

A second PPAC meeting was held on September 16, 2019. A representative of the Chicken Board was present at that meeting. The Commission communicated that it would make its final decision to implement the adjustment for Period A159 on September 19, 2019, subject to any objections from the PPAC or the Chicken Board.

At no time did the Chicken Board ever express any objections to the revisions. Furthermore, we understand that the Chicken Board had approved its most recent pricing based on these adjustments for Period A159.

Consequently, the Commission had been proceeding on the understanding that the COP revisions were supported by the Chicken Board.

In light of the appeal filed by the BC Chicken Growers' Association, the Commission thought it would be prudent to revisit the issue with the Chicken Board in order to obtain confirmation as to whether the proposed interim adjustment to the COP had been made with the support of the Chicken Board. On October 3, 2019, representatives of the Commission met again with representatives of the Chicken Board. On that occasion, these Chicken Board representatives informed the Commission that a formal position had not yet been taken by its Board.

Having learned that the Chicken Board had not yet taken a formal position on the issue, the Commission decided to reverse its decision. For the time being, pricing will continue without the proposed revisions to the COP. However, the Commission respectfully asks that the Chicken Board formally communicate its position on the proposed revisions no later than October 21, 2019. That way, if the Chicken Board formally confirms its agreement to the proposed revisions, they may be implemented in time for Period A160. On the other hand, if the Chicken Board chooses to oppose this interim adjustment, the Commission asks that the Chicken Board fully articulate the reasons for its opposition. In that event, the Commission will examine its options. The Commission wishes to be clear that it will continue to examine longer-term solutions to pricing issues regardless of the outcome of discussions concerning the removal of spent hens and salvage eggs from the COP.

Regards,

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

Jim Collins, Chair
BC Broiler Hatching Egg Commission

Cc: Bill Vanderspek, Executive Director, BC Chicken Marketing Board
Stephanie Nelson, Executive Director, BC Broiler Hatching Egg Commission



October 18, 2019

Jim Collins
Chair
BC Broiler Hatching Egg Commission
#180 – 32160 South Fraser Way
Abbotsford, BC V2T 1W5

Dear Jim:

Re: Adjustment to Pricing Linkage

This is to acknowledge your letter of October 15, 2019 requesting the BC Chicken Marketing Board (“Chicken Board”) to communicate its position on the BC Broiler Hatching Egg Commission’s (“Commission”) proposed revisions to remove revenue from spent hens and salvage eggs from the hatching egg cost of production formula “in order to address the inequity arising from the failure or refusal to include premiums in the linkage calculation”.

The Chicken Board acknowledges the meetings and correspondence referenced in your letter. The Chicken Board duly considered the Commission’s August 23, 2019 letter at two separate Chicken Board meetings, September 12 and 24. The Board was of the opinion that a decision or consent of the Chicken Board was not required on the Commission’s decision however the Chicken Board did note the need to seek clarity on the process for removing items from the linkage calculations. The intent was to engage the Commission on this subject when the two boards met in Whistler on September 25 and 26. Regrettably, circumstances did not permit this discussion to occur.

The Chicken Board considered your letter of October 15 at its board meeting on October 16. The March 14, 2016 Memorandum of Understanding between the two boards unfortunately did not contemplate adjustments to the elements of the linkage calculation. It would serve both parties interests to first agree to a process for such adjustments prior to considering specific adjustments to the linkage calculations. The Chicken Board would appreciate the opportunity for the two boards to engage in a dialogue to establish and agree upon a process on to enable either or both parties to consider and approve “adjustments” to the elements of the linkage calculation. I understand that our respective Executive Directors have set aside the morning of November 5, 2019 for our two boards to meet to commence the dialogue with the intent of coming to a common and mutually agreed upon process.

The Chicken Board looks forward to the November 5, 2019 meeting.

Yours truly,

Harvey Sasaki, Chair
c.c. Bill Vanderspek
Stephanie Nelson

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