



December 18, 2019

VIA EMAIL

Harvey Sasaki, Chair
BC Chicken Marketing Board
101 – 32450 Simon Avenue
Abbotsford, BC V2T 4J2

Blair Shier, President
Primary Poultry Processors Association of BC
9696 – 199A Street
Langley, BC V1M 2X7

Dear Harvey and Blair:

I am responding to the attached letters from the BC Chicken Marketing Board (“Chicken Board”) dated December 12, 2019, and the Primary Poultry Processors Association of BC dated December 13, 2019. In the interests of transparency, I am copying other stakeholders to ensure all are kept informed of the BC Broiler Hatching Egg Commission’s (“Commission”) position on the removal of revenue streams from the hatching egg cost of production (“COP”), the inclusion of kill age as a factor in the linkage calculations, and on pricing in general.

It is the Commission’s view that its November 27, 2019 correspondence to the BC Farm Industry Review Board, complete with a SAFETI analysis, fully explains the current situation with respect to the removal of revenue streams from the hatching egg COP. Neither the hatching egg nor chicken COP now include revenue streams that are not “costs”. The Commission notes specifically that this issue has a lengthy history, was before the Commission’s Pricing and Production Advisory Committee (“PPAC”) on three separate occasions, other stakeholders were provided notice and opportunity to bring forward their concerns well prior to implementation in Period A160, and “the Commission will give due consideration” to stakeholder objections if and when they should provide substantive, SAFETI-based reasons in support of those objections. None have been received to date.

In 2015, through that year’s linkage negotiations, the Commission sought and received the agreement of the Chicken Board that kill age be included as a factor in the linkage calculations. The Commission accepted in good faith the following statement in a July 15, 2015 letter (attached) from the then Chair of the Chicken Board:

“The (Commission) has successfully negotiated a number of items of importance related to the current linkage update such as inclusion of kill age as a factor and less time lag for changes to breeder chick and vaccine costs.” [emphasis added]

Kill age has been recorded as an input factor in the linkage calculation by Serecon since that time (Period A137). A reduced kill age was inputted for Period A160 in response to recommendations from the hatcheries at the Commission’s November 6, 2019 Hatchery Meeting and following discussion at the Commission’s PPAC on November 8, 2019 where it was assessed that a reduced kill age would be required for at least two periods. Scheduling issues for the processing of breeder flocks meant that the linkage calculation would have to be for 56 weeks and that input was provided to Serecon. The Chicken Board was represented at the PPAC meeting for the discussion about a reduced kill age and was made aware of the Commission’s intent to exercise the linkage kill age option prior to the November 14, 2019 Commission meeting.

The Commission and the hatcheries reviewed the kill age situation at the December 4, 2019 Hatchery Meeting and will again revisit the issue at the January 8, 2020 Hatchery Meeting.

There are significant structural differences and complexities between the short-term allocation planning for the chicken sector and the longer-term planning for the hatching egg sector. It takes time for the hatching egg sector to respond to issues such as downturns in the chicken market, broiler breeder genetics selected by the processors that result in changes to egg production and hatchability, production management decisions such as changing the meat-to-egg ratio, and tightening of chicken overproduction penalties. The Commission has also responded to these issues in 2019 through the redirection of product, sending eggs to the breaker and developing compensation programs for producers adversely affected. All at considerable cost to the Commission. Given the irreversible nature and long-term impact of reducing the kill age, that is employed as a last resort.

It should be noted that such issues are not only a concern for the Commission. Currently, other provinces are also experiencing overproduction issues. In Alberta, for example, pricing is taking into consideration a reduced kill age as it is part of that hatching egg COP. This is for the same reason why it is in the BC linkage (as it would be in a separate non-linkage BC hatching egg COP).

More generally, the Commission acknowledges the pricing pressures on all BC chicken sector stakeholders. This was also recognized by hatching egg producers at a December 12, 2019 Commission/producer meeting. It is appreciated that processors and chicken growers are working together in the Pricing Working Group to identify recommendations. At the same time, however, the Commission feels it important that other stakeholders understand the structural and pricing issues specific to the hatching egg sector and take them into account early in the process rather than them being introduced after the fact. Similarly, the Commission has presented other stakeholders with the proposed formula-based hatchery margin and breeder chick/vaccine pricing model for review and comment by stakeholders before the Commission decides that issue on its own or as part of a larger pricing resolution.

RE: Revenue Stream and Kill Age Linkage
December 18, 2019



Finally, relying on Ontario to resolve BC's underlying pricing issue – or not – is problematical. All BC stakeholders should also be looking at other options for sustainability, including measures by which the BC industry can differentiate itself and/or drive costs out of the system. Regardless of any pricing model the Commission eventually decides upon, this will be a priority for the hatching egg sector in 2020; on its own, if necessary, but preferably as part of a larger chicken industry strategy.

Yours truly,

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

Jim Collins, Chair
BC Broiler Hatching Egg Commission

Attachments

cc: Bryan Brandsma, President
BC Broiler Hatching Egg Producers' Association

Ryan Whitmore, President
BC Egg Hatchery Association

Dale Krahn, President
BC Chicken Growers' Association

Commission Website



December 12, 2019

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

Dear Jim:

This is to acknowledge receipt of your letter of December 3, 2019 regarding our November 29 request for information regarding the oversupply of hatching eggs in the BC market required to enable BC Chicken Marketing Board (the “Chicken Board”) to complete a thorough assessment of the BC Broiler Hatching Egg Commission’s (the “Commission”) action to change the kill age from 58 to 56 weeks in the Linkage Agreement formula. Your letter of December 3rd did not provide any documents per our request, and instead relies on a “2015 agreement of the Chicken Board that kill age would be one of the factors inputted into the period-by-period linkage calculation ... and reflected in linkage calculation documentation since 2015”.

The Chicken Board has reviewed its files on this matter and has not been able to find any documentation that provides clear authority to the Commission to make the change without consultation with the Chicken Board. The Chicken Board agreed to accept the kill age at 58 weeks for a benchmark as anything above or below would affect the linkage. Based on the lack of clear evidence of the Commission’s authority and based on the implications of the change in kill age that transfers the cost burden of over production and supply of hatching eggs due to decisions not within the Chicken Board’s control, the Chicken Board passed a motion at its December 10, 2019 meeting to request the Commission to reconsider its decision to adjust the kill age from 58 to 56 weeks in the Linkage Agreement formula commencing in quota period

A-161.

As outlined in our letter of November 29, 2019 the Chicken Board would appreciate timely receipt of the following from the Commission:



- The analysis used to determine the duration and extent of the oversupply;
- The contributing factors leading to the oversupply;
- The options to address the oversupply considered by the Commission; and
- Documentation that the Commission is relying on to support its position of existing enabling authority to arbitrarily and unilaterally amend the kill age used in the Pricing Linkage calculations.

The Chicken Board maintains the lack of documented agreement and understanding with respect to procedures for amending the Pricing Linkage Agreement or components of the COP is contributing to delays in addressing and resolving issues and needs of either or both parties. As per our November 5, 2019 meeting commitment, I suggest that Bill Vanderspek and Stephanie Nelson identify the outstanding issues of concern regarding the linkage agreement and a mutual date for us to meet. This will enable the two boards to continue the process of improving the documentation around policies and procedures governing the Pricing Linkage Agreement and address the outstanding issues of concern.

Yours truly,

BRITISH COLUMBIA CHICKEN MARKETING BOARD

Harvey Sasaki, Chair

c.c. Bill Vanderspek
Stephanie Nelson, BCBHEC
BC Chicken Board Members
BC Egg Hatchery Association
BC Chicken Growers Association
Primary Poultry Processors Association of BC

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Harvey Sasaki
Chair
B.C. Chicken Marketing Board
101-32450 Simon Avenue,
Abbotsford, B.C.,
V2T 4J2

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

December 13, 2019

Dear Harvey and Jim,

We are reaching out to both the BC Chicken Board and the BC Hatching Egg Commission to express our frustrations and concerns about recent pricing developments taking place in BC. We are aware that changes have been made in the Linkage Model that have impacted chick pricing for A-160. If these changes are implemented, it will result in increased live bird prices in A-161.

It is our understanding that there were two changes made in the Linkage Formula that was used to develop the A-160 chick price. Revenue from spent fowl and salvage eggs was removed from the Linkage Formula and the “useful life” of the breeding stock was reduced from 58 weeks to 56 weeks. The result of these changes means an increase in the chick price of close to 2 cents per chick. Under the current live price formula, this increase will be absorbed primarily by the processors, and it will increase our competitiveness gap vs processors in Central Canada.

The changes that have been made are not acceptable to the BC processors.

- Neither of these changes have gone through the BC Hatching Egg PPAC, nor have they gone through the PPAC at the BCCMB. These changes have not been discussed with the Primary Processors in BC yet we are the party that is most impacted by the changes.
- In the case of the change in the “useful life” calculation, this is being done to offset the overproduction in the market that was created by the BCHEC who placed excessive breeding stock, contrary to the recommendations of the hatcheries at the time.
- Both of the changes will result in an increased live price for processors – it will increase the live price differential even higher than where it is currently, and higher than where the Board would have expected it to be when the new formula was implemented.

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- Spent fowl revenue has been a long-standing inclusion in the formula, to remove it now is a fundamental change to the formula and results in a transfer of costs directly to processors [and growers].

Perhaps more important than the specific changes being recommended by the BCHEC at this time is the fact that it is not clear to either party the process by which these changes can or cannot be implemented. Additionally, linkage discussions between the Boards has traditionally been meant to maintain equitable returns for hatching egg producers and chicken Growers. With the recent changes in live price formula, these type of changes now directly affect Processors. As such, the two Boards cannot now partake in unilateral discussions and decisions without considering the affect upon the Processors and marketplace in BC.

As both Boards are aware, the current live price formula has resulted in the highest live price differentials (vs Central Canada) in the history of BC. The changes being put forward by the BCHEC will increase that differential even further.

We urge the BCHEC to rescind the decision to exclude certain hatching egg revenues from the formula and the decision to change the long running standard 58 week kill age for breeder.

Sincerely,

A handwritten signature in black ink, appearing to read 'B. Shier', with a stylized flourish at the end.

Blair Shier
President
Primary Poultry Processors Association of B.C.

CC: Scott Cummings – Sunrise Farms
Kerry Towle – Sofina Foods
Ken Huttema – Farm Fed



July 15, 2015

British Columbia Broiler Hatching Egg Commission
180 – 32160 South Fraser Way
Abbotsford, BC V2T 1W5 by email: stephanie@bcbhec.com

Attention: Mr. C. Langbroek, Chair

Dear Sir,

Thank you for your correspondence dated June 23, 2015. We apologize for the delay in our response; until yesterday our board had not met since your letter was received at our office.

With respect to your request to “a short term pricing structure, in which A-130 cycle’s price is the minimum price and does not go any lower” the BCCMB has voted to deny this request. The BCCMB views this concept as offside with the mechanics and spirit of the BCFIRB ordered pricing linkage. In addition, period A-130’s pricing was unique in that it included a one-time adjustment of \$0.0132 as a result of an Ontario minimum price category change in period A-129. In effect, period A-130’s minimum live price was inflated by \$0.0132 cents per kilogram live weight. This adjustment is not included in period A-131 (which as of the date of this letter is already in week 5 of 8).

Retroactive pricing is not contemplated in the BCCMB/BCBHEC pricing linkage and would not be acceptable to the BCCMB unless it was for some reason ordered by BCFIRB. The “informally agreed date (A-130) that the new formula would be in place” was just that, and was delayed due to circumstances beyond the control of either or our organizations.

The BCBHEC has successfully negotiated a number of items of importance related to the current linkage update such as inclusion of kill age as a factor and less time lag for changes to breeder chick and vaccine costs.

The BCCMB is of the view that further discussion on the topics of premiums and risk calculation for long cycle birds will delay this process further and should be abandoned or appealed by the BCBHEC.

The BCCMB stands ready to proceed with implementation of the linkage update when Serecon has completed their work. We trust that our two boards can agree to move forward as soon as possible.

Thank you for your attention to this matter.

BRITISH COLUMBIA CHICKEN MARKETING BOARD

Robin Smith, Chair

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