



May 1, 2020

To: BC Broiler Hatching Egg Commission Pricing and Production Advisory Committee
All BC Hatching Egg and Chicken Sector Stakeholders

PRICING AND OTHER COVID-19 RELATED MATTERS IN THE BROILER HATCHING EGG SECTOR

The COVID-19 crisis has presented the BC chicken sector and the BC Broiler Hatching Egg Commission with an increasing number of issues and challenges. The purpose of this memorandum is to update the Commission's Pricing and Production Advisory Committee (PPAC) and all stakeholders on Commission-related matters following the A164 allocation decision of the Chicken Farmers of Canada. This memorandum will also advise of some current and potential regulatory measures that have been and may be taken by the Commission.

Any advice from the PPAC, its members or other stakeholder response is requested by the morning of May 7, 2020 in support of a Commission meeting scheduled for that afternoon.

Pricing

Issues

The crisis has impacted negatively on all stakeholders, including with respect to pricing and costs. The Commission acknowledges the extraordinary impact on processors and the measures they have taken to keep the industry operating. Given the circumstances, to date the Commission has exercised its discretion not to pursue an alternative to pricing based on the existing live formula and linkage processes. In the interim the Commission continues to work on a new approach to pricing for the longer term, including cost of production and hatchery margin formulae.

The potential for a reduction of the kill age from 56 weeks has been raised with the Commission's PPAC, the BC Chicken Marketing Board, the BC Egg Hatchery Association (EHA) and the *ad hoc* Supply Chain Working Group. It was also discussed with the EHA again at its weekly meeting with the Commission on May 1. Hatching eggs cannot be stored and shipments to the breaker are restricted to historical averages, providing minimal relief. Surpluses resulting from allocation cutbacks must be removed from the market, resulting in significant surplus removal costs as well as loss of opportunity costs for the Commission and hatching egg producers.

The Commission has yet to decide to reduce the kill age. Currently it is attempting to remove older and underperforming flocks from production, along with certain specified flocks that will further reduce the egg surplus. These efforts include some flocks marketed as spent fowl and some flocks processed for rendering



only, the latter at a cost the Commission (which is ultimately a cost to hatching egg producers). Getting access to shackle space would be ideal, however, given the critical shortage of that space the Commission is examining on-farm euthanasia and rendering options. Composting on farm is an option but undesirable.

Should shackle space or other measures not be available to reduce current overproduction as soon as possible to manage current and future egg flow, an earlier kill age, possibly below 55 weeks, may be required. It is important for the Commission to have as much up-to-date information as possible before making that decision on May 7.

Unfortunately, this elimination of BC flocks could also impact on the ability of domestic production to recover when market conditions improve. This will result in an update to the cost calculation for producing hatching eggs in the existing linkage process. As significant costs are already being incurred by hatching egg producers to reduce the current surpluses, a decision with respect to kill age must be taken soon.

Separately, and in response to processor requests, the Commission reduced the spent fowl price to \$0.20 per kilogram live weight until the end of Period A163 (July 4, 2020). Although this was an early recognition of COVID-19 market issues affecting processors, subsequent events have overtaken this pricing response and increased the cost impact on the Commission and hatching egg producers as they pay for flocks that are processed for rendering.

Regulatory Response

The Commission will assess the situation at its May 7, 2020 meeting and determine whether a general reduction in the kill age is necessary. This decision will be based on information available at that time and the assessment will include the egg surplus situation, the status of existing flock disposal efforts and the utilization impact of hatchery Tariff Rate Quota (TRQ) on domestic production.

Production Management

In an April 17, 2020 letter concerning the pricing of spent fowl, the Commission confirmed an April 14, 2020 agreement with the EHA “that there should be cooperative management of both domestic and import production” which includes “timely, proactive forecasting” of upcoming processing requirements.

Since then, the Commission has been working with all BC hatcheries on measures to accurately forecast overall production demands and increase the use of domestic BC production where possible. This will also assist in retaining domestic flocks to supply the BC market through 2020 and into 2021.

There have been circumstances where some hatcheries have acted or attempted to act in a manner detrimental to the orderly marketing requirements of the Commission. Those issues have been addressed



as will any future problems. It is, however, the Commission's preference to continue working directly and cooperatively with each hatchery in managing BC's overall production requirements.

As well, the Commission has supported BC hatcheries in making representation to Global Affairs Canada (GAC) that penalties for not meeting the 90-percent target for 2020 TRQ imports be eliminated or reduced. The Commission has expressed its position to Canadian Hatching Egg Producers (CHEP) and to the BC ministries of Agriculture and Jobs, Economic Development and Competitiveness (Trade). These ministries have communicated with GAC which has advised that it is looking into the underutilization penalties issue. On April 27, 2020, CHEP and the Canadian Hatchery Federation made a joint submission to GAC requesting the penalty be reduced to 70 percent as soon as possible.

The Commission notes that hatcheries in most other provinces have already underutilized TRQ, which is reducing the impact on their domestic production.

Given the cost and management impacts of surplus production on the sector, it is the Commission's expectation that hatcheries will continue to provide timely and accurate forecasting information in support of the Commission's decision-making generally, and specifically with respect to a decision about kill age on May 7. It is also expected that hatcheries will work with the Commission in helping to protect BC domestic production through this crisis where and when their import allocations allow. The Commission will also continue working with the hatcheries in identifying and responding to production issues in a timely way.

Regulatory Response

This cooperation and timely provision of information in support of production planning and managing changes to that planning is essential. The absence of this information will necessitate Commission inspection of hatchery floors and records as required to confirm actual production data. This will simply delay regulatory decision-making necessary for the sector to manage through the COVID-19 crisis and give rise to potential issues with respect to squandered eggs during 2020.

Surplus Removal Costs

The COVID-19 cutbacks in allocation have resulted in actual, incurred costs and loss of opportunity cost to BC stakeholders. While acknowledging that COVID-19 has also led to additional costs to other stakeholders, the Commission notes here the costs incurred by it in removing surplus hatching eggs from the market, directly and indirectly through the removal of flocks from production. The reduction in the fowl price and an increasing reliance on rendering has also impacted financially on and hatching egg producers.

The Commission has supported the hatcheries in not incurring the cost of setting surplus eggs and hatching chicks that would have to be destroyed as surplus to the market. Similarly, the Commission



supports the hatcheries in avoiding rolling eggs to the point where potential issues with respect to hatching and chick quality arise. This would reduce hatchery productivity, impact on returns to hatching egg producers and the supply of good chicks to growers.

However, all of this has still resulted in the Commission and hatching egg producers incurring increased costs. These costs include dumping semi-trailer loads of eggs and paying to have fowl processed for rendering (which is also a revenue loss for producers). These costs are currently averaging over \$100,000 a week. This is unsustainable, even before you combine it with an estimated loss of opportunity cost of almost \$2,000,000 in farm gate receipts over periods A163 and A164. While hatching egg producers are an important cog in the BC chicken industry, they are not a large one.

This information illustrates the production management complexities of the hatching egg sector and the difficulties and impacts that arise in adjusting this long-term planning and production cycle to sudden changes in chicken allocations.

Conclusion

While reserving the right to take the regulatory measures necessary to preserve orderly marketing in the BC hatching egg sector, it is the Commission's preference to work cooperatively with all stakeholders in managing through COVID-19. It impacts on all of us.

The Commission is facing critical production management and cost issues. Removing surplus eggs from the market by dumping them and killing flocks early and/or in larger numbers for rendering or composting have huge financial implications for the Commission and hatching egg producers. Although an earlier kill age can reduce costs in the short term, removing additional domestic flocks from production will have a negative impact on the recovery of BC hatching egg production in the longer term. It is a significant decision that the Commission must address at its May 7, 2020 meeting.

As noted, any comments, questions or concerns in response to this information should be provided to the Commission office not later the morning of May 7, 2020.

Yours truly,

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

Jim Collins
Chair

cc: Commission Website