



May 12, 2020

To: All BC Hatching Egg and Chicken Sector Stakeholders

DECISION CONCERNING REDUCTION IN KILL AGE AND PRICING FOR PERIOD A-163

On May 1, 2020, the BC Broiler Hatching Egg Commission issued a notice to its Pricing and Production Advisory Committee (PPAC) and other industry stakeholders. The notice advised of production management and cost issues facing the hatching egg sector and of “some current and potential regulatory measures that have been and may be taken by the Commission.”

An issue of specific concern to the Commission was whether in advance of Period A-163 (commencing May 10, 2020) the kill age should be reduced from the current age of 56 weeks. This would automatically result in an adjustment to the hatching egg cost of production in accordance with the current linkage process. The Commission invited the PPAC and impacted stakeholders to provide “any comments, questions or concerns” to the Commission by May 7, 2020.

Submissions were received from:

- the BC Chicken Marketing Board representative on the PPAC;
- the BC Broiler Hatching Egg Producers’ Association (BCBHEPA);
- the BC Chicken Growers’ Association (BCCGA);
- the Primary Poultry Processors Association of BC (PPPABC); and,
- the BC Egg Hatchery Association (BCEHA).

The submissions from the PPPABC and the BCEHA were not received until the morning of May 8, 2020 but were accepted and have been considered by the Commission.

The submissions raised a number of issues, all of which were reviewed by the Commission. The priority in this decision is on the issue of whether a reduction in the kill age commencing in Period A-163 was necessary.

None of the submissions favoured a reduction in the kill age. The concerns included:

- the cost impact of a pricing adjustment resulting from a kill age reduction on other stakeholders experiencing operational challenges, cost impacts and loss of opportunity costs of their own;
- reduced production efficiencies; and,
- the decrease in domestic production capacity which would be exacerbated when the market improves.

The submissions from the PPPABC, BCEHA, BCBHEPA and the Chicken Board PPAC representative all highlighted the importance of the Commission and hatcheries working closely together on forecasting and

managing domestic and import production. Some of the submissions noted the potential for government recovery programs to compensate the Commission and hatching egg producers for extraordinary costs.

The BCBHEPA and the Chicken Board PPAC representative's submissions also raised concerns about breeder chick pricing. The BCCGA's submission included notification that the Hallmark group of processors had stopped paying premiums¹ and consequently this loss should be reflected in the linkage model.

Decision

The kill age is an extremely critical factor in hatching egg production. Adjusting the kill age to reflect BC's allocation and market requirements is a major consideration in the Commission's Official Flock Schedule. Too early of a kill age also runs the risk of BC losing its domestic production capacity. For producers, the longer a flock remains in production the higher their return. Reducing the kill age has a direct impact on the cost of production (COP) for a hatching egg producer. Stability in the kill age is also important and decisions to order a general reduction or increase in the kill age are not normally made on a short-term basis. There should be a projected "new normal" over an extended period to trigger a change.

In addition to reviewing the submissions, the Commission board at its May 7, 2020 meeting received a comprehensive update on production management issues. Although there are flocks that have been killed early (which will be addressed through other channels), the average kill age is close to 56 weeks. As well, the *ad hoc* flock processing arrangements and the current overall forecasting and domestic/import management coordination between the Commission and hatcheries was enabling the sector to manage through the current situation. Certain hatchery-specific issues also need to be addressed.

If current processing arrangements continued (and hopefully improve when Superior Poultry Processors Ltd. resumes full operation) and coordination with hatcheries remained effective, there did not appear to be a need to reduce the kill age from 56 weeks.

Nor can anyone clearly predict the market conditions for the last four weeks of Period A-164 and for Period A-165. Continued stakeholder cooperation and improved market conditions might enable the Commission to consider increasing the kill age at some point.

All of this said, certain conditions need to be in place to maintain the current kill age at 56 weeks:

- a. allocations for Periods A-164 and A-165 must stay at least the same level as currently;
- b. hatcheries must continue to work closely with the Commission on forecasting and the management of domestic and import production, prioritizing domestic production as much as possible;
- c. successful resolution of certain hatchery-specific issues;

¹ Subsequently Sofina Foods Inc. also advised that it was stopping premiums.

- d. the Commission and the Chicken Board working jointly and actively on coordinating production management and reporting between the two sectors; and,
- e. potential assistance being available for the Commission and hatching egg producers through AgriRecovery and AgriStability.

Breeder Chick Pricing

The Commission has reviewed the latest hatcheries increase for breeder chicks, investigated pricing data, and compared this pricing to that in other jurisdictions. The Commission now agrees that the latest pricing put forth by the hatcheries reflects similar increases elsewhere.

However, this again raises the question of breeder chick pricing and its impact on hatching egg producers and chicken growers. The Commission has included in its third-party review of its COP formula the breeder chick pricing, vaccine pricing and hatchery margin formulae agreed to in principle by BCEHA representatives on October 24, 2019. The Commission will be asking the hatcheries to update the input costs data that is used in breeder chick pricing in preparation for pricing those chicks using this formula.

Loyalty Bonus (Premiums) and the Linkage

The history, the reasons why and the process by which the Commission decided to remove revenue streams from the hatching egg linkage COP are well documented. Not including these non-value premiums – reflecting the actual price paid for chicken – in the chicken grower COP distorted the linkage.

The Commission understands that historically, chicken growers have benefitted financially from premiums and by hatching egg revenue streams offsetting the eventual chick price in the linkage calculations. Processors have also benefitted from the latter (e.g., as a factor in the current live price formula).

In removing the spent fowl and salvage eggs revenue streams from the linkage, the Commission accepted the fact that those streams could change over time. Those changes could be to the advantage or disadvantage of hatching egg producers but would always be made transparently through Commission decisions regarding product it regulates under the British Columbia Broiler Hatching Egg Scheme.

Currently, and in recognition of the impact of market conditions on processors, the Commission has halved the regulated price for spent fowl. This has reduced returns to hatching egg producers. Further, in some cases flocks have been rendered at the cost of the Commission and with no return to the producer. The salvage egg market is currently frozen at historical levels due to egg processing market conditions.

Should the Commission realize its objective of having a separate, standalone hatching egg COP, then revenue streams will once again be a factor in that COP. However, even given the current financial pressures outlined above, the Commission will not now be seeking to reintroduce hatching egg revenue streams into the linkage COP.

Other

This decision with respect to kill age (and pricing) is no more than a bridging agreement to manage through the COVID-19 crisis and pending a full resolution of pricing issues in the BC chicken sector. That resolution is now complicated by the current costs and pricing impacts caused by COVID-19 and what is almost certainly going to be a new market reality in future. Many challenges lie ahead for all BC stakeholders not only in terms of pricing, but in responding to that new reality more generally.

The Commission remains committed to addressing pricing “through a strategic lens in support of the long-term sustainability of the BC chicken and hatching egg sectors.”

Yours truly,

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

Jim Collins
Chair

cc: Jim Byrne, Chair
Commission Pricing and Production Advisory Committee

Bryan Brandsma, President
BC Broiler Hatching Egg Producers' Association

Ryan Whitmore, President
BC Egg Hatchery Association

Harvey Sasaki, Chair
BC Chicken Marketing Board

Dale Krahn, President
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Blair Shier, President
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Commission Website