

December 10, 2020

VIA EMAIL

BC Broiler Hatching Egg Producers, Hatcheries & Other Stakeholders

Dear Stakeholders,

**RE: Hatchery Margin, Breeder Chick and Vaccine Pricing Feedback Information Process**

The following is provided in support of the Supervisory Review of hatching egg sector and chicken sector pricing being conducted by the BC Farm Industry Review Board (BCFIRB). The BC Broiler Hatching Egg Commission is statutorily responsible for two initiatives as part of this process: developing a Cost of Production (COP) formula for BC hatching egg producers; and finalizing the hatchery margin and breeder chick/vaccine pricing formulae. The former is being addressed separately, this letter concerns the finalization of the hatchery margin, breeder chick and vaccine pricing formulae.

The Commission has requested the support of the BC Chicken Marketing Board in the finalization of these formulae for the reasons outlined in the joint June 26, 2020 submission of the boards to BCFIRB:

Given the nature of the linkage, hatcheries are assessed as not being significantly affected by pricing during COVID-19. Both boards agree that the issue of the hatchery margin is outstanding and that the current linkage and live price formula present roadblocks. As per the Commission's June 8, 2020 letter, the hatchery margin must be addressed in conjunction with breeder chick and vaccine pricing, the latter two being significant revenue streams for the hatcheries. These must also be factored into any comparison of the hatchery margins in Ontario and BC as a straight comparison of the differential is misleading.

...The boards have agreed that these three issues and the extensive background work that the Commission has already undertaken in consultation with the hatcheries should be factored into the new approach to pricing.

The outcome, as reiterated in the Commission's November 20, 2020 letter, will be to include these elements into "transparent and accountable" pricing under the British Columbia Broiler Hatching Egg Scheme.

*Background*

In 2012, the Commission and the BC Egg Hatchery Association (BCEHA) agreed on two concurrent pricing changes. One was the pricing of spent fowl at 40 cents per kilogram live weight and the other was the current hatchery margin. Since then, the spent fowl price has been reduced to 20 cents per kilogram live weight, but the hatchery margin has remained unchanged. However, the Commission recognized that the hatchery margin should be updated and both the Commission and the BCEHA engaged in good faith negotiations to resolve that issue. In October 2019, representatives of the Commission and the BCEHA reached an agreement on new hatchery margin, breeder chick and vaccine pricing formulae. Unfortunately, although the formulae were provided to the Commission's Pricing and Production Advisory Committee, given the present nature of the linkage and issues arising, implementation of these new formulae was not

feasible. It is the Commission's objective that these formulae be implemented as part of the BC Farm Industry Review Board supervisory review of pricing.

This packaged option moves a fixed or "crystallized" margin for both breeders and vaccines into the hatchery margin. The margin would also have a 'cost-of-living' increase mechanism associated with it to ensure that the hatcheries' cost increases can be assessed by the Commission through third party verification. In return, producers can be confident in the formulae that the Commission uses to calculate the breeder chick and vaccination costs. Hatcheries using vaccines in addition to those in standard use (upon which the pricing formula is based) would be responsible for those costs. An industry committee will be established to review vaccine use as required and adjust the standard list (and formula pricing) from time to time as required. Again, this was all agreed to by representatives of the Commission and the BCEHA in October 2019.

Following the October 2019 agreement, the Commission forwarded the formulae package to MNP LLP for third-party verification. Subject to updating and ongoing transparency with respect to input data, the formulae were deemed to be sound.

The overall timeline for the Review process is laid out in the 'Components and Engagement Table' published on the Pricing website at <http://bcchickensectorpricingreview.com/>. However, for purposes of the margin, breeder chick and vaccine formulae review, the following timeline applies:

- January 4, 2021 – all initial comments and feedback from stakeholders to be received by the Commission.
- Early to mid-January 2021 (date TBD shortly) – Hatchery Margin and Breeder Chick/Vaccine Pricing Roundtable to discuss the formulae, stakeholder submissions and Commission responses, following which this latest information will be assessed by the Commission, with the support of the Chicken Board.

The Commission will be coordinating with the Chicken Board and Wendy Holm further steps in February as part of the overall review. As noted in the Components and Engagement Table, it is "a living document" and the February dates are subject to change.

The Commission looks forward to receiving your comments on the hatchery margin, breeder chick and vaccine pricing formulae.

Regards,



Stephanie Nelson, Executive Director  
BC Broiler Hatching Egg Commission

Attachment

CC:

BC Farm Industry Review Board  
Wendy Holm, Supervisory Review Liaison  
Harvey Sasaki, BC Chicken Marketing Board  
Bill Vanderspek, BC Chicken Marketing Board  
Ryan Whitmore, BC Egg Hatchery Association  
Bryan Brandsma, BC Hatching Egg Producers' Association  
Dale Krahn, BC Growers' Association  
Blair Shier, Primary Poultry Processors Association of BC  
Craig Evans, Primary Poultry Processors Association of BC  
Commission website

## Hatchery Margin Calcs – for Sub-Committee (UPDATED MARGINS)

Hatchery Margin & Breeder Margin (What a Breeder margin means in Saleable Chick)

Breeder Price Margin (% on Female Breeder Cost)	Breeder Price Margin (\$/Female Breeder) – <i>crystallized, remains as breeder cost</i>	Breeder Price Margin (¢/SC) – <i>crystallized, part of hatchery margin (to get COLA)</i>	Hatchery Margin Increase (¢/SC) – <i>pure margin increase†</i>	Crystallization bonus / incentive‡	New BC Margin Increase – <i>with crystallized breeder margin†</i>	Current BC-ON Margin Spread – <i>table next page</i>	Revised BC-ON Margin Spread	w/o Breeder price margin (as kept \$ in cost below)
5%	\$0.4950	0.43¢	1.75¢	0.30¢	2.48¢	6.41¢	3.93¢	4.36¢
10%	\$0.9900	0.86¢	1.75¢	0.15¢	2.76¢	6.41¢	3.65¢	4.51¢
15%	\$1.4850	1.29¢	1.75¢	0.00¢	3.04¢	6.41¢	3.37¢	4.66¢
20%	\$1.9800	1.72¢	1.28¢	0.00¢	3.00¢	6.41¢	3.41¢	5.13¢

Blue highlight = recommendation; † Receives annual COLA; ‡ Negotiable item

- Current price, female breeder chick: \$9.90.
- See formulae to derive cost, and gross profit (margin), on next page.
- Female breeder chick margin at 20%, in dollars = \$1.98 / \$9.90 = 20%.
- Female breeder chick margin at 20%, in cents per saleable chick = \$1.98 / 115 SC = 1.72 ¢/SC.
- Optional: Crystallization bonus/incentive of 0.15¢ at 10%, 0.30¢ at 5%.

### Breeder Price

Option	Cost Formula	Margin Amount / Location
A	Breeder Co. (\$) + Forex (\$) + Services (\$)	Crystallized as ¢/SC in Hatchery Margin†
B	Breeder Co. (\$) + Forex (\$) + Services (\$) + Margin (\$)	Crystallized as \$ in breeder cost formula‡

Blue highlight = recommendation; † Receives annual COLA; ‡ May receive annual COLA

- Breeder Co. (\$) is cost from breeder companies in USD.
- Forex (\$) is a calculation (TBD) to translate USD to CAD. Use of Bank of Canada rates expected.
- Services (\$) is for services such as dubbing, beak trimming, etc.
- Option that crystallized margin (\$) left in breeder cost formula could be indexed (COLA).

**Margin % = Gross Profit / Selling Price**

Must determine cost embedded in the selling price in use today:

Selling Price = Cost + Gross Profit

Selling Price = Cost + Cost x [Margin % / (100% - Margin %)]

Selling Price = Cost x [1 + Margin % / (100% - Margin %)]

Cost x [1 + Margin % / (100% - Margin %)] = Selling Price

**Cost = Selling Price / [1 + Margin % / (100% - Margin %)]**

**Scenario: 15%**

Cost = \$9.90 / [ 1 + 0.15 / (1.00-0.15) ]

Cost = \$9.90 / 1.176471

**Cost = \$8.415**

Gross Profit = Selling Price – Cost

Gross Profit = \$9.90 - \$8.415

**Gross Profit = \$1.485 (or margin in \$)**

Check:

Margin % = Gross Profit / Selling Price

X % = \$1.485 / \$9.90

**= 15.0%**