

April 6, 2021

VIA EMAIL

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

Dear Mr. Donkers:

## **RESTORING AND REPURPOSING COMMISSION FINANCIAL RESERVES**

The issues and proposals in this letter were discussed with BC hatching egg producers at the February 9, 2021 Winter Producers meeting with the BC Broiler Hatching Egg Commission. Concerns were raised about the levy increase but there were no objections to the other restoring and repurposing proposals. Further explanation was provided to all producers, copied to the BC Egg Hatchery Association, by way of a February 22, 2021 letter with a request for any additional feedback. None was received in response to the letter.

As already known, COVID-19 has had a critical impact on the BC hatching egg sector, including on the financial reserves of the Commission. The purpose of this letter is to describe that financial impact and outline the Commission's plans and proposals to restore those reserves. At its January 21, 2021 board meeting, the Commission determined that a levy increase to \$0.021 saleable chick effective Period A-168 (March 7, 2021) was a necessary part of those plans, given the continued reduction in production due to COVID-19. Facing a deficit at a levy of \$0.019 per saleable chick, the Commission now estimates a surplus of \$57,660 because of the increase to \$0.021. This levy increase is solely to permit the Commission to navigate the impact of COVID-19 and will be re-assessed as soon as those circumstances and the overall financial situation of the Commission allows. As will be seen below, the Commission is exploring options to address its funding issues.

The attached table and the following are provided to put this levy increase in context and show the other initiatives the Commission is undertaking to restore its financial reserves as soon as possible; especially since we are still operating in a risk from COVID-19 environment at this time. As well, it will be necessary for the Commission to establish the funding necessary to implement a Salmonella Enteritidis (SE) insurance program in 2022, following SE mitigation in 2021.

## Original Reserves and Losses

At the outset of COVID-19, the Commission had a total of \$3,096,249 in financial reserves:

Reserve for the Unforeseen: \$1,000,000, fifty percent slated for industry relief (i.e., AI response), fifty percent slated to maintain Commission operations in the event of an industry shutdown resulting in no levy revenue. Of this, \$167,000 is assigned as security to Canadian Hatching Egg Producers (CHEP) in the event of overproduction and a Liquidated Damages Assessment (LDA) being applied.

Ontario Broiler Hatching Egg and Chick Commission (OBHECC) Fund: \$1,179,249, with \$837,000 approved for the building project.

Building Fund: \$750,000 originally set aside by the Commission for a new building and following BCFIRB approval to use OBHECC funding instead, repurposed to fund the COVID-19 response.

Plus \$80,000 in a fund to replace the Small Egg Program truck and \$60,000 in an office fund that was used to furnish and equip the new building.

To date, COVID-19 has resulted in \$670,508 hard costs to the Commission:

\$537,641 to producers for eggs dumped or composted because surplus to reduced market and restricted breaker market.

\$66,937 to render flocks.

\$53,220 to compensate producers whose flock were rendered instead of receiving \$0.20/kg for spent fowl processed for market.

\$6,791 to bring a producer to an even lay cycle of 54 weeks (flock processed earlier than industry average).

\$3,919 as the Commission's share to-date of the COVID-19 Lessons Learned review.

\$2,000 to hatcheries to cover their labour costs for dumping surplus eggs.

The remaining \$79,492 has been left as a float in the Commission's operating account to cover other miscellaneous expenses incurred because of COVID-19. The Commission is reviewing lay cycle lengths for all of 2020 for those processed earlier than industry average which may fully use or exceed this remaining balance.

## Other Funding Options Being Explored

### *AgriRecovery*

The Commission worked closely with BC Ministry of Agriculture, Food and Fisheries (MAFF) staff in preparing an AgriRecovery application to cover \$548,000 of COVID-19 related costs. The Commission has followed up with both the federal and provincial ministers of agriculture and has been advised by way of a January 11, 2021 letter from MAFF that the federal government has declined to support AgriRecovery

applications from the supply-managed poultry sector. The Commission continues to explore with MAFF potential assistance from the Province, but it is not known whether this will be successful.

### *OBHECC Funds*

The Commission has also discussed with the BC Chicken Marketing Board (BCCMB) whether some of the OBHECC funds (one-half of the authorized \$837,000) used on the BCCMB's behalf for tenant improvements can be transferred back to the Commission (see attached BCCMB February 10, 2021 letter). Originally, the BCCMB was to repay these monies over 10 years, subsidizing the Commission's leasing costs. The BCCMB now has the reserves to repay the Commission up front. This would immediately increase the Commission's monthly lease costs with no financial benefit in the longer term as the amount equivalent to the designated OBHECC funding will be paid out directly by the Commission instead of by the BCCMB. In the short term it will increase the operational reserves currently available to the Commission. For more than twenty years the status of the OBHECC fund has bedeviled both the Commission and BCFIRB and given rise to ongoing questions from BC hatching egg producers. Other than some funding used in support of loading docks early on, it has been difficult to identify suitable strategic initiatives to which the funds can be applied. Using the OBHECC funds to enable the Commission and BCCMB to co-locate did meet that test as it will have an important long-term effect on the industry as this will facilitate the boards improving and streamlining their regulation of the BC chicken sector.

The Commission, with the BCCMB, is undertaking the Chicken Industry Strategic Framework initiative but to date that has not identified a specific purpose for which the remaining OBHECC funds could be needed. Conversely, COVID-19's impact has demonstrated where the BC hatching egg sector is vulnerable; which is to the impacts of disease. COVID-19 examples include the mid-2020 allocation changes by Chicken Farmers of Canada (CFC) resulting in reductions to eggs required when those eggs were already in the incubators. Looking forward, the differential regional allocations by CFC due to COVID-19 that will require western provinces to payback that allocation difference will impact on BC hatching egg production. Past examples due to Avian Influenza (AI) and Salmonella Enteritidis (SE) are of course already well known. Addressing this vulnerability is in the strategic best interests of not only the hatching egg sector but the larger BC chicken industry as well.

Given the history of the OBHECC funds and current circumstances, the Commission proposes that the outstanding balance of the OBHECC funds (\$342,249) and the one-half of tenant improvement costs due from the BCCMB (approximately \$400,000) be transferred to the Commission's restricted Reserve for the Unforeseen. The Commission and producers believe this would meet the original intent for OBHECC funds to be used in support of the overall strategic interests of the BC hatching sector by restricting and dedicating the remaining funds to crisis (AI) situations or, optimally, in support of start up costs for AI insurance when a suitable product becomes available. It will also allow the Commission and BCFIRB to close this file.

This would enable the Commission to repurpose \$342,249 of the existing amount in the Reserve for the Unforeseen to help replenish its operational reserves. If BCFIRB believes it a necessary contribution, especially given how rapid and substantive the drain on financial reserves was by COVID-19, the

Commission is prepared to consider increasing the Reserve for the Unforeseen. For example, increasing that fund by \$167,000 to cover off the LDA assignment to CHEP, resulting in a full \$1,000,000 set aside for industry relief and Commission emergency operations. This would reduce the amount freed up from \$342,249 to \$175,249 but this along with the BCCMB funds would still represent a significant increase in the Commission's operational reserves.

Finally, CHEP currently has a budget surplus and after Farm Products Council of Canada approval, has transferred monies back to the provinces. BC received a grant of approximately \$80,000 in late February.

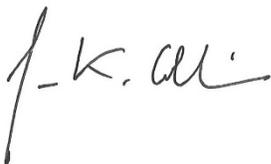
It is too early for the Commission to determine whether its discussions with the Ministry will result in a successful outcome. The Commission is aware of the financial pressures COVID-19 has placed on Government at all levels and understands it may have to find its own solutions. In the meantime, it remains a critical objective to replenish the Commission's operational reserves as quickly as possible, including through the proposed repositioning of the OBHECC funds.

As also discussed at the February 9, 2021 meeting with producers, there are many pricing factors in the current BCFIRB Supervisory Review that remain in play, including a transition to a standalone cost of production formula for BC hatching egg producers and addressing a hatchery margin and breeder chick/vaccine pricing. The outcome of that Review will affect the financial status and capability of the BC hatching egg sector more generally, but of course that outcome remains to be determined.

The Commission's intent coming out of COVID-19 is to have restored its financial capacity and reserves to enable it to address other important issues, with the establishment of an SE insurance program the priority. The repurposing of the remaining OBHECC funds, the return of the BCCMB funds and the CHEP grant will restore the Commission's overall reserves to the same level as pre-COVID-19. The proposal outlined above will also bring closure to the OBHECC funds issue while maintaining those funds for use in the strategic interests of the BC hatching egg sector. At the same time, the Commission will continue to maintain the strict financial controls that have been used for the OBHECC funds and the stewardship of the Emergency Operations Centre funds on behalf of all four poultry boards. If all this repurposing is accomplished, it will not only enable the Commission to pursue SE insurance but also provide opportunity to reconsider the latest levy increase and potentially offer relief to hatching egg producers.

Thank you for your attention to this matter. The Commission would be pleased to answer any questions.

Yours truly,



Jim Collins  
Chair

Attachments

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

**BC BROILER HATCHING EGG COMMISSION  
FINANCIAL RESERVES**

<b>2020-21 TRANSACTIONS</b>	<i>01-Jan-20</i>		<i>Purpose</i>	<i>Current</i>
Internally restricted:	<i>Balance</i>	<i>Transactions</i>		<i>Balance</i>
Reserve for the Unforeseen				
Industry relief (i.e., AI response)	\$ 500,000	\$ -		\$ 500,000
Commission operations*	500,000	-		500,000
	<u>\$ 1,000,000</u>	<u>\$ -</u>		<u>\$ 1,000,000</u>
OBHECC funds	\$ 1,179,249	- 837,000	Building Project	\$ 342,249
Truck Fund	80,000	-		80,000
Building Fund	750,000	- 750,000	COVID Response	-
Office Planning	60,000	- 60,000	Building Project	-
	<u>\$ 2,069,249</u>	<u>-\$ 1,647,000</u>		<u>\$ 422,249</u>
<b>Total</b>	<b>\$ 3,069,249</b>	<b>-\$ 1,647,000</b>		<b>\$ 1,422,249</b>

\*\$167,000 is assigned as security to CHEP in the event of overproduction and an LDA being applied.

**PROPOSED REPURPOSING**

Internally restricted:	<i>Current</i>	<i>Transactions</i>	<i>Transactions</i>	<i>Transactions</i>	<i>Purpose</i>	<i>Proposed</i>
	<i>Balance</i>	<i>Transactions</i>	<i>Transactions</i>	<i>Transactions</i>		<i>Balance</i>
Reserve for the Unforeseen						
Industry relief (i.e., AI response)	\$ 500,000	\$ 342,249	-\$ 342,249		Repurpose	\$ 500,000
Industry relief (other)	-	-	175,249	480,000 <sup>†</sup>	Repurpose & new funds	655,249
Commission operations	500,000	-				500,000
Commission operations*	-	-	167,000		Repurpose	167,000
	<u>\$ 1,000,000</u>	<u>\$ 342,249</u>	<u>\$ -</u>	<u>\$ 480,000</u>		<u>\$ 1,822,249</u>
OBHECC funds	\$ 342,249	- 342,249	-	-	Repurpose	\$ -
Truck Fund	80,000	-	-	-		80,000
	<u>\$ 422,249</u>	<u>-\$ 342,249</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 80,000</u>
<b>Total</b>	<b>\$ 1,422,249</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 480,000</b>		<b>\$ 1,902,249</b>

<sup>†</sup> \$80,000 transaction is the approximate grant receivable from CHEP in February 2021; \$400,000 is the approximate receivable from BCCMB.

\* \$167,000 is assigned as security to CHEP in the event of overproduction and an LDA being applied.



February 10, 2021

Stephanie Nelson, Executive Director  
BC Broiler Hatching Egg Commission  
Sent by email: [stephanie@bcbhec.com](mailto:stephanie@bcbhec.com)

RE: Correspondence dated January 28, 2021

Dear Ms. Nelson,

Thank you for the above noted letter in which you, on behalf of the BCBHEC ("the Commission") request repayment by the BCCMB ("the Board") of the Board's share of tenant improvement costs at our joint premises due to unforeseen financial pressures related to the COVID-19 pandemic.

At their February 9, 2021 meeting, The Board undertook a fulsome discussion pertaining to your request and is prepared to proceed with an amendment to the terms of the existing con-tenancy agreement under the following conditions.

1. The Commission to provide assurance to the Board that all other financial options have been explored and considered.
2. That the Commission demonstrate that BCFIRB has been consulted and that there will be no consequences to the Board for repayment of these funds to the Commission.
3. That the Commission be responsible for any legal costs associated with the required amendments to the current con-tenancy agreement.
4. That the balance owing be calculated to include any rent payments made subsequent to December 31, 2020 and up to the date of actual repayment of the outstanding amount due.

If the Commission is in agreement with the terms as outlined, please provide confirmation.

Thank you for your attention to this matter.

B. Vanderspek, Executive Director  
British Columbia Chicken Marketing Board