

June 25, 2021

VIA EMAIL

Asian Breeder Hatching Egg and Specialty Chicken Stakeholders

RE: ASIAN BREEDER PRICING REVIEW AND DECISION

Due to the urgency explained below, this decision by the BC Broiler Hatching Egg Commission (the Commission) is an interim decision to address the subject pricing in the immediate term. A further decision to come into effect for Period A-171 will be forthcoming following further consultation with affected stakeholders.

Brief Background

On December 17, 2020, the Commission issued Schedule 2 of its Consolidated Order, regularizing Asian breeder producers and related matters, including producer pricing, hatchery margin and chick pricing – sections 3 and 4. This pricing came into effect January 10, 2021, for Period A-167.

This pricing was established using a formula developed in the Commission's 2020 consultation process and which was first communicated to stakeholders in the draft of the July 28, 2020 Commission's formal recommendations to the BC Farm Industry Review Board (BCFIRB) concerning regularization of the BC Asian breeder sector. The purpose of this pricing formula was to serve as an interim measure pending the development of an Asian breeder producer cost of production formula (COPF) and was considered necessary to stabilize pricing and market share in support of production controls. BCFIRB approved the recommendations on August 24, 2020.

Subsequently, the Commission shared the draft of Schedule 2 with: the Asian breeder producers and hatcheries; the Commission's Pricing and Production Advisory Committee (PPAC); the BC Chicken Marketing Board (BCCMB); and, other stakeholders via the Commission website. As well, the revised Consolidated Order of the Commission, including Schedule 2, was distributed to hatching egg stakeholders for feedback, and was reviewed by Asian breeder producers/hatcheries, BC Egg Hatchery Association, BC Broiler Hatching Egg Producers' Association and BCCMB representatives at the Commission's October 2020 strategic planning session.

The Commission distributed the finalized Consolidated Order on December 23, 2020 to all hatching egg sector stakeholders as well as the BCCMB.

Issue

At a regularly scheduled meeting with Asian breeder producers (and integrated hatcheries) on May 25, 2021, Commission representatives were made aware of the non-compliance of Asian breeder producers and hatcheries with the pricing sections of Schedule 2 of the Consolidated Order. All hatcheries were charging less than the posted price. Asian breeder sector representatives stated that they required a price increase due to increasing feed and other costs. The Commission took the view that no “increase” was necessary. Rather, the Asian breeder sector should come into compliance with the Consolidated Order. Having been advised by the Asian breeder representatives that the specialty chicken grower COPF was updated on a period-by-period basis, the Commission issued an enforcement letter on May 28, 2021, directing compliance by the commencement of Period A-170 on June 6, 2021.

The specialty processors responded to the enforcement letter by expressing concern about the pricing impact and requested a Specialty Markets Advisory Committee (SMAC) meeting. The specialty processors expressed surprise about the pricing formula, which had not been briefed to SMAC. The Commission agreed to appear at SMAC at the invitation of the BCCMB.

On June 18, 2021, Commission representatives attended a SMAC meeting, along with Asian breeder producers/hatcheries. That meeting resulted in new evidence regarding the pricing costs of growers and specialty processors and the impact of the pricing formula in Schedule 2. The Commission representatives noted three critical areas of concern as described by SMAC:

1. The interim pricing was based on a base chick cost of \$1.15 plus services, as outlined in a table on page 6 of the July 28, 2020, report. It was to address interim pricing as a top-down price that identified the pricing components. This top-down approach was to ensure that the hatching egg producer was paid. Given the nature of the integrated operations, this had not been happening. Additionally, as mentioned, the interim pricing was to level the playing field and ensure there was no cannibalizing of individual producer market shares. This would provide the Commission the time and space to conduct an Asian breeder producer COPF review.

However, the Asian breeder producers/hatcheries have not implemented the interim price that was to be in place by period A-167 and when provided the draft Schedule 2 for review failed to share with the Commission that historically their price has included services and vaccines. Whereas the wording of Schedule 2 – mirroring the wording for mainstream hatcheries – states that the base price is “exclusive of any charges that may be imposed by the Hatchery for vaccination or sexing services requested by the Grower”. If hatcheries comply with the Consolidated Order with respect to the base price of \$1.15 and choose to exclude services and vaccines from the base price, this could result in what the processors estimate would be a 10-20 cent price increase depending on where growers source their chicks.

2. The Specialty COPF on the grower side is updated every second period; the next iteration is for period A-171. Contrary to what Asian breeder representatives reported at the May 25, 2021, meeting, this means that growers would not be able to recover the cost increase during A-170.

3. SMAC confirmed that despite the numerous occasions when the pricing formula was distributed for feedback or otherwise posted, SMAC never received that information from the Commission, the BCCMB or any other source. SMAC was not consulted.

Discussion

The current Schedule 2 of the Consolidated Order as it relates to Asian breeder pricing requires further review by the Commission. This review will be conducted in consultation with its PPAC, the BCCMB SMAC, Asian breeder producers and hatcheries and other stakeholders as may be identified. This will take time, with the Commission targeting Period A-171 for completion of that review.

It is not clear to the Commission why the BCCMB would not routinely share with its SMAC information the BCCMB receives from the Commission regarding the Asian breeder sector, However, the Commission acknowledges the information gap between itself and the BCCMB. This will be rectified between the two boards as part of a larger cooperative working relationship. In the meantime, the Commission will also direct all specialty-related correspondence to the SMAC chair (also the Commission and BCCMB PPACs chair) for distribution to SMAC. Further to that, there were early discussions at the June 18, 2021, SMAC meeting about adding a hatching egg producer and specialty hatchery representative to the SMAC to further improve the exchange of information on an ongoing basis.

The Commission has also requested further evidence from specialty growers and processors with respect to costs related to Asian breeder hatcheries and chicks. This information will enable the Commission to further assess what type of interim, top-down pricing approach is necessary to rectify the current inequities amongst Asian breeder producer/hatcheries and enable this pricing to be incorporated into the grower COPF for Period A-171.

No Asian breeder producer/hatchery was in compliance with the January pricing Order prior to the May 25, 2021, meeting. They ignored the Consolidated Order until it served their interest to seek a price "increase". It is the Commission's assessment they can continue to manage their own pricing affairs pending a new interim pricing formula for Period A-171. Given that there are now production controls in place, it is not anticipated that there will be any impact on market share in the short-term, either.

Decision

Sections 3 and 4 of Schedule 2 to the Commission's Consolidated Order are rescinded effective immediately.

The Commission's SAFETI analysis can be brief and is in two parts. Firstly, and strategically, producer pricing in a supply managed system should be achieved through a COPF but must also take into consideration the interests of other stakeholders. Accountability, Fairness, Transparency, and

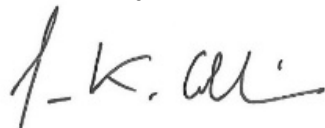
Inclusiveness were not, despite the Commission's expectations, met with respect to the January pricing order. Nor could it be considered effective given the issues now arising.

The second SAFETI analysis relates to this Commission decision. Strategic remains the same. Accountability, Fairness, Transparency, and Inclusiveness have been enhanced, even given the short time frame in which the Commission must respond. Affected stakeholders are aware of the situation and the issues. The Commission's decision is effective because it defers significant impact on growers and processors while maintaining the *status quo* that the integrated Asian breeder producer/hatcheries chose to employ while in non-compliance with the January Order.

Right of Appeal

Right of Appeal under section 8(1) of the *Natural Products Marketing (BC) Act* and section 24(1) of the *Administrative Tribunals Act*: a person aggrieved by or dissatisfied with an order, decision or determination of the Commission may appeal to the BC Farm Industry Review Board within 30 days of that order, decision, or determination.

Yours truly,



Jim Collins
Chair

Attachment

cc: Bill Vanderspek – Executive Director, BCCMB
Harvey Sasaki – Chair, BCCMB
Jim Byrne – Chair PPAC, Chair SMAC
Commission website

**AMENDING ORDER 5
TO THE
CONSOLIDATED ORDER OF JANUARY 1, 2021**

The British Columbia Broiler Hatching Egg Commission orders as follows:

1. *Sections 3 and 4 of Schedule 2 are repealed:*

~~Broiler Hatching Eggs (Regularized Producers)~~

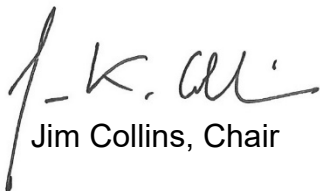
- ~~3. (1) For Period A167, and effective January 10, 2021, the base price to be paid by Hatcheries to Regularized Producers for Broiler Hatching Eggs is \$0.9417 per Saleable Chick.~~
- ~~(2) For Period A167, and effective December 20, 2020, the listed price for Broiler Hatching Eggs described in subsection (1) is \$9.0400 per dozen.~~
- ~~(3) The base price for Broiler Hatching Eggs described in subsection (1) is F.A.S. the Producer's Farm.~~

~~Chicks Under 2 Days Old (Regularized Producers)~~

- ~~4. (1) For Period A167, and effective January 10, 2021, the base price to be paid by Growers to Hatcheries for day-old Saleable Chicks hatched from Broiler Hatching Eggs produced by Regularized Producers (exclusive of any charges that may be imposed by the Hatchery for vaccination or sexing services requested by the Grower) is \$1.1500 per day-old Saleable Chick.~~
- ~~(2) Notwithstanding subsection (1), Hatcheries may, at their discretion, provide to Growers Chicks under 2 days old at no cost in addition to the number of Chicks under 2 days old invoiced per flock placement.~~
- ~~(3) The base price for Chicks described in subsection (1) is F.A.S. the Grower's Farm.~~

DATED at Abbotsford, British Columbia on June 22, 2021.

BRITISH COLUMBIA BROILER HATCHING EGG COMMISSION


Jim Collins, Chair