

August 19, 2021

VIA EMAIL

To: BC Asian Breeder Broiler Hatching Egg Producers, Hatcheries and Associated Stakeholders

RE: ASIAN BREEDER SECTOR UPDATE TO THE INDUSTRY

Due in part to recent issues with respect to pricing in the Asian Breeder sector, and to provide a broader context, the BC Broiler Hatching Egg Commission (the Commission) is providing this general update on the status of regulating the Asian Breeder sector.

Background:

On January 21, 2021, the Asian Breeder producer temporary quota allotment numbers were finalized by the Commission. Earlier, on July 28, 2020, the Commission sent an update to the BC Farm Industry Review Board (BCFIRB) on the activities that it had undertaken with the Asian Breeder producers and hatcheries and in consultation with other industry stakeholders.

"Since July 2018, the Commission has:

- a. ensured all Asian Breeder producers are following Schedule 5;*
- b. established Temporarily Regularized Producer Chick quota;*
- c. directed Asian Breeder producers to commence paying levies;*
- d. appointed an Asian Breeder producer and an Asian Breeder hatchery representative to the PPAC;*
- e. approved the transfer of Temporary quota from an exiting producer to another existing Asian Breeder producer (there are now five Asian Breeder producers);*
- f. included the Asian Breeder sector in its strategic planning, including with respect to industry entry; and,*
- g. conducted meetings with Asian Breeder producers as a group to discuss industry issues and examine regulatory implementation options".*

As outlined in the update, the Commission began to regularly meet with the Asian Breeder producers to work through some outstanding issues such as production controls. Through this meeting process, it came to the Commission's attention that other matters, once thought temporarily resolved through the reconsolidation of the Consolidated Order (CO), were being managed inconsistently throughout the sector. The Commission's position is that quota is both a privilege and an obligation; as such, the Commission must enforce the rules and regulations to manage the Asian Breeder sector appropriately as a supply managed sector.

Pricing

One of the inconsistencies involved the hatcheries pricing contrary to the provisions of the CO.

The Commission has been heavily involved in a pricing supervisory review with the BC Chicken Marketing Board (BCCMB). The Commission's position within that review is that a cost of production (COP) is the most appropriate model upon which to base pricing. This position extends to pricing for the Asian Breeder producers, as is currently done for specialty chicken growers. With a COP as the objective, the reconsolidated CO put in place – effective January 10, 2021 for Period A-167 – a temporary pricing formula first identified to stakeholders in July 2020, prior to submission to BCFIRB.

In May 2021, resulting from the Commission being made aware that pricing in the sector was inconsistent with the CO, the Commission notified stakeholders that pricing was expected to be in accordance with the CO. This notice confirmed that the temporary pricing put in place by the Commission in Schedule 2 section 3 and 4 was to address pricing and production concerns as historically there had been competition issues revolving around pricing. Additionally, Asian Breeder producers and hatcheries expressed concerns over rising feed costs and other expenses.

BCCMB Specialty Markets Advisory Committee

Specialty growers and processors expressed concerns about the Commission pricing notice and the Commission attended a subsequent BCCMB Specialty Markets Advisory Committee (SMAC) on June 18, 2021, as a guest.

Through discussion, it came to the Commission's attention that the Commission's draft July 2020 update to BCFIRB had not been provided to the SMAC by the BCCMB or by the SMAC chair. Pricing before the enforcement notice had been inconsistent with the CO and now the hatcheries were exercising their discretion to add service charges on top of the saleable chick price. This was provided for by the CO (as per mainstream hatcheries) but was different than the historical (pre-CO) pricing charged by the hatcheries. This resulting pricing impact on growers (until their COP was updated) and processors (needing to recover that price from the market) was significantly larger than contemplated by the CO formula.

Consequently, on June 25, 2021, the Commission rescinded sections 3 and 4 of Schedule 2 of the CO:

"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 consider the interests of other stakeholders. Accountability, Fairness, Transparency, and Re: Asian Breeder Pricing and Review Decision June 25, 2021, Page 4 of 4 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".

It remains the Commission's position that miscommunications such as this could be easily avoided should the Asian Breeder producers and hatcheries have representation on the BCCMB's SMAC. As stated in the July 28, 2021, letter to BCFIRB:

"Increased liaison and cooperation between the Commission, the Chicken Board and their respective "SMACs" is important going forward. Understanding processor (market) projections and placement requirements in the grower sector will assist in stabilizing hatching egg production (less peaks and valleys)".

Production

Of additional concern to the Commission were production inequities between Asian Breeder producers, some producing as high as 123.1% year-to-date and others as low as 93.7% year-to-date. This concern is due to the historical movement of specialty chicken growers based on price competition, an issue the Commission tried to resolve using a temporary price. Producers met with the Commission to address production concerns, and the Commission put in a simple reporting mechanism to ensure equity amongst Asian Breeder producers.

New Producer Program

The Commission continues to monitor for signs of sector growth and remains aware of the remarks made in the July 28, 2020 letter to BCFIRB, which states:

"It is also understood that an Asian Breeder new entrant program will be considered as part of a larger review of the Commission's new entrant program for mainstream and, possibly, regional production."

Currently, the Commission has no plans to launch a new producer pending further information on the market, including growth post COVID-19.

Levy Increase

In the Commission's July 28, 2020 letter to BCFIRB, the Commission states:

"Levies will remain at \$0.015 per saleable chick until the COP review is initiated; at which time it will increase to the mainstream amount (currently \$0.019 per saleable chick). Levies paid by Asian Breeder producers will continue to be accounted for separately during the transition period".

Having rescinded the temporary pricing order, the Commission has considered whether it should focus its resources on a new temporary pricing formula or focus on pursuing an Asian Breeder producer COP as soon as possible. It has decided on the latter.

As soon as that process is commenced, and in accordance with its July 28, 2020 update to BCFIRB, the Commission will be raising the Asian Breeder levy to be consistent with mainstream levies (currently at 2.0 cents per saleable chick) to offset the costs associated with this review. To be clear to the sector, levies are over and above the saleable chick price, are not included in the chick price and are not passed through a producer's or grower's cost of production.

National Allocation

Canadian Hatching Egg Producers (CHEP) set up a specialty allocation review committee to address BC's concerns that the national allocation was not reflective of what was happening in the speciality marketplace, and that CHEP should develop a separate allocation system. A plan has been drafted and is pending the CHEP board of directors' review and broader stakeholder consultation. CHEP has a tentative timeline of January 2022 for potential implementation.

Conclusion

During the past year of regulation within the sector, there are still ongoing pricing conflicts, disagreements about distinguishing hatcheries from producers, and the reality of managing a regulated production framework. The Commission continues to work constructively with all stakeholders to fine-tune the July 28, 2020, framework and fill in missing gaps of information to finalize the full regulation of the BC Asian Breeder hatching egg sector within a supply managed framework.

Regards,



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Executive Director

cc: Jim Byrne – Chair, SMAC, BCCMB & BCBHEC PPACs
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Commission website