

# Hatchery Criteria Amending Order Decision

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## 1. Matter

The BC hatching egg sector is highly regulated as part of the BC Broiler Hatching Egg Commission's strategic approach to the sustainability of its sector. The backbone of that regulation for decades has been the Official Flock Schedule (OFS). The Commission manages the OFS and ensures proper egg flow at each hatchery and orderly marketing through a delicate balance of domestic production and federally obligated imported product. Approximately 80% of hatchery throughput is domestic and 20% is imported, this ratio is referred to as 80/20. Other regulation and pricing in the BC hatching egg sector factors into this approach to sound marketing policy.

Recently that balance has been upset as many hatchery licenses have been obtained without the Commission establishing updated hatchery criteria. This has resulted in challenges managing the OFS and coordinating production with the hatcheries. The hatchery licensing criteria impacts many policies inclusive of pricing as the hatchery margin and other input costs associated with the cost of production model, currently under supervisory review arise from the Commission's regulation of the broiler hatching egg sector.

Other concerns that stakeholders have flagged include the current lack of precision in the definition of hatchery in the Consolidated Order (CO), including that there is no requirement for an actual hatchery facility. In addition, the OFS, hatchery margin and breeder chick pricing take into consideration the investment and risk entailed in the building and operation of a hatchery.

Allowing "shell" hatcheries to operate in and benefit from this system without the investment and risk of building and operating a hatchery facility is not regulatory sound marketing policy, is disruptive to the OFS and is unfair to producers and hatcheries operating within the system. A "shell" hatchery quickly and easily upsets the balance of the OFS for both hatcheries and producers.

As a part of its 2021 strategic plan, the Commission has been reviewing the hatchery sector and identifying the changes needed to support the Commission's overall regulatory strategy in the future.

## 2. Background

In 2021, and after identifying certain issues arising from the hatcheries in 2020, the Commission reviewed the general hatchery requirements outlined in the Consolidated Order. Considerations in this review include establishing provisions in support of maximizing 80/20 as part of the Commission's 2021 Strategic Plan.

Other issues have arisen concerning mainstream and specialty producer-hatcheries. In the case of the former, producer-hatchery license holders have adjusted their existing or proposed business models from hatching their own production to working exclusively via mutually acceptable arrangements that result in the production being shipped to another, established hatchery. In the latter case, a current specialty producer with custom hatching arrangements has applied to be licensed as a new hatchery while maintaining this

mutually acceptable arrangement with an existing hatchery that will handle almost all this producer's specialty production.

These circumstances have caused the Commission to examine its policies concerning hatcheries generally, the licensing of hatcheries and the status of producer-hatcheries. It is the Commission's view that mainstream hatcheries and producer-hatcheries licensed by the Commission should be contributing participants in fulfilling a need for the industry under the OFS or have the capacity to do so.

In addition to risk and investment costs, benefits and responsibilities accrue to hatcheries holding the regulatory privilege of a licence from the Commission. Benefits include a hatchery margin and assurance of quality supply. Currently all producers must order broiler breeders through their assigned hatchery as a requirement of the US breeder companies. This is a cost to producers and a revenue stream for hatcheries. Producers operating "shell" hatcheries can benefit by ordering breeder chicks without the investment and risk associated with a brick-and-mortar hatchery.

### 3. Consideration

The Commission staff flagged the hatchery licenses applications for 2021 to the Commission in December 2020, after a new application was received giving rise to some questions from processing that application. In addition, staff reported that several hatchery business models had changed with some hatcheries no longer setting broiler hatching eggs. As a result, there were ongoing import/domestic imbalances, and conducting an appropriate assessment as to which hatcheries still met existing licensing criteria was challenging.

After the Commission exchanged correspondence with the applicable hatcheries, the Commission decided in March 2021 to renew the licenses in question and begin a more comprehensive review of hatchery license criteria prior to renewals for 2022. All hatcheries were made aware of the start of this review and were encouraged to participate.

### 4. Deliberations

The Commission started the review process with a public letter dated May 3, 2021. This correspondence clearly outlined the Commission's criteria change and the timeline for implementation targeting December 31, 2021.

On June 11, 2021, the Commission made its second of two requests for written feedback, along with an extension on the feedback period, on the proposed changes from the following stakeholders:

Stakeholder	Representative(s):
BC Egg Hatchery Association	Representatives from Western Hatchery Ltd. (and Okanagan Hatchery (1989) Ltd. by extension), Carleton Hatcheries Ltd. dba Fraser Valley Chick Sales, Sofina Foods Inc., and Rosstown Farms Ltd.
BC Broiler Hatching Egg Producers' Association	Angela Groothof
BC Chicken Growers' Association	Dale Krahn
Bradner Farms Hatchery	Sarah Yoder and Pamela Krause
Echo Hatchery dba Coastline Chicks	Kelly Boonstra
Farmcrest Foods Ltd.	Richard Bell
Golden Feather Hatchery	Ken Huttema
Pacific Pride Chicks Ltd.	Marvin Friesen
Royal Feather ULC	Allan Cross
Skye Hi Farms Inc.	Trevor Allen
V3 Farms	Casey van Ginkel

Face-to-face meetings with stakeholders took place on October 29, 2021, following the two rounds of written submissions. The Commission met with eight stakeholders and received written feedback from two others. As much of the information shared with the Commission was proprietary, issues arising from stakeholders are addressed without attribution.

There were three areas of agreement amongst the majority of stakeholders:

1. A physical hatchery should be required to be licensed by the Commission in BC.
2. Commission licensed hatcheries should be required to throughput domestic production at a pre-established volume criterion.
3. Producers with a hatchery license should be expected to throughput their own domestic production.

There were five key areas of concern amongst the stakeholders:

1. Specialty marketing, especially as it pertains to a volume requirement.
2. Historical unfairness between hatcheries with respect to domestic throughput and incurred risk and investment.
3. Concerns about breeder stock access and the infrastructure and services required to place breeder birds.
4. Business models currently based on historical CO criteria.
5. Implementation timelines to pivot those business models to reflect the changes and avoid adverse impacts to supply.

Concerns were expressed about the ability to level up to the volume criteria right away. Labour and investment are the main issues that can stall progress. Can a producer-hatchery currently putting through a small percentage of its specialty production also keep options open to include mainstream at some point. The investment made to date is substantial and based on the historical criteria, which included the throughput of all domestic production unless mutually acceptable arrangements are made. This can be done via arrangements with a licensed hatchery as a custom set arrangement. Holding a Chick Broker License from the BC Chicken Marketing Board provides the necessary authority for those hatching eggs to be marketed to growers.

Another concern was about the ability to provide import chicks to other BC hatcheries should the license criteria change. Currently a hatchery can throughput enough domestic product to qualify for TRQ but be unable to throughput at the suggested quantity. This dramatically impacts the current business plans of one hatchery that are predicated on the fact that import chick paper needed to be used in the west, which is facilitated through this hatchery. As the imported product is regulated, a Commission hatchery license is necessary to qualify for TRQ.

One producer-hatchery does not have a brick-and-mortar hatchery and has no short-term plans to build one, stating market conditions are not favourable currently. This hatchery uses mutually acceptable arrangements made with other hatcheries to market all but a minute fraction of its production. It leans heavily on a separate investment in a broiler farm which has been leveraged to create the mutually acceptable arrangements by committing the broiler production to a hatchery's processor. This producer-hatchery purchases breeders directly from the breeder supplier using the hatchery license. Cost increases associated with the change in hatchery status would be problematical, including in servicing the debt incurred from the purchase of the broiler farm.

Concerns were also expressed about the advantage of producer-hatcheries gain from being able to purchase chicks directly from the parent (breeder) companies without needing to throughput their own or any product. This is unfair to other hatcheries and producers and is a challenge to the OFS and the basis for COP pricing. It was stated that this should not be allowed.

A specialty and mainstream hatchery expressed concerns about the volume criteria, although it currently meets it with all their throughput. Given the production curve, relying only on a single flock would be challenging, and a current mutually acceptable arrangement with another producer-hatchery has served them well.

Another stakeholder agrees with the Commission's hatchery criteria changes entirely, although acknowledges that the specialty sector volume may have to differ. Frustration was expressed about the lack of action from the Commission in creating this uneven "playing field."

There was disagreement with the Commission establishing a volume criterion for hatcheries as processors do not have a similar restriction. A hatchery has been a hatchery for many decades and has provided options for grower needs based on mutually acceptable arrangements. Caution should be taken not to overregulate the industry, potentially stifling innovation. It was agreed that a brick-and-mortar hatchery should be a prerequisite to a hatchery license.

Other concerns were raised about specialty and the related volume criteria. Mainstream volume is reasonable, but the Commission should be careful about establishing a specialty volume. Concern was also expressed about the potential disruption that may be caused to existing marketing channels by the proposed changes to the Consolidated Order.

## 5. Analysis

Hatcheries can serve various purposes in support of the BC hatching egg sector. Innovation and ensuring specialty and other marketing channels are created and sustained are all considerations for the Commission to take into account should circumstances warrant. The new Amending Order does not interrupt current specialty marketing channels. Established specialty hatcheries already have the necessary capacity to be incorporated into the OFS, and specialty producers with custom broking arrangements can rely on the Chicken Board's Chick Broker License to continue their current operations.

What the Commission cannot accept is issuing hatchery licences to persons who seek to benefit from that status without the risk and investment required to possess and operate a hatchery with the capacity to support the OFS.

The following analysis, in response to stakeholder feedback on the volume criteria, outlines the importance of hatchery capacity to the OFS in support of orderly marketing in the BC hatching egg sector.

Through the OFS, the Commission assigns flocks to hatcheries and provides as predictable an egg flow as possible to each hatchery, based upon market share. Where one under- or over-performing flock or length of lay cycle is easily absorbed by a larger hatchery, such minute changes are drastic at smaller hatcheries.

Further, certain considerations for long-lived flocks are necessary, such as peak production periods, demand for the eggs by way of contracts for broiler placements, and imports. Generally, hatching egg production that meets the standards starts in week 26 and with a target lay cycle of around 58 weeks, this results in 32 weeks of production. Therefore, it is a necessity to assign at least two flocks to one hatchery to provide as consistent of egg flow as possible for an entire 52-week year. If only two flocks are assigned, there will be overlap of 12 weeks.

The Consolidated Order sets the minimum farm size at 12,000 placement quota (hens). If utilization were at 100%, over a two-year quota cycle, a producer would place 6,000 hens per year. It would not be an efficient use to split that into two flocks, thus, two producers would be necessary. In essence, it would require 12,000 quota hens per year at a minimum.

Additionally, all hatcheries would be required and/or eligible for partnering with the Commission in having new entrant producers, in support of the Regulated Marketing Economic Policy (2004). Under the current New Producer Program, Schedule 1 to the CO, each new entrant is allotted 5,000 placement quota (hens) over a two-year quota cycle. This would be 2,500.

In total, a hatchery, to have even egg flow at the smallest number of potential producers and flocks would be 14,500. A figure of 15,000 accommodates a utilization of quota at just over 103%.

As noted above, there would then be a period during the year where three flocks may be producing (the 12 weeks of overlap between the two larger flocks plus the new entrant flock) and being picked up by the hatchery. Although it is unlikely all would be at peak production at the same time, the hatchery would need to be able to set production that comes from those approximate 15,000 hens. The addition of 'peak production' language within the Amending Order is necessary to safeguard against capacity constraints.

## 6. Decision

Affected stakeholders were made aware of the Commission's issues early in 2021 and, in May 2021, were provided with the Commission's proposed criteria. Stakeholders were provided with two opportunities, and an extension, to make written submissions, to which the Commission responded by requesting additional, clarifying information. All were also invited to appear before the Commission to further support their submissions. The Commission's consideration of the issues was informed by the range of individual circumstances and positions identified during this consultation.

The Commission has carefully reviewed and discussed all the stakeholder submissions. It has concluded its process and has obtained the information necessary for the Commission to finalize its decision prior to issuing hatchery licenses for 2022.

The Commission has determined that no changes are required to the draft Amending Order as it continues to reflect an important component of the Commission's strategic objectives for the orderly marketing and regulation of the BC hatching egg sector. The Amending Order will better ensure hatchery discipline in BC, protect the balance of the OFS and support the goal of 80/20 throughput by all hatcheries. In turn, this will complement a pricing framework that supports the interests of both producers and hatcheries. This increased stability and certainty will be to the benefit of the BC supply chain.

Although the Commission has now approved the Amending Order as attached, the Commission has made its effective date December 31, 2022, to provide current and applicant hatchery licensees to hold a 2022 license during a transition period which will require them to meet the new criteria for 2023.

## 7. SAFETI Analysis

**STRATEGIC** – Clarifies and confirms requirements for hatchery licensing in BC to ensure consistency and maximize capacity. Connects hatchery licensing to sound marketing policy initiatives to improve hatching egg sector performance and efficiencies. Provides baseline requirements in support of hatchery and sector capacity and emphasizes clear marketing channels. Prepares hatchery sector to operate within the new pricing framework. Solidifies requirement for hatcheries to address 80/20, facilitates better management of the OFS and the forecasting of domestic and import production. Provides the stability and certainty required to support the Commission in its ongoing strategic initiative to encourage more coordination and cooperation with its western counterparts.

**ACCOUNTABLE** – Providing an updated and consistent regulatory framework for all hatcheries. Recognizing benefits that should accrue to risk and investment in building and operating hatcheries. Adhering to sound marketing policy objectives of the OFS. Ensuring consistent and fair regulation for all hatcheries and producers. Providing more certainty and capacity to attain domestic production allocation. Provides a one-year transition period for all current and applicant hatchery licensees to comply with the new criteria.

**FAIR** – All stakeholders notified of issues and provided with opportunities to input through written and in person submissions. Commission reviewed written submissions and responded with requests to stakeholders for more information. Provides a one-year transition period for all current and applicant hatchery licensees to comply with the new criteria.

**EFFECTIVE** – Establishes expectations for hatchery capacity and improves the effectiveness of production management within the OFS. Establishes clear expectations for future hatcheries. Combined with new reporting requirements (Hatching Egg Reporting System) will improve forecasting and production management. Will incorporate regional and specialty hatcheries into the current regulatory framework and improve overall capacity and efficiency of the BC hatching egg sector. An enhanced OFS supports improved orderly marketing in BC and in combination with a new pricing framework, provides stability and certainty to the BC supply chain and a solid foundation for further development of the strategic initiative to improve coordination among the western provinces.

**TRANSPARENT** – Commission raised initial issues in early 2021. It ensured all affected stakeholders were advised of the issues, provided a draft of the proposed Amending Order along with the reasons for the proposed Order. The Commission was transparent within the bounds of protecting business proprietary information.

**INCLUSIVE** – Affected stakeholders notified of issues, provided with a copy of and rationale for the proposed Amending Order and opportunities for written and in person responses.



## 8. Amending Order

See attachment

**AMENDING ORDER 10  
TO THE  
CONSOLIDATED ORDER OF JANUARY 1, 2021**

**MADE BY  
THE BRITISH COLUMBIA BROILER HATCHING EGG COMMISSION  
ON DECEMBER 22, 2021**

The British Columbia Broiler Hatching Egg Commission orders as follows:

1. *Section 2 of the Consolidated Order of January 1, 2021 is amended by replacing the definition of “Producer-Hatchery” with the following:*

**“Producer-Hatchery”** means a Hatchery that is affiliated with one or more Producers by reason of:

- (a) the Producer or Producers having a direct or indirect majority interest in the Hatchery and its associated Hatchery facilities, whether by means of shares (and irrespective of the class of shares) or by way of a share interest in a parent corporation; or
- (b) the Producer or Producers being controlled by the same Person or group of Persons who control the Hatchery.

2. *Subsection 3(1) of the Consolidated Order of January 1, 2021 is replaced with the following:*

3. (1) No Person shall act as a Producer, Hatchery, Producer-Hatchery, Processor or Transporter unless in possession of a valid and subsisting licence issued by the Commission, and no Person shall be relieved of compliance with this requirement in respect of any class of licence on the grounds that such Person is the holder of a valid and subsisting licence of another class.

3. *Section 6 of the Consolidated Order of January 1, 2021 is replaced with the following:*

**Special Conditions for Hatcheries**

6. It is a condition of issuance and maintenance of every Hatchery Licence that the applicant or holder:
- (a) own and maintain a facility for the hatching and incubation of Broiler Hatching Eggs into broiler chicks for delivery to a Grower, with sufficient minimum capacity to accommodate all Marketable Eggs produced by 15,000 broiler breeders at peak production;
  - (b) accommodate all production from at least one Producer assigned to that Hatchery pursuant to the Official Flock Schedule;
  - (c) order and arrange for the placement of day-old broiler breeder pullets in accordance with the Official Flock Schedule;
  - (d) pick up Marketable Eggs produced by each Producer assigned to that Hatchery pursuant to the Official Flock Schedule;
  - (e) place Marketable Eggs produced by the Producer or Producers referred to in the preceding paragraph into its incubators in a timely fashion and as soon after such Marketable Eggs are laid as is reasonably possible.
  - (f) make and maintain mutually acceptable arrangements (the form and substance of which must also be approved by the Commission in writing) with one or more chicken Growers duly licensed by the British Columbia Chicken Marketing Board for the purchase and sale of all Chicks hatched from Broiler Hatching Eggs produced by the Producer or Producers referred to in paragraph (c); and
  - (g) satisfy the Commission that the chicken Grower or Growers referred to in paragraph (e) have each made mutually acceptable arrangements with one or more chicken processors duly licensed by the British Columbia Chicken Marketing Board for the purchase and sale of all chicken grown from Chicks hatched by the applicant or holder, for a term not less than six production periods of eight weeks each.

4. *Section 6.1 is added to the Consolidated Order of January 1, 2021 immediately after section 6, as follows:*

**Special Conditions for Producer-Hatcheries**

- 6.1 It is a condition of issuance and maintenance of every Producer-Hatchery Licence that the applicant or holder:
- (a) own and maintain a facility for the hatching and incubation of Broiler Hatching Eggs into broiler chicks for delivery to a Grower, with sufficient minimum capacity to accommodate the greater of:
    - (i) all Marketable Eggs produced by 15,000 broiler breeders at peak production; or
    - (ii) all Marketable Eggs produced by the affiliated Producer or Producers at peak production.
  - (b) place all Marketable Eggs produced by the affiliated Producer or Producers into its incubators in a timely fashion and as soon after such Marketable Eggs are laid as is reasonably possible;
  - (c) make mutually acceptable arrangements with another Hatchery (the form and substance of which must also be approved by the Commission in writing) to receive and purchase any and all Broiler Hatching Eggs produced by the affiliated Producer or Producers that, in extraordinary circumstances, cannot be placed by the applicant or holder into its incubators in a timely fashion and as soon after such Marketable Eggs are laid as is reasonably possible;
  - (d) make and maintain mutually acceptable arrangements (the form and substance of which must also be approved by the Commission in writing) with one or more chicken Growers duly licensed by the British Columbia Chicken Marketing Board for the purchase and sale of all Chicks hatched from Broiler Hatching Eggs produced by the affiliated Producer or Producers;
  - (e) satisfy the Commission that the chicken Grower or Growers referred to in paragraph (d) have each made mutually acceptable arrangements with one or more chicken processors duly licensed by the British Columbia Chicken Marketing Board for the purchase and sale of all chicken grown from Chicks hatched by the applicant or holder, for a


term not less than six production periods of eight weeks each; and

- (f) accept and purchase Broiler Hatching Eggs other than from the Producer or Producers affiliated with the applicant or holder whenever directed to do so by the Commission, in which event, the applicant or holder must also:
  - (i) order and arrange for the placement of day-old broiler breeder pullets in accordance with the Official Flock Schedule;
  - (ii) pick up Marketable Eggs produced by each Producer assigned to that Producer-Hatchery pursuant to the Official Flock Schedule; and
  - (iii) place Marketable Eggs produced by the Producer or Producers referred to in the preceding paragraph into its incubators in a timely fashion and as soon after such Marketable Eggs are laid as is reasonably possible.

5. *This Order comes into effect on December 31, 2022.*

**DATED at Abbotsford, British Columbia, on December 22, 2021**

BRITISH COLUMBIA BROILER HATCHING EGG COMMISSION

  
Jim Collins, Chair