

August 29, 2022

VIA EMAIL

Harvey Sasaki  
Chair  
BC Chicken Marketing Board  
220 – 1848 McCallum Road  
Abbotsford, BC V2S 0H9

Dear Harvey:

### **BC BROILER HATCHING EGG COMMISSION COST OF PRODUCTION (COP) IMPLEMENTATION**

The BC Broiler Hatching Egg Commission provided all stakeholders with its draft Implementation Plan, dated June 23, 2022, that outlined its process for implementing its new cost of production pricing for hatching egg producers and incorporating hatcheries into the pricing framework. The sole feedback was an August 17, 2022, letter from the BC Chicken Marketing Board.

The Joint Committee of the Commission and the Chicken Board met on August 18, 2022 (with Wendy Holm in attendance) and had a constructive discussion. In the interest of ongoing transparency and accountability, a copy of the Chicken Board's letter and this recap of the Commission's response to the Chicken Board will be posted on the Pricing Review website.

As confirmed at the August 18, 2022, meeting, both boards continue to strongly support ongoing communication and cooperation, including through regular meetings of the Joint Committee and board to board meetings as outlined in the Memorandum of Understanding. Both boards also fully support each other's pricing initiatives.

As a general point, the Commission has been transparent and accountable throughout the Pricing Review and will continue to hold to that standard through the implementation phase and thereafter. Commission decisions will continue to be evidence-based and reached through consultation with stakeholders.

#### *Parity*

Any discussion of parity needs to be evidence-based and include chicken grower premiums. Hatching eggs will be pricing off a new, updated COP (starting at 95 percent), which includes efficiencies. This COP was thoroughly scrutinized during the Pricing Review. The process for a similar cost recovery model for chicken growers is in its preliminary stages and comparing parity in the two sectors is not currently feasible. It must be emphasized that the Commission announced its intention to withdraw from the linkage after the Chicken

Board, supported by the BC Chicken Growers' Association and the Primary Poultry Processors' Association of BC, declined to include premiums in the linkage.

### *Hatchery Margin*

In accordance with the Pricing Review Terms of Reference, the Commission remains committed to incorporating the hatcheries into the new pricing framework and ensuring that hatchery costs are identified and addressed through the same evidence-based approach taken for hatching egg producers. The Commission and the BC Egg Hatchery Association are working closely in an evidence-based process to update breeder chick costs to be included in the Implementation Plan. A similar cooperative and evidence-based approach to the development of a hatchery COP will address hatchery costs in the longer-term.

Period-by-period analysis to date has indicated minimal impact of the new COP and hatchery inclusion on broiler chick pricing. That monitoring and analysis will continue post-implementation, including comparing the BC live price and chick price to those in other provinces.

### *Industry Benefit Index (IBI)*

As previously stated, the Commission will be severing its current levy structure and a producer levy will remain outside the IBI and COP. Inclusion of any cost into the COP through an IBI will be evidence-based following consultation with stakeholders.

### *Price Monitoring*

The Commission will develop appropriate mechanisms to monitor pricing for which it is statutorily responsible. The Commission fully appreciates the necessity of assessing pricing impacts on the wider chicken sector and will continue to work with the Chicken Board in assessing those impacts. The establishment of an evidence-based, defensible cost-recovery framework for chicken growers and processor competitiveness will facilitate an industry-wide approach in response to pricing issues.

### *Resolution Mechanism*

The Commission believes its Pricing and Production Advisory Committee (PPAC) provides an appropriate, regulatory dispute resolution mechanism. Pricing off a producer COP and a fixed hatchery formula (pending a hatchery COP) should provide certainty and stability. As well, and as stated at the Joint Committee meeting and in previous correspondence, the Commission intends to amend its Consolidated Order to explicitly provide opportunity for PPAC members to raise evidence-based 'exceptional circumstances'.

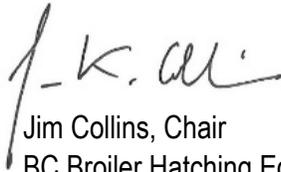
### *Vaccine Program*

The increase to \$1.61 was previously communicated. The Commission believes that the move to a common industry vaccine program is a significant benefit to all stakeholders. As vaccines are included in the hatching egg COP, a common standard supports transparency and accountability. The Technical

Committee (comprised of industry and ministry veterinarians) has already proven its worth and has much potential. As it is not within the Commission's scope to evaluate individual vaccines, the Technical Committee is the more appropriate forum within which this and other issues are discussed.

Thank you again for the constructive dialogue at the August 18, 2022, Joint Committee meeting. It is important for the two regulatory agencies to continue to address and move forward on issues.

Yours truly,



Jim Collins, Chair  
BC Broiler Hatching Egg Commission

cc: Wendy Holm – BCFIRB Pricing Liaison  
Jim Byrne – Chair, Commission PPAC  
Review and Commission websites



August 17, 2022

Mr. Jim Collins, Chair  
BC Broiler Hatching Egg Commission  
[jimcollins@telus.net](mailto:jimcollins@telus.net)

**Re: BCBHEC COP Implementation**

The BC Chicken Marketing Board (Chicken Board) views the BCBHEC (the Commission) pricing initiative to implement a BC hatching egg COP based pricing formula as progressive move that is complimentary to the Chicken Board's proposed BC Cost Recovery Model. It is important that the cost to produce chicken in BC is reflective of BC costs, not based on Ontario. The Chicken Board is providing its preliminary comments to enable a fulsome discussion at the meeting of the joint committee on August 18, 2022.

Pricing of day-old chicks has a direct impact on the BC Chicken sector and could potentially add a distorting factor to the live pricing of chicken in BC. While we appreciate the details provided in the implementation plan, there remains one fundamental issue that is critical to producing chicken in BC; a linkage agreement that formally recognizes the need for parity in returns to broiler growers and hatching egg producers as a result of pricing decisions by the Chicken Board and the Commission.

The linkage formula was established due to inequities in returns to broiler growers and hatching egg producers and was intended to provide parity between growers and producers as measured by percent return to COP. With the Commission enabled to proceed with implementation of COP based pricing, it is not clear to the Chicken Board how the principle of parity between growers and producers will be respected by the Commission.

The BCFIRB approval and the Commission's implementation plan fail to acknowledge the need for maintaining a linkage based on the parity in returns principle established with the existing linkage formula. There is currently no provision established within the implementation plan that should chicken growers' returns be less than the Commission's COP, that adjustments to the chick price to maintain parity would be implemented. The only Commission statement to date on linkage is that until the Chicken Board has finalized pricing, it is not able to make any comments on linkage.

The Chicken Board impresses on the Commission that they cannot take their chick pricing authority lightly and there must be reasonable assurances to the Chicken Board that the impact on downstream parties are fully accounted for, particularly as it pertains to IBI, hatchery margin, and vaccine costs which were not finalized in the March BCBHEC decision. The day-old chick price having a direct impact on broiler grower costs and under the current broiler live price formula, BC broiler growers only recover 75% of the BC-ON difference in chick cost. Chick cost is also a key component of the live price paid by BC processors. Until such time that downstream parties are able to recover these costs, the Commission must identify other mechanisms to capture the hatching egg COP and mitigate the impact to



downstream parties. Chick price directly affects reasonable returns to growers and processor competitiveness and the impact must be fully understood. It is noted, based on direction the Chicken Board has been given, both reasonable returns to growers and processor competitiveness must be accounted for and chick prices contributed a large portion of costs (second highest input to broiler production).

For A-177, the BC-ON chick differential was 0.69 (45.34-44.65) of which BC broilers capture 75%, equal to approximately half a cent. We recognize this difference may not be significant now but are concerned if this could grow and BC chicken growers are not able to capture the full costs in the interim (current interim formula is 75% of BC-ON differential plus 50% of costs above the guardrail).

A new linkage formula needs discussion. Does the Commission remain committed to the principle of parity between growers and producers and the need to define how it will be established going forward?

The Chicken Board's concern with respect to the lack of guiding principles on linkage are further illustrated in our comments on specific elements of the COP that can and likely will contribute to creating an imbalance in the returns to hatching egg producers and broiler growers and processors.

### **Hatchery Margins**

The proposed increase in hatchery margins will have an impact on the pricing of live chicken, which is the responsibility of the Chicken Board. While an increase in the hatchery margin will not directly impact hatching egg producers, will directly benefit BC hatcheries and indirectly BC processors who own the hatcheries, it is broiler growers and processors who will feel a direct impact of the increase. The current chicken pricing formula only accounts for 75% of the difference in BC minus the Ontario Chick Price, therefore, an increase in the chick price due to the revised hatchery margin will negatively impact the percent return to cost recovery of the broiler grower and add further cost impact to BC processors. The Chicken Board has concerns that a hatchery margin with a built in COLA clause will result in an automatic increase to the price of chicks to chicken growers through the hatching egg COP with broiler growers and processors bearing the cost of the increase. In future, these increases may either not be totally captured in the live price, or if they are, will further increase the live price differential between BC and Central Canada.

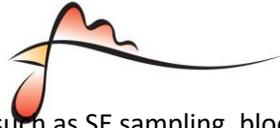
Further discussion between the Commission and the Chicken Board is required on the following issues related to the hatchery margin:

- How the current proposed increase gets implemented within a principle of parity?
- What is the impact on the live chick price?
- How will the price affect downstream players and how it can be managed?

Other elements of the implementation plan that may affect parity that require further discussion include the following:

### **Industry Benefit Index**

The Chicken Board has concerns around the 'Industry Benefit Index' (IBI) and its inclusion in the BCBHEC COP. The IBI as stated in the "2022-06-23 COP Pricing -- Post-Approval Implementation Plan (2022-07-21 Update)" is the "calculation of the historical levy portion put toward the management of the Official



Flock Schedule, and industry initiatives such as SE sampling, blood work programs, and audit verification processes that benefit the entire chicken industry”. It is not clear to the Chicken Board as to why this is a COP cost input. The costs described are covered by the Commission through producer levies and as such, it is not clear as to why a separate IBI is required unless producer levies are not included in the COP.

Irrespective of whether levies or IBI is included in the COP, this is another cost element that was not included in the linkage COP and as such will add cost to the day-old chick price and further erode the parity principle.

#### **Price Monitoring**

The Chicken board recognizes that the FIRB Panel requires on-going monitoring of the implementation impacts but are unclear what the Commission will include. The Chicken Board and the Commission will need to come to a common understanding of what will be measured and how and by whom.

#### **Resolution Mechanism**

The Chicken Board and the Commission have established a joint committee to address pricing and other industry issues. There is need for the further development of a dispute resolution mechanism to address concerns such as those outlined above.

#### **Vaccine Program**

While the Board is supportive of the vaccine program, there is uncertainty around the recent increase in cost to \$1.61 and what drove this cost increase. The Chicken Board would like to see assurances that there is continuity in how the vaccine program is applied, with a common vaccine program that all hatcheries adhere to, as well as evaluations on whether vaccines are effective towards ongoing major diseases.

BRITISH COLUMBIA CHICKEN MARKETING BOARD

Harvey Sasaki, Chair  
BC Chicken Marketing Board