

Thoughts and concerns from BCBHEPA regarding increase in hatchery margin for BC Hatcheries:

1) There are two options for consideration in the Margin calculations provided by the BCBHEC. Both options presented have a "+services(\$)" input. The services described mention dubbing, beak trimming, *etc.*

Concern: What is the dollar amount there? What are the services that "etc" refers to? These should be clearly defined and delineated or we will have the same problem as we have now with the disparity in vaccine programs and pricing. Breeder chicks that are flown in have beak trimming, dubbing, and so forth performed already, so is the service simply the pick up and delivery? What is that worth? Surely not what producers are paying now for it! These margin calculations cannot go forward with this input being so ambiguous. Apart from this, regarding the two options, we would like to see "option A" - margin moved into c/sc; we don't want to see our upfront costs increase any more.

2) Of consideration is statements made that there hasn't been a margin increase in nearly 10 years. This should be taken with a grain of salt. While technically this may be the case, through the incredible rise in breeder chick prices, hatcheries have been able to garner profit increases as a result of their 20% profit mark-up implemented on the cost of breeder chicks. Placing a 8000 breeder chick flock in 2013 (\$5.30/hen) provided approximately \$7000 in mark up profit. The same 8000 birds today (\$11/hen) provide the hatchery with approximately \$14600 in mark up profit.

Concern: With more and more flock placements being flown in, this is essentially what is being charged the producer to pick up the chicks at the airport and deliver them to the farm! The current margin calculations show 15%, that is \$11000 on a 8000 bird flock! It is important we see this mark-up crystallized moving forward as it expected breeder chick prices will continue to rise. But even more important we understand what services this mark-up is being designated to.

3) Below is an excerpt from a letter written in July to the BCBHEC. While this letter was written to decry the decision to reduce the fowl price from 40 to 20 cents, it takes up the issue of a hatchery margin increase. We feel it is important during these negotiations to recognize the relationship between hatchery and processor, namely that hatcheries are basically a profitable subsidiary of the processors.

"...currently the Commission is in negotiations with the BCEHA regarding a hatchery margin increase. We understand that this is part of a greater pricing framework incorporating breeder chick price and vaccine costs, but we would like to remind the Board that the Processors and hatcheries are intimately linked - is a hatchery margin [increase] actually warranted?"

4) Finally, for many years now, some producers have been bearing the brunt of poorly maintained hatchery buggies that cause damage to the eggs on farm and in transit. There are also some producers who bear the costs, in the thousands of dollars each year, of deferred principal payments due to the lack of an EFT system being incorporated. These are but a few examples.

Concern: Producers will pay into an increased Hatchery Margin, but not see basic improvements that have been asked for for some time now. Should *any* sort of hatchery margin be granted, the BCBHEPA would like to see an allocation of that margin go into hatchery infrastructure improvements and to see tangible improvements.