

British Columbia Egg Hatchery Association

June 25, 2021

Harvey Sasaki
BC Chicken Marketing Board

Jim Collins
BC Broiler Hatching Egg Commission

Wendy Holm
BCFIRB Liaison

VIA EMAIL

Re: Preliminary Pricing Formula Decision Feedback

The BC Egg Hatchery Association (BCEHA) has had an opportunity to review the Hatching Egg Sector Proposed COP-Based Pricing Package (Proposed COP) presented by the BC Broiler Hatching Egg Commission (the Commission) at the June 2, 2021, Pricing Roundtable. At this time, the BCEHA wants to remind the parties that:

- BC hatcheries have not had a hatchery margin increase in over 9 years.
- During that 9-year period Ontario hatcheries have received margin increases to compensate for higher costs, and these margin increases are charged through to the Ontario live price. Given that the BC price has been based upon the Ontario live price, logically these hatchery margin increases should have flowed to BC hatcheries. Instead, these increases have been directed to both BC broiler growers and BC hatching egg producers.
- Ontario hatchery margins have increased once again and are now \$0.085/chick higher than BC hatchery margins.

The Commission's primary focus has been solely on improving the returns for hatching producers. The Serecon COP model proposed by the Commission is extremely complex, ill-defined, introduces new concepts, and does not fulfill the need for a transparent approach to pricing. This is supported by the fact that the Commission has admitted it is unable to model or quantify the financial impact of the Proposed COP on stakeholder groups, "As not all the effects of the proposed mechanisms and efficiencies are quantifiable at this time, a complete comparison between the current Linkage-based price a stand-alone COP-based price is not possible."¹ The inability to effectively measure the impact of any pricing proposal against the policy objectives of the supervisory review is reckless, irresponsible and potentially damaging to the industry. The Serecon models have been shown to inflate costs, particularly labour and capital, and do not accurately reflect the actual costs incurred by Producers.

The Commission is also proposing a "Vaccine Adjustment Mechanism" and while this is still under review it appears as though the Commission is considering making decisions on vaccine programs for hatching egg producers to standardize pricing and alleviate chick quality concerns. It is not clear how the Commission will make these decisions and there has been no discussion on where responsibility and liability for chick quality would fall under such a program. Vaccine programs are not only for the benefit of the hatching egg producers but also downstream stakeholders, and the entire industry. The Commission should not be permitted to take control of a cost item that directly affects other industry stakeholders.

The BCBHEC document makes several references to the Alberta and Ontario COPs but there is no financial analysis

¹ Hatching Egg Sector Proposed COP-Based Pricing Package, Chicken Sector Pricing Supervisory Review, May 5, 2021, p. 76

on how these models would impact the policy objectives. If hatching egg producers take a full Serecon COP and hatcheries take the full \$0.085 margin that this would have a significant negative impact on the balance of the industry.

The Commission also discusses how producers under the current formula will be “out of pocket” for 25% of any hatchery margin increase given the 75% chick differential recovery rate.”² However, what the Commission fails to quantify is how much of the \$0.085 Ontario hatchery margin hatching producers have taken from the Ontario live price that flows into the BC live price and to then to hatching egg producers through the linkage.

The Commission is proposing a hatchery margin increase of \$0.0175 that was originally proposed by the BCEHA to maintain a hatchery margin differential of approximately \$0.025 with Ontario back in 2016. The Commission held off on proposing any type of increase until such time as the BCCMB’s pricing formula changed to allow them to pass this increase onto BC processors. In the meantime, Ontario hatchery margin increases have increased by another \$0.06, and these margin increases continue to flow to the hatching egg Producers and chicken growers.

The BCEHA would also like some clarification around the Commission’s comments of, “...it is recommended that the margin be increased by the 1.75 cents as proposed within the context of a COP-Based Pricing Model only. It would be neither sustainable nor palatable to require farmers (Producers and Growers) to pay for one-quarter of the hatchery margin increase while continuing to not receive their full COP returns.”³ It would be grossly unfair to make hatchery margin increases contingent on growers and producers receiving their full COP while they are the ones currently realizing the Ontario hatchery margin increases and the fact that BC hatcheries have not a margin increase in 9 years. This condition takes no account of the strong returns growers and producers are already realizing through the BC live price and the linkage formula and is inconsistent with SAFETI principles. In addition, the proposed formula makes no provision for hatchery margin increases in the future, or how further Ontario hatchery margin increases will be managed. Further Ontario hatchery margin increases should not be flowing to the producer and the growers.

The Egg Hatchery Association has been committed to supporting the Pricing Review process however remains concerned with the grower-centric approach taken by the Commission throughout the process. The Commission came into the process focused on delivering a COP formula to hatching egg producers and has not strayed from this course. The Commission has not considered other options such as staying in the linkage and has not done the required financial analysis required to show the impact of their recommendation on the policy objectives and other industry stakeholders. The Commission also seems to be positioning for move to a western approach to pricing as part of a strategy which was never discussed and is simply a panacea to further increase returns producer returns today.

This unwillingness to consider alternatives, the masking of real pricing issues, and the lack of analysis of the impact of the proposed formulas impact on the industry and policy objectives is not consistent with SAFETI principles.

The COP formula proposed by the Board is complex and convoluted and despite producer surveys is still based on theoretical models and assumptions for components like labour and capital. The model is so complex that the average person cannot properly explain it and the Commission cannot measure how it will financially impact stakeholders other than hatching egg producers who stand to make extraordinary gains at the expense of the industry.

The hatcheries will not accept a one-time margin increase of 1.75 cents, with no opportunity for further increases to offset their future cost increases. The hatcheries need a substantive increase now, and equally as important,

² Ibid, p.79

³ Ibid, p.81

they need a mechanism going forward that provides an outlet for them to receive margin increases to compensate for future cost increases.

Regards,

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