



August 17, 2022

Mr. Jim Collins, Chair
BC Broiler Hatching Egg Commission
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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