



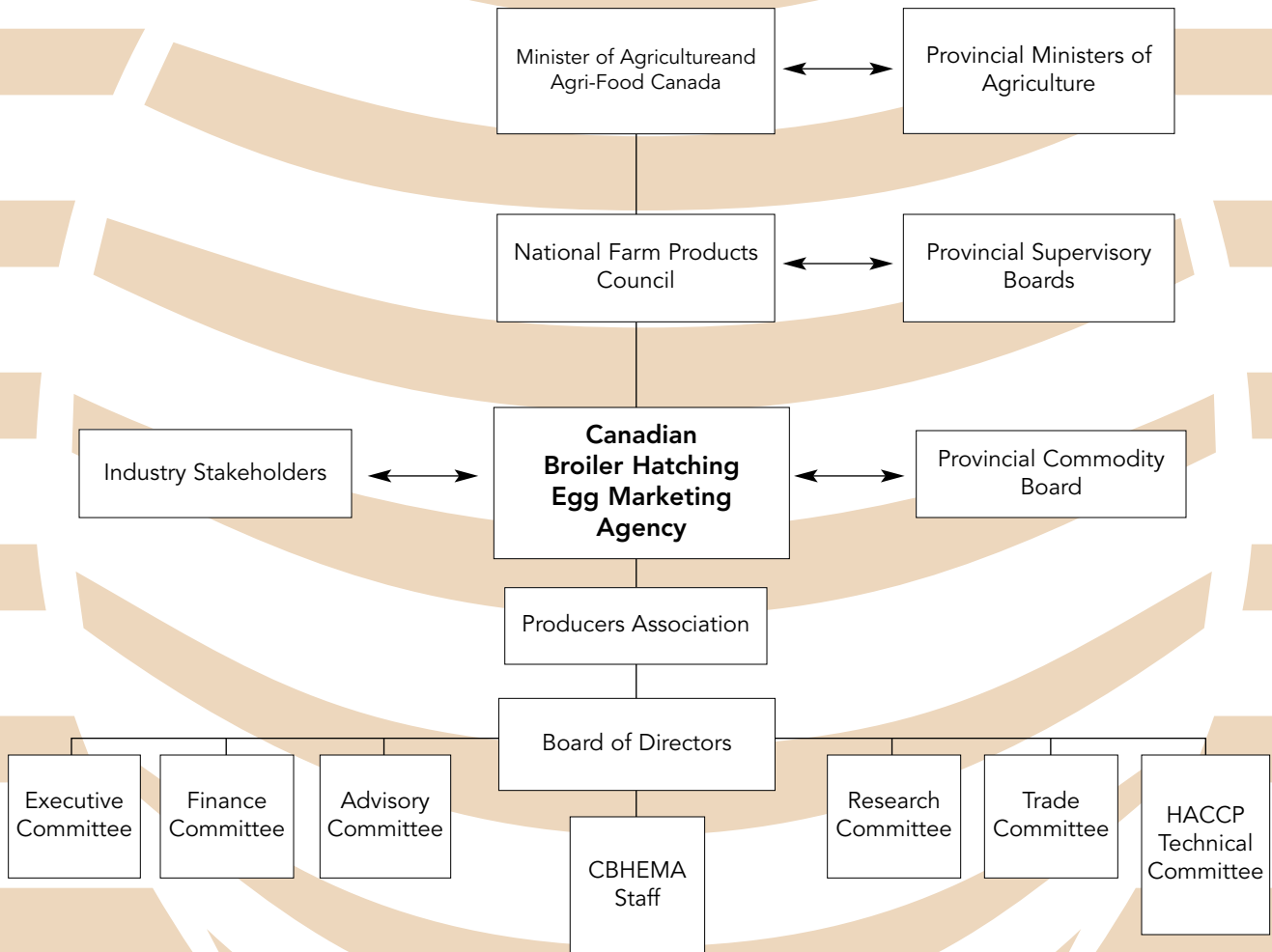
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A N N U A L   R E P O R T

**CANADIAN BROILER HATCHING EGG MARKETING AGENCY**

For Presentation to the  
Minister of Agriculture  
and Agri-Food Canada  
The Honourable Chuck Strahl  
and the National Farm  
Products Council

# CBHEMA ORGANIZATIONAL STRUCTURE



## Canadian Broiler Hatching Egg Marketing Agency

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## CHAIRMAN'S REPORT FOR 2005

Two global events, the agriculture negotiations at the World Trade Organization (WTO) and the emergence of avian influenza threatening countries around the world, were CBHEMA's prime focus in 2005 as both of these issues have the potential to dramatically impact the Canadian hatching egg industry in the future.



At the WTO, talks on liberalizing agricultural trade are scheduled to conclude in 2006. For hatching egg producers, the threat from these talks is the possible erosion of any of three pillars of supply management: 1) import controls 2) producer price setting and 3) production planning. Each of these pillars are interdependent and if one is destabilized all three collapse and so goes supply management.

Canada has pushed hard to achieve real results for export-reliant commodities during this round, such as eliminating export subsidies and reducing subsidies paid by other countries that hurt Canadian exports. It also appears that substantial reductions in tariffs for at least 80% of agricultural products will be agreed to.

Thus far however, Canada has not been able to secure the elements of a deal that will ensure that supply management and its industries remains viable after the WTO negotiations have concluded. Unfortunately, many of the ideas and positions promoted by Canada that would have protected supply managed interests have not been picked up by the WTO. It has reached a point where any maneuvering room Canadian negotiators have in defending supply management has been narrowed to the definition and treatment of the WTO's "Sensitive Products" category.

Canada's supply-managed sectors actively supported the Canadian strategy to pursue aggressive tariff reductions in the regular formula on the understanding that there would be no connection between that formula and the treatment of sensitive products.

We are now seeing proposals that would require Canada to give up as much as half of its domestic market for certain products in supply management. Now is the time for the government to take a firm stance at these negotiations and ensure that supply management interests be the overarching priority for sensitive products.

While the trade battle is being fought in Geneva at the WTO, another battle is being fought right here in our own backyard and across the globe. Up until a few years ago, avian influenza was just another of a list of foreign animal diseases that could befall poultry and was extremely rare in Canada, with only 3 cases of AI reported over the past 20 years.

All that changed in 2004, when high pathogenic AI (HPAI) hit the Fraser Valley in BC. Not only was it the first incidence of AI in Canada in 20 years it was also the first strain that had an impact on an entire provinces' industry. While the strain of AI in BC was eradicated during 2004, another more lethal strain of HPAI has been spreading from

Southeast Asia to Russia and from Russia to the Middle East and Eastern Europe. Time will tell if or when the Western Hemisphere will be affected.

Fears are mounting that this strain will eventually mutate to a strain that will be capable of human to human transmission, thereby causing the next global pandemic. Already countries that have reported a few incidences of HPAI in wild fowl have seen consumption of commercial poultry fall drastically. Some European countries have reported an initial decline in poultry sales of as much as 70% as consumers react to news of AI in their countries.

While the Canadian poultry industry and federal and provincial governments have been working hard on programs to mitigate or prevent the spread of AI in commercial flocks, it is impossible to prevent the initial surfacing of AI in a country. We need to learn from the experiences in other countries and also develop initiatives that would reassure Canadian consumers of the safety and wholesomeness of poultry products. If we are successful, we can avoid the dramatic declines in poultry consumption and production that other countries have experienced.

There is no question that the WTO negotiations and avian influenza are as significant an issue as any CBHEMA has faced over the past 2 decades and their outcome will largely be influenced by outside forces. However, rest assured that CBHEMA will work relentlessly on behalf of Canadian hatching egg producers to ensure that our industry continues to thrive and be a vibrant part of the Canadian agriculture landscape.

Sincerely,



Chair



## GENERAL MANAGER'S REPORT FOR 2005

### World Trade Organization (WTO)

As a positive outcome at the WTO is crucial for supply management, CBHEMA invested considerable time and effort in 2005 to ensure that the Canadian government and trade negotiators defend the interests of supply management at the WTO trade talks.



Primarily through the coalition of national supply managed agencies – SM5 – CBHEMA engaged in numerous activities and initiatives to pursue these objectives at the WTO. These included several trade missions in the spring and summer to meet with other countries' farm groups and trade negotiators.

The SM5 also held a trade seminar and lobby day which drew hundreds of dairy, poultry and egg farmers into Ottawa to meet with federal MPs to ensure that each MP understood what supply management means to Canadian farmers and what actions are required from the Canadian government at the WTO.

A major achievement was the presentation of a motion dealing with supply management which was unanimously passed in the House of Commons last November. The motion instructed Canadian negotiators to ensure that the results of the WTO maintained over-quota tariffs at their present levels and required no increases in market access.

The year culminated with the WTO ministerial meeting in Hong Kong where a strong delegation of supply managed producers made sure that negotiators and ministers defended supply managed interests during these talks.

This round of WTO talks is scheduled to conclude by the end of 2006 and CBHEMA will continue to work up to the last minute to ensure that the outcome at the WTO allows for the maintenance of a strong and vibrant supply management system for hatching egg producers in Canada.

**Federal Provincial Agreement (FPA)** are Federal, provincial and territorial agreements that provide the details for how each national marketing agency must operate. As CBHEMA's FPA was established 20 years ago, CBHEMA has recently undergone a process to update it so that it meets the current legislative environment and reflects the current realities of the Canadian broiler hatching egg industry.

By the end of 2005, the review of CBHEMA's FPA was almost complete. The last item for review was our allocation methodology. Some of the more significant changes to the FPA include a change to allow the hatchery sector, instead of the federal government, to appoint members to CBHEMA's board of directors. Directors also believe that all provinces should be members of CBHEMA; therefore at the end of the year, CBHEMA was investigating the policy, structure and criteria needed to facilitate entry of non-member provinces.

## **CBHEMA Membership**

With half the hatching egg producing provinces as members, one of CBHEMA's ongoing priorities has been to bring the non member provinces into the fold.

In 2005, we continued to dialogue with hatching egg producers in Saskatchewan and have invited them to observe many of our meetings. CBHEMA also began discussions with producer groups in New Brunswick on the merits of joining CBHEMA. In both provinces, reaction has been favourable.

Finally, CBHEMA lost Alberta as a member at the end of 2004 as a result of a dispute over CBHEMA's allocation methodology. Near the end of 2005, the Alberta hatching egg industry agreed to a Memorandum of Understanding (MOU) which included, amongst other issues, an agreement on the blend of domestic and imported eggs in the Alberta market.

Once this MOU was in place, Alberta was to present it to CBHEMA to determine how the elements of the MOU can be accommodated in CBHEMA's new FPA. Now that the MOU has been agreed to, we should be in a position to deal with this issue in 2006.

## **Disease Management Strategy**

With the outbreak of avian influenza (AI) in 2004 and 2005 and the possibility of AI becoming the next pandemic CBHEMA, along with the rest of the poultry industry, has placed disease management strategy at the top of its priorities.

The poultry industry has done a lot since the outbreak in BC to better prepare for and manage disease outbreaks. However one key component in this strategy that has not been satisfactorily addressed is the issue of compensation paid by the Canadian Food Inspection Agency (CFIA). Following the outbreak, CFIA promised to review the values it paid for compensation to ensure that its compensation values accurately reflected current market values of various types of poultry (i.e. specialty birds, breeders, layers).

Thus far, the result of this review has been very disappointing. CFIA has refused to move off its position that replacement costs are an appropriate reflection of the market value of breeders. Unfortunately, this value represents less than a third of the true value of breeders and would leave those producers facing depopulation with huge financial burdens. Given that the primary objective of CFIA's compensation policy is to encourage early reporting of foreign animal diseases, not only does CFIA's current position on compensation not encourage reporting, it treats hatching egg producers unfairly when compared to other poultry and livestock producers who receive full compensation from CFIA.

CBHEMA will continue to vigorously pursue this issue until it is satisfactorily resolved.

## **On-Farm Food Safety Implementation Update**

The implementation of CBHEMA's CHEQ™ is proceeding. In member provinces, around 4% of producers are certified under the Program while approximately 16% of all hatching egg producers in Canada are CHEQ™-certified.





In October 2005, CBHEMA directors approved changes designed to bolster the biosecurity elements of the CHEQ™ Program. The CFIA will be reviewing these changes, and the amended program pages will be ready in 2006. The new requirements will be audited on-farm following the distribution of the new pages. In discussions surrounding avian influenza, the CFIA has been very adamant that the strongest measure against disease is for producers to follow biosecurity procedures on-farm.

The development of the CHEQ™ Program Management system will continue in consultation with CBHEMA members and the CFIA. It is expected that the CFIA will conduct a pilot of its program management guidelines early next year.

### **Allocation Methodology**

CBHEMA is constantly striving to ensure that its allocation methodology is as accurate as possible. It has been using a forecasting model – Crystal Ball – in tandem with its regular allocation process to determine if Crystal Ball will help in making more accurate quota allocations.

We have analyzed the results for over a year and the 2 methodologies produce very similar results in most instances. When 2005 actual data is available, we will have an opportunity to compare how this model measures up to reality and then can make a final assessment on its reliability in making provincial allocations.

Sincerely,



*General Manager, CBHEMA*

## CBHEMA BOARD OF DIRECTORS IN 2005

From left to right: Gyslain Loyer, Vice-Chair, Quebec; Ed de Jong, Chair, British Columbia; Jack Greydanus, Ontario; Tom Fleming, Governor-In-Council; Leonard Klassen, Manitoba



## CBHEMA VISION STATEMENT

"To provide the Canadian chicken industry with hatching eggs that meet or exceed expectations for safety, quality, animal husbandry and environmental stewardship. A commitment to provide hatching eggs that meet the need of the Canadian market place while ensuring fair returns to its members and support stable, consistent and profitable growth for all stakeholders."





## 2005 MARKET IN REVIEW

### Canadian Hatching Egg Market

Following the challenges caused by avian influenza the previous year, the hatching egg industry in 2005 faced ongoing efforts to rebuilt breeder stocks in British Columbia and the need to continuously adjust egg supplies downward to account for a contraction in chicken demand during the year.

The outbreak of avian influenza in the Fraser Valley of British Columbia in early 2004 resulted in the destruction of half the breeder stock in the province. This event had ripple effects on the production of hatching eggs throughout Canada that lasted well into 2005. Meanwhile, egg production in B.C. declined as the remaining breeders in the field began to age, adding to the demand of hatching eggs in the province. Replacement breeder chicks placed in mid-summer 2004 only began their lay cycle in early January 2005. Consequently, B.C. hatching egg production was at its lowest level at the beginning of 2005 and gradually ramped up to full production capacity by early August.

To compensate for the supply shortfall in BC, hatcheries in other provinces first agreed to transfer some of their import quota to BC hatcheries. In these provinces, domestic production was increased to offset the movement of import quota to BC. Secondly, the Minister for International Trade Canada (ITCan) agreed to extend the Special "Fast Track" Supplemental Import policy for British Columbia to fill the shortage. 12,145,968 eggs were imported into BC through these "Fast Track" supplemental permits between January 1 and July 31, 2005.

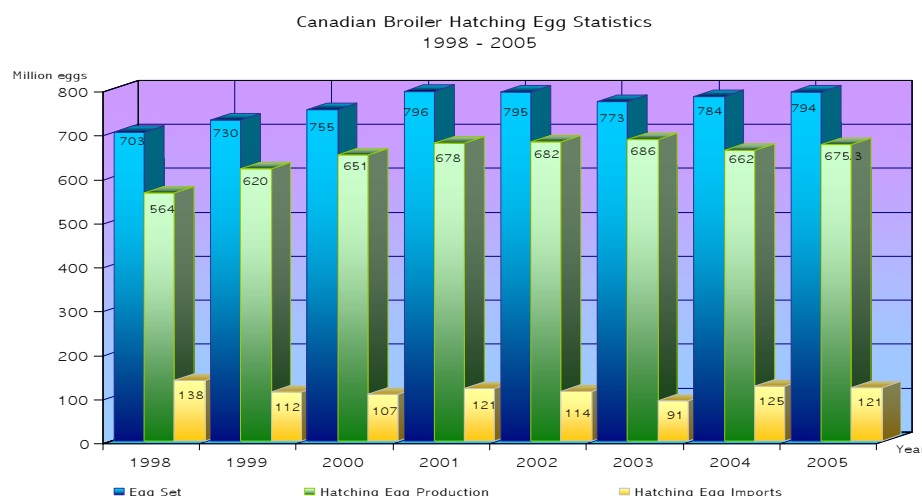
The BC avian influenza outbreak in 2004 also made it difficult to interpret market signals and to determine the actual demand for broiler chicken in Canada. Despite extensive media coverage, avian influenza seems to have had little impact on consumer demand for chicken. As a result, initial estimates for chicken production levels for 2005 were optimistic as were the initial hatching egg production targets.

However, mid-way through 2005 market conditions revealed much softer demand for chicken in Canada than initially anticipated. While avian influenza may have blurred market signals, the energy crisis that emerged in 2005 constrained consumer budget on food expenditures, while avian influenza outbreaks in Asia, the Middle East and Eastern Europe limited export opportunities. These factors converged toward a contraction of demand and a buildup in excess supplies in Canada.

The weakening market for chicken ultimately resulted in lower hatching egg demand in Canada. Egg production in Ontario and Québec, which had increased in the first 6 months of the year to substitute for import shipments which were diverted to B.C., slowed down to a point in the last quarter that both provinces met their allocation targets.

On a national basis, hatching egg production reached 675.3 million eggs in 2005, which was 2.0% higher than 2004 and represented 97.9% of the national allocation. The industry also exported 3.04 million eggs, representing a decline of 1% relative to the previous year.

To augment domestic supplies, hatcheries imported 123.4 million egg equivalents or 86.9% of the global Tariff Rate Quota while BC imported an additional 12.2 million eggs the under the fast-track supplemental import program.



## 2005 Provincial Production

With the introduction of new breeder stocks six months earlier, hatching production in British Colombia started 2005 at its lowest level of productivity but reached maximum output by August of last year. In the end, BC's hatching egg production increased by 35.5% relative to 2004 and the province met 74.3% of its provincial allocation. To address the initial shortfall in supplies, hatching egg imports into British Columbia reached an equivalent of 45.7% of provincial production. Imported eggs came from hatcheries using their own 2005 TRQ, from out of province diverting imported eggs into B.C. and from fast track supplemental imports granted by ITCan.

In other provinces, production returned to normal output levels as Manitoba, Ontario and Québec each met their allocation target. Production in Manitoba and Québec

Provincial Production from 2002 to 2005 (million eggs)\*

Year	BC	Alberta	Sask	Manitoba	Ontario	Québec	Maritimes	Canada
2005	89.3	75.3	25.4	32.6	207.7	187.5	57.6	675.3
2004	65.9	76.3	22.5	31.2	221.2	185.8	59.1	662.1
2003	110.7	73.5	25.1	28.9	207.8	185.1	55.0	686.2
2002	113.8	69.0	16.0	30.7	213.8	185.3	53.1	681.7
2005 - 2004 %change	35.5%	-1.3%	12.8%	4.6%	-6.1%	0.9%	-2.7%	2.0%
2004 - 2003 %change	-40.5%	3.8%	-10.3%	7.7%	6.5%	0.4%	7.5%	-3.5%
2003 - 2002 %change	-2.7%	6.5%	57.1%	-5.8%	-2.8%	-0.1%	3.6%	0.7%

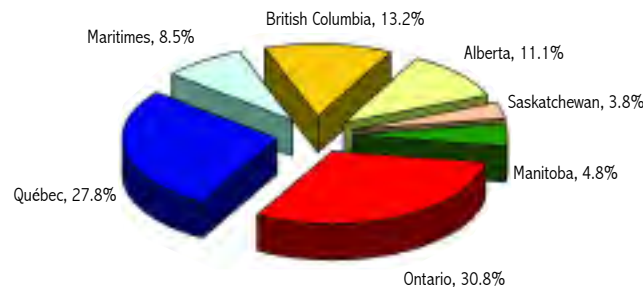
\* Production figures include broiler hatching eggs exports from Quebec, Alberta and Manitoba

expanded by 4.5% and 0.9%, respectively, relative to 2004, while hatching egg production in Ontario contracted by -6.1% because of the high production levels needed during 2004 to offset the import quota that was transferred to B.C. hatcheries that year.

In other areas, Alberta and the Maritimes lowered their production by -1.3% and -2.7% respectively. Saskatchewan's production grew by a healthy 12.8% in 2005.

British Columbia, Saskatchewan and Manitoba increased their market share of Canadian production in 2005. Saskatchewan increased its share by 0.4% to 3.8% and Manitoba rose by 0.1% to 4.8%. The largest increase was registered by B.C., which saw its 2005 market share climb by 3.3% to 13.3%. Prior to the avian influenza, B.C.'s market share stood at 16.2%. Most of B.C.'s increase came as it reclaimed production from Ontario and Quebec. As a result, Ontario's market share fell by -2.7% to 30.8% and Quebec's market share declined to 27.8%. Alberta and the Maritimes lost -0.4% market share respectively.

Provincial Broiler Hatching Egg Production in 2005



Source: CBHEMA

## 2005 Farm Cash Receipts and Prices Paid to Producers per Province

In 2005, total farm cash receipts to hatching egg producers decreased by -4.4% from \$197 million in 2004 to \$188.4 million. Meanwhile, the average annual price paid to producers dropped by -7% from 37.95 cents per chick to 35.30 cents per chick. Lower feed prices in 2005 and higher hatchability were the main factors behind the drop in producer prices.

2005	Price to Producers		Farm Cash Receipt	
	¢/chick	% vs 2004	\$ 000	% vs 2004
British Columbia	37.79	-4.6%	26 684	29.3%
Alberta	38.69	-1.2%	23 031	6.0%
Manitoba	39.19	2.2%	9 943	5.2%
Ontario	33.81	-10.2%	55 529	-15.7%
Québec	33.78	-9.1%	50 090	-8.3%
CANADA	35.30	-7.0%	188 389	-4.4%

## 2004 OVER AND UNDER PRODUCTION ASSESSMENTS

The final assessment of over and under production for 2004 was presented by CBHEMA staff during the summer meeting held in Ottawa. As a result of efforts to assist B.C. in meeting its hatching egg requirement, three provinces produced in excess of their allocations – Alberta, Ontario and Québec. As expected, British Columbia incurred significant under-marketings in 2004.

CBHEMA's policies in regards to over-marketings provide for financial penalties on provincial production that exceeds 101% of its allocation. However, provinces are allowed to lease quota amongst themselves to correct any imbalance in provincial allocations that may have occurred during the year.

Because of the low production levels expected in that province in 2004, B.C. was able to offer 50 million eggs for lease. Ontario and Québec leased 10.48 million eggs and 3.42 millions eggs, respectively. The amount leased by these two provinces was enough to lower their quota utilisation below the 101% threshold. Quota utilisation for Ontario was thus reduced from 105.9% to 100.9%, and for Québec from 102.9% to 101%

Alberta reached an agreement with the CBHEMA Board of Directors to lease 3.17 million eggs from British Columbia, thereby reducing its over-marketings from 105.8% to 101%.

Because of these leases, no province was assessed an overproduction penalty and BC was forgiven its underutilization because of the extraordinary circumstances arising from the AI outbreak in that province.

Province	LDA		Utilization	Quota Pool Leases	LDA Utilization
	Production <sup>2</sup>	Final Allocation			
British Columbia	65,895,526	112,199,344	58.7%	-17,072,285	69.3%
Alberta <sup>1</sup>	69,680,738	65,851,234	105.8%	3,170,991	101.0%
Manitoba	31,160,944	31,043,908	100.4%		100.4%
Ontario	220,815,278	208,428,386	105.9%	10,480,284	100.9%
Québec	182,593,928	177,398,928	102.9%	3,421,010	101.0%
CBHEMA Total	570,146,414	594,921,800	95.8%	0	95.8%

<sup>1</sup> Alberta's figures over the period of January 1 to November 30 2004.

<sup>2</sup> Calculated for application of the Liquidated Damage Assessment (LDA) component of the over-marketings policy, the LDA production is number of hatching egg produced and marketed domestically. It does not include exported hatching eggs. Eggs imported under EICB's Import to Re-export program and set in BC are normally removed from production by accounting for chicks exported (egg equivalent). In 2004, however, avian influenza interrupted chick exports. Eggs imported under this program were instead removed from total imported eggs.

## REPORT OF THE CANADIAN BROILER HATCHING EGG PRODUCERS ASSOCIATION (CBHEPA)

The CBHEPA had another successful year with its student programs. The programs, which were introduced in 1996 for two years and reinstated in 2002, have been popular for producers' families and university students across Canada.



The 2005 CBHEPA Young Farmers Program participant was Ryan Greidanus from Listowell, Ontario. Ryan visited the Ross facilities in Huntsville, Alabama. He truly enjoyed the hospitality and knowledge during his tour. A brush with Hurricane Katrina also made his adventure a little more exciting.

Like last year, there were two sponsorship recipients for the 2005 Broiler Breeder Research Program. The first recipient was Holly Pizzey from Guelph, Ontario for her project entitled: *"Effect of dietary lutein on immune response of breeders and broiler chicks"*. She will be presenting her analysis at the CBHEMA 2006 Annual General Meeting. The second recipient was Janet Montgomery from Edmonton, Alberta for her project entitled *"The Disposal of Light and Heavy Spent Fowl in Canada"*. You can find both reports on the CBHEMA website at [www.cbhema.com](http://www.cbhema.com)

I would like to thank my Committee Members for their work and support.

Sincerely,



Chris den Hertog

Chair, CBHEPA

## REPORT OF THE ADVISORY COMMITTEE

The Advisory Committee met three times in 2005 to discuss factors shaping market conditions and to review the 2005 and 2006 chicken demands.

The chicken industry entered 2005 facing mixed messages from the marketplace in regards to the demand for chicken in Canada. At its March meeting, the Advisory Committee agreed that consumer demand was generally robust and was expected to expand to 989 Mkg for 2005, representing an increase of 2% over the previous year. This forecast was conditional on the industry being able to control storage stock levels and absorb imports.

At the June meeting, it became apparent that corrective measures would soon be required to align chicken production to the soft demand condition prevailing in the market. In establishing the final chicken demand for 2005, the committee's estimate was lowered by 1% to 980 Mkg. Nonetheless, this still represented a 2.5% increase over the 2004 chicken production level of 946.1 Mkg.

During its November meeting, the Committee acknowledged that consumption in Canada had hit a "protein wall". In addition, the Canadian consumers saw their disposable income being squeezed by soaring fuel costs in the wake of Hurricane Katrina. Canadian market conditions were also adversely affected by weak market conditions across the globe arising from avian influenza outbreaks in Asia, the Middle East and Eastern Europe. It was determined that chicken production in Canada for 2005 would again be lower than anticipated at the June meeting and would reach 971 Mkg.

The impact of avian influenza on consumer purchasing behaviour was discussed during the November meeting. While there was evidence that media coverage of avian influenza internationally had negative consequences on the demand for poultry in some countries, media coverage in Canada had not had any noticeable impact on consumption. Rather Canadian consumers continued to have a high level of confidence in regards to the safety of Canadian chicken.

The initial hatching egg allocation for 2006 set during the March meeting was based on a projected chicken production level of 1,009 Mkg. Given the state of chicken demand in Canada, the Advisory Committee proposed downward adjustments to the level of chicken production at its June meeting and again at its November meeting, where it lowered its estimate of chicken production to 976.1 Mkg for 2006.



A handwritten signature in dark ink, appearing to read 'Jack Greydanus', written over a light-colored, slightly textured background.

Jack Greydanus

*Chair, Advisory Committee*



## FINANCE COMMITTEE REPORT

With the departure of Alberta as a member province at the end of 2004 and the consequential loss in revenue, CBHEMA needed to critically assess its revenues and expenditures in 2005 to ensure that its financial situation continued on a strong footing.

In 2005, CBHEMA revenues reached \$1.24 million, which were \$60,000 lower than in the previous year. However, CBHEMA directors made several decisions throughout the year that resulted in significant savings in CBHEMA's operating expenses that offset these lower revenues. Total expenses fell from \$1.21 million in 2004 to \$1.13 million in 2005 for a savings of \$80,000. These savings were driven by the increased use of teleconference meetings, fewer out-of-town meetings, and a reduction in research funding for 2005.

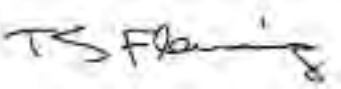
CBHEMA also reached an agreement with producers in non-member provinces with respect to funding activities related to on-farm food safety program implementation and delivery in these provinces.

As in previous years, the Finance Committee reviewed CBHEMA's financial policies and assessed them for clarity and completeness and recommended changes as required.

As mentioned earlier, the fund for research was lowered in 2005 to \$17,500. Authorized research expenditures were charged to this fund and any residual funds were carried forward to the next fiscal period.

During 2005, the Finance Committee met three times to review the Agency's financial position and pertinent issues.

Sincerely,



Tom Fleming

*Chair, Finance Committee*



## REPORT OF THE RESEARCH COMMITTEE

The Research Committee continued to look at the top research priorities for broiler hatching egg producers, as well as work with the Canadian Poultry Research Council (CPRC) to provide direction on program funding proposals and expanding funding sources for poultry research in Canada. The Research Committee will continue to review its top specific priorities each year, while aligning with CPRC's general priorities.



### CPRC

One of CBHEMA's top research priorities is production-based applied research. CPRC is funding a broiler breeder project looking at the impact of timing of protein intake and growth patterns on reproductive efficiency in breeder females. This project is being conducted by Dr. Frank Robinson at the University of Alberta.

CBHEMA has also named environmental research and food safety as priority areas. Six environmental research proposals were reviewed and put forward for approval for National Sciences and Engineering Research Council (NSERC) funding to leverage industry funds. AviMicroNet research has progressed, looking at alternatives to antibiotics. Four projects totaling \$352, 900 are underway, with funding secured over 3 years. As well, the new call for food safety and poultry health applications was sent out by the CPRC in Fall 2005. We anticipate proposals looking at pathogens related to food safety. There has also been a desire expressed for work contributing to the knowledge of mechanisms and treatments of poultry disease including avian influenza. Dark meat utilization continues to be an area of interest for CBHEMA.

One of the major events facilitated by the CPRC in 2005 was a symposium looking at the current of state of Canadian poultry research. The major poultry research priority areas identified were food safety, animal welfare, poultry health and disease, antibiotic replacement, environmental research, and product development. It was also identified that Agriculture and Agri-Food Canada should become a major contributor to Canadian poultry research.

### Our projects

We continued to fund research commenced prior to the formation of the CPRC. Dr. Gaylene Fasenko at the University of Alberta is looking at the effects of genetic strain, flock age, and egg size on chicks, from embryo nutrient utilization, saleable chick production, and subsequent broiler growth.

### Research needs – food safety

Finally, CBHEMA continues to monitor research needs for the Canadian Hatching Egg Quality (CHEQ™) Program, participating in a national working group on research needs in on-farm food safety to review such issues such as measuring on-farm food safety program effectiveness.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Chris den Hertog'.

Chris den Hertog,

*Chair, Research Committee*

## REPORT OF THE HACCP TECHNICAL COMMITTEE

2005 marked the official launch of the Canadian Hatching Egg Quality (CHEQ™) Program on broiler hatching egg farms. Following the completion of technical review by the Canadian Food Inspection Agency (CFIA), producer manuals were distributed and made available electronically on CDs and online at [www.cbhema.com](http://www.cbhema.com).



While most producers have heard of on-farm food safety and the CHEQ™ Program, one of the major questions arising from producers was, "What is required for me to have a successful CHEQ™ audit?" To assist producers, manuals were presented in concert with awareness and training sessions. Provincial staff and auditors were also trained on the program to help producers customize the program to their operations, and to provide consistent audits of the program on the farm. By the end of 2005, certification of producers was underway, and some provinces had set goal dates for their producers to be certified under CHEQ™ in 2006.

CHEQ™ is an evolving program. The first aspect we reviewed following our experience with avian influenza was biosecurity. Biosecurity has always been a part of our industry, and is an extremely important element of CHEQ™. It not only addresses hazards related to on-farm food safety, but also is the most effective means of protecting the health of our birds. Following this review, several changes designed to strengthen biosecurity were approved by the CBHEMA's board. These changes are expected to come into effect early in 2006, and must also be approved by the CFIA as a part of its official recognition of on-farm food safety programs.

I look forward to seeing certification numbers increase as producers come on to the program in 2006. As the program management system is developed by working with each provincial office, CBHEMA will work to get CHEQ™ officially recognized by the CFIA. This will ensure that ongoing implementation is consistent, with the overall goal of maintaining food safety in our part of the food chain. This will be in partnership with Agriculture and Agri-Food Canada's Canadian Food Safety and Quality Program (CFSQP).

Sincerely,

Ed De Jong

*Chair, HACCP Technical Committee*

## CBHEMA ALTERNATES



From left to right: Bernie Friesen, Manitoba; Mario Phaneuf, Quebec;  
Chris den Hertog, British Columbia; missing: Reg Cliche, Ontario

## PROVINCIAL MANAGERS



From left to right: Bob Guy, Ontario; Wayne Hiltz, Manitoba,  
Dave Cherniwchan, British Columbia; Pierre Belleau, Quebec

## CBHEMA Staff



From left to right: Joy Edstron, Bookkeeper; Errol Halkai, General Manager;  
Nicole Duval, Executive Assistant; Victoria Sikur, Food Safety Officer;  
Michel Dubreuil, Economist





FINANCIAL STATEMENTS  
For  
CANADIAN BROILER HATCHING EGG MARKETING AGENCY  
For year ended  
DECEMBER 31, 2005

CANADIAN BROILER HATCHING EGG MARKETING AGENCY  
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DECEMBER 31, 2005

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**Welch & Company LLP**  
Lévesque Marchand, Chartered Accountants

### AUDITORS' REPORT

The Minister of Agriculture and Agri-Food  
Government of Canada

The National Farm Products Council

The Members

#### **CANADIAN BROILER HATCHING EGG MARKETING AGENCY**

We have audited the statement of financial position of the Canadian Broiler Hatching Egg Marketing Agency as at December 31, 2005 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In common with many agricultural products marketing agencies, the Agency derives revenue from levies charged to producers based on their marketings, the completeness of which is not susceptible of satisfactory audit verification. Due to the structure of the broiler hatching egg producers' levy, our verification of these revenues was limited to the amounts recorded in the accounts of the Agency and we were not able to determine whether any adjustments might be necessary to levy revenues, net revenue (expense), assets and net assets.

In our opinion, except for the effects of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of levy revenues referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Canadian Broiler Hatching Egg Marketing Agency as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Welch & Company LLP*


CHARTERED ACCOUNTANTS

Ottawa, Ontario  
February 5, 2006

**CANADIAN BROILER HATCHING EGG MARKETING AGENCY**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2005**

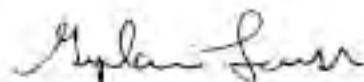
	<u>2005</u>	<u>2004</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 100,406	\$ -
Short-term investments - note 3	627,176	588,748
Accounts receivable:		
Levies	266,203	241,091
Food Safety Quality Program	594	3,066
Other	52,783	12,758
Prepaid expenses	9,216	10,804
	<u>1,056,380</u>	<u>856,467</u>
<b>PROPERTY AND EQUIPMENT - note 4</b>		
Equipment and leasehold improvements	137,670	133,341
Less accumulated amortization	<u>121,217</u>	<u>111,679</u>
	<u>16,453</u>	<u>21,662</u>
	<u>\$ 1,072,833</u>	<u>\$ 878,129</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Bank indebtedness	\$ -	\$ 5,459
Accounts payable and accrued liabilities	105,506	76,705
Deferred contributions - note 5	<u>62,301</u>	<u>-</u>
	<u>167,807</u>	<u>82,164</u>
<b>NET ASSETS</b>		
Invested in property and equipment	16,453	21,662
Internally restricted for research purposes	35,768	35,980
Internally restricted for severance contingency	142,232	113,865
Unrestricted	<u>710,573</u>	<u>624,455</u>
	<u>905,026</u>	<u>795,962</u>
	<u>\$ 1,072,833</u>	<u>\$ 878,129</u>

Approved on behalf of the Board:



Ed De Jong

Director



Gyslain Loyer

Director

(See accompanying notes)

## CANADIAN BROILER HATCHING EGG MARKETING AGENCY

## STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2005

	2005	2004
<b>Revenue</b>		
Administrative levies	\$ 1,211,521	\$ 1,235,316
Research levies	17,500	60,000
Interest	<u>15,005</u>	<u>8,875</u>
	<u>1,244,026</u>	<u>1,304,191</u>
<b>Expense</b>		
Advertising	3,112	6,269
Amortization	9,538	11,727
Data verification	59,956	59,869
Directors' fees and participants' expenses	191,474	226,886
Fees	26,497	26,497
SM5 Geneva representative	21,377	22,458
SM5 public affairs officer	-	10,127
WTO - coordinator	6,329	-
Interest and bank charges	811	838
Interpretation	32,092	45,503
Student programs	5,537	4,263
Trade Media and government training	67,590	-
Meetings	18,205	23,758
Office	21,872	23,998
On-Farm Food Safety Project	1,571	46,300
Postage, telephone and facsimile	9,149	12,690
Professional fees		
Legal	32,401	53,177
Audit	8,750	7,295
Other	13,886	-
Rent	22,346	24,900
Research	25,993	87,051
Salaries and benefits	359,799	341,151
Staff expenses	19,455	46,532
Studies	1,000	6,960
Translation	33,235	30,569
Web-site and server	7,582	8,939
International trade activities	<u>135,405</u>	<u>85,111</u>
	<u>1,134,962</u>	<u>1,214,868</u>
<b>Net revenue</b>	<u>\$ 109,064</u>	<u>\$ 89,323</u>

(See accompanying notes)

**CANADIAN BROILER HATCHING EGG MARKETING AGENCY**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**YEAR ENDED DECEMBER 31, 2005**

	<u>2005</u>					<u>2004</u>
	<u>Invested in property and equipment</u>	<u>internally restricted for research purposes</u>	<u>internally restricted for severance contingency</u>	<u>Unrestricted</u>	<u>Total</u>	<u>Total</u>
Balance, beginning of year	\$ 21,662	\$ 35,980	\$ 113,865	\$ 624,455	\$ 795,962	\$ 706,639
Net revenue (expense)	(9,538)	(212)	-	118,814	109,064	89,323
Investment in property and equipment	4,329	-	-	(4,329)	-	-
Internally imposed restrictions - note 5	-	-	28,367	(28,367)	-	-
Balance, end of year	<u>\$ 16,453</u>	<u>\$ 35,768</u>	<u>\$ 142,232</u>	<u>\$ 710,573</u>	<u>\$ 905,026</u>	<u>\$ 795,962</u>

(See accompanying notes)



**CANADIAN BROILER HATCHING EGG MARKETING AGENCY**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2005**

	<u>2005</u>	<u>2004</u>
<b>CASH PROVIDED (USED)</b>		
Operations	\$ 148,622	\$ 101,787
Investing activities	(4,329)	(7,857)
Financing activities	<u>(5,459)</u>	<u>5,459</u>
<b>INCREASE IN CASH AND SHORT-TERM INVESTMENTS</b>	138,834	99,389
<b>CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR</b>	<u>588,748</u>	<u>489,359</u>
<b>CASH AND SHORT-TERM INVESTMENTS, END OF YEAR</b>	<u>\$ 727,582</u>	<u>\$ 588,748</u>
<hr/>		
<b>Operations</b>		
Received from members and others	\$ 1,231,560	\$ 1,321,787
Received interest	12,102	8,875
Paid to suppliers and employees	<u>(1,095,040)</u>	<u>(1,228,865)</u>
	<u>\$ 148,622</u>	<u>\$ 101,787</u>
<b>Investing activities</b>		
Paid for property and equipment	<u>\$ (4,329)</u>	<u>\$ (7,857)</u>
<b>Financing activities</b>		
Increase (decrease) in bank indebtedness	<u>\$ (5,459)</u>	<u>\$ 5,459</u>

(See accompanying notes)

**CANADIAN BROILER HATCHING EGG MARKETING AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2005**

**1 ORGANIZATION AND PURPOSE**

The Agency is a statutory corporation created under the Farm Products Agencies Act.

The mission of the Agency is to establish a comprehensive broiler hatching egg marketing program for Canada in order to ensure a strong, efficient and competitive production and marketing industry for broiler hatching eggs in Canada and a dependable supply of the product to the chicken industry.

The Canadian Broiler Hatching Egg Marketing Agency is a non-profit organization within the meaning of the Income Tax Act (Canada) and is exempt from income taxes.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements are prepared in accordance with Canadian generally accepted accounting principles.

***Accounting estimates***

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

***Revenue recognition***

The Agency receives levies based on the number of hatching eggs marketed in intra-provincial, inter-provincial and export trade. Levies are recorded as revenue in the period earned.

The Agency follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Other sources of revenue are recorded using the accrual basis of accounting.

***Investments***

Investments are stated at cost except for those cases where a decline in value is considered to be permanent in which case the investment is written down to market value.

***Property and equipment and related amortization***

Property and equipment are recorded at cost.

Property and equipment are amortized by the straight-line method over their estimated useful lives, as follows:

Office furniture and equipment	10 years
Electronic equipment	3 years
Leasehold improvements	term of lease

***Financial instruments***

The Agency's financial instruments consist of cash, short-term investments, accounts receivable and accounts payable. It is management's opinion that the Agency is not exposed to significant interest, currency or credit risks arising from these financial instruments.

## CANADIAN BROILER HATCHING EGG MARKETING AGENCY

## NOTES TO FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED DECEMBER 31, 2005

## 3. SHORT-TERM INVESTMENTS

Short-term investments are as follows:

	<u>2005</u>	<u>2004</u>
Royal Bank cashable guaranteed investment certificates	\$ 527,176	\$ 588,748

## 4. PROPERTY AND EQUIPMENT

Property and equipment consist of:

	<u>2005</u>		<u>2004</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
Office furniture and equipment	\$ 41,574	\$ 35,863	\$ 41,574	\$ 34,731
Electronic equipment	83,880	83,138	89,551	74,732
Leasehold improvements	<u>2,216</u>	<u>2,216</u>	<u>2,216</u>	<u>2,216</u>
	<u>\$ 137,670</u>	<u>\$ 121,217</u>	<u>\$ 133,341</u>	<u>\$ 111,679</u>

## 5. INTERNALLY IMPOSED RESTRICTIONS

The Board of Directors have internally restricted \$28,367 in 2005 (2004 - \$24,058) towards severance contingency.

## 6. DEFERRED CONTRIBUTIONS

Deferred contributions represent restricted funding received in excess of related expenses incurred. Changes in the deferred contributions balance are as follows:

	<u>2005</u>	<u>2004</u>
Balance, beginning of year	\$ -	\$ -
Amounts recognized as revenue in year	-	-
Amounts received in year	<u>(82,301)</u>	<u>-</u>
Balance, end of year	<u>\$ (82,301)</u>	<u>\$ -</u>

The deferred contributions balance represents the Agency's share of funds distributed with respect to the Vitamins Class Action Lawsuit. In accordance with the terms of distribution the funds are to be expended towards "Food Safety and Flock Health in Canadian Broiler Breeder Production".

## CANADIAN BROILER HATCHING EGG MARKETING AGENCY

## NOTES TO FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED DECEMBER 31, 2005

## 7. COMMITMENTS

*Lease agreement*

The Agency, Canadian Federation of Agriculture, Dairy Farmers of Canada and Canadian Pork Council are jointly and severally committed to an operating lease for office premises. The total lease obligation, exclusive of operating costs is \$75,204 annually to maturity of lease on December 31, 2007. The agency's share of rental costs is based upon its share of space occupied which is currently 9.97%. The agency's current share of operating costs approximates \$15,000 annually.

In addition, the agency has a singular commitment by way of a sub-lease for office premises. The sub-lease obligation, exclusive of operating costs, is \$450 per month to maturity of sub-lease on March 31, 2006.

*Research*

The Agency has residual financial commitments for the following research projects

Laval University - Reduction of phosphorus in litter	\$ 7,525
Laval University - Improvement of broiler breeder male fertility	7,500
University of Alberta - Effects of dietary selenium source on the fertility and hatchability of broiler eggs	3,581
University of Alberta - Reduction in yolk sac nutrient utilization is related to clubbed down syndrome in broiler breeder offspring	15,000
University of Alberta - Genotypic, growth and photostimulatory interaction effects on reproductive and metabolic efficiency in female broiler breeders	<u>2,669</u>
	<u>\$ 36,275</u>