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DISCUSSION PAPER:

**BCCMB NEW ENTRANT  
GROWER PROGRAM  
EXEMPTIONS**

APRIL 24, 2014

BRITISH COLUMBIA CHICKEN MARKETING BOARD

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## EXECUTIVE SUMMARY

Facilitating entry to the industry and enhancing market responsiveness to specialty products are important facets of the regulated marketing system that must be carefully balanced with sound marketing policy. The BCCMB's New Entrant Grower (NEG) program has successfully facilitated the entry of new growers to the industry and increased responsiveness to new products.

However, the success of the NEG program has come at the expense of the remaining growers and processors at a time when chicken consumption is stagnant, chicken imports are growing, and regulations are increasing.

In order to protect historical investments, increase consistency in the sector and maximize supply chain efficiencies, BCCMB should add exemptions to transfers that are not technically transferring the ownership of the quota.

## INTRODUCTION

A strong new entrant program is crucial to the sustainability and integrity of the BC's regulated marketing sector in agriculture. The goal of BC Chicken Marketing Board's (BCCMB) 2005 New Entrant Grower (NEG) program is to provide interested people, with no past ownership in the industry, an opportunity to grow chicken, and to determine their aptitude, interest and commitment level to the industry. The program is not meant to create a stand-alone "economically viable" farm unit that would finance the full costs of land and buildings and provide a living wage for a new grower. Over the past eight years, the program has been successful in achieving its objective, providing opportunities for new entrants while also serving a market for specialty products.

## BACKGROUND - QUOTA TRANSFER ASSESSMENTS

In 2005, BCCMB made submissions to the BC Farm Industry Review Board (FIRB) as part of the policy process surrounding specialty markets and NEG programs. BCCMB proposed to calculate a deemed transfer assessment based on 5% of the three year moving average of all quota transfers. Each year, the deemed assessment is deducted from the provincial allocation received from Chicken Farmers of Canada and placed in the new entrant account for distribution to eligible new entrants on the NEG waiting list. With this approach, all producers remaining in the industry share the cost of the funding assessment.

Other supply managed commodity boards in BC use a direct transfer approach, deducting a 5% assessment from individual quota transfers. Under this approach, only the exiting producer incurs the cost of the assessment, with some exceptions.

In consultations, BCCMB stakeholders strongly preferred the deemed approach as they felt that a direct approach would be an unfair tax on those exiting the industry. The BC Chicken Growers Association and several individual growers confirmed their support for the deemed approach with proposed exemptions.

In the BC FIRB report titled "Specialty Market and New Entrant Submissions: Policy, Analysis, Principles and Directions" BC FIRB acknowledged that this policy was different than that of other supply managed boards in BC, but understood that BCCMB had support for this policy from growers. They approved the policy, stating:

Therefore, it will be acceptable to FIRB for all quota existing prior to the establishment of specialty and new entrant incentive quotas subject to it being put in place for a minimum of three years, that there be no transfers left out of the calculation, and that the amount assessed being made available regardless of changes in provincial allocation.

From 2006 to 2013, the BC Chicken Marketing Board has distributed a total of 697,175 kg of live weight quota to a total of 63 new entrants in the industry, averaging 7.88 new entrants/year (Table 1).

Table 1 BCCMB New Entrant Grower Program

| Year         | KGS Live Distributed to New Entrants | # New Entrants Started |
|--------------|--------------------------------------|------------------------|
| 2006         | 96,635                               | 12                     |
| 2007         | 101,708                              | 11                     |
| 2008         | 88,547                               | 8                      |
| 2009         | 61,627                               | 5                      |
| 2010         | 69,958                               | 3                      |
| 2011         | 101,239                              | 11                     |
| 2012         | 80,806                               | 10                     |
| 2013         | 96,655                               | 3                      |
| <b>TOTAL</b> | <b>697,175</b>                       | <b>63</b>              |

By prioritizing new entrant production type and location, this program has been effective in satisfying both regional and specialty market needs. In many cases, the new entrants received additional quota in subsequent years to further meet market needs.

## EXEMPTIONS

All other supply managed boards in BC exclude transfers that occur within family members or as part of business restructuring from the 5% assessment for NEG programs. Industry stakeholders view these types of transfers as part of normal business transactions and a reality of farm businesses today.

BCCMB current policy is to have no exemptions on the 5% assessment for its NEG program.

## CONSULTATION WITH STAKEHOLDERS

### 2009 Consultations

BCCMB engaged Meyers Norris Penny (MNP) to develop and conduct a study, gathering perceptions from NEG participants in regards to whether their program has met their

expectations and what could be done to improve the program. Thirty six NEG participated in an online/phone survey tool. Six new entrants and one processor participated in in-depth interviews. Some of the key issues identified in the survey included:

- Assigned quota makes profit margins very tight for small operations.
- Some NEGs and industry stakeholders didn't see value in the program.
- Some NEGs did not fully understand the program.
- The specialty market is at capacity and growth has slowed.

The BCCMB addressed some of the stakeholder concerns in our strategic planning process done in 2012, including strategic objectives to grow both the mainstream and specialty market by, to optimize system efficiencies and to support the benchmarking grower performance.

### 2012 Consultations

In November 2012, the BCCMB went through a further consultation process in regards to our NEG program, sending an on-line survey to existing growers, individuals on the NEG wait list, and permit holders.

#### ON-LINE SURVEY

A total of 80 individuals responded to the on-line survey. Of the respondents, 46 were growers, 7 were on the NEG wait list and 19 were permit holders. The majority (72%) of respondents agreed that the NEG program was successful in attracting new entrants into the industry. When asked if the current funding formula for NEG program should remain the same or if there should be exemptions to the funding formula, about 10% of respondents took the time to comment that family transfers and corporate restructuring should be excluded from the funding formula.

#### BCCGA

As part of the 2012 consultations, stakeholders were given an opportunity to make formal submissions. The BCCGA made a formal submission that included the following key points:

1. In a flat market, sustaining existing growers is very important consideration that must be balanced with transferring quota to the NEG program.
2. The following types of quota transactions should not be considered a transfer in regards to funding the NEG pool because they are not changes in control or ownership, but merely internal business transactions:
  - a. Changes in percentage of ownership between shareholders within a company.
  - b. Changes in company structure, i.e. from partnership to corporation. The owners don't actually change.

c. In-family transfers.

**PPAC**

In 2013, BCCMB’s Pricing and Production Advisory Committee (PPAC), which includes representatives from processors, BCCGA and BC Broiler Hatching Egg Producers Association, formed a committee to examine the policy considerations surrounding exemptions for the NEG program. The Exemptions Committee supported the position of BCCGA, stating that a change in policy was needed to help protect historical production-based investments and maximize system efficiencies.

**HISTORICAL PRODUCTION-BASED INVESTMENTS**

Chicken farmers in BC have experienced a much slower, if any growth in recent years. In the late 1990’s and early 2000’s chicken consumption increased steadily, sustaining the chicken industry in BC and driving investments in animal welfare, environmental sustainability, and food safety. However, this changed in recent years. Since about 2003, chicken farmers in BC have faced stagnant consumption, increased chicken imports and increased regulatory requirements.

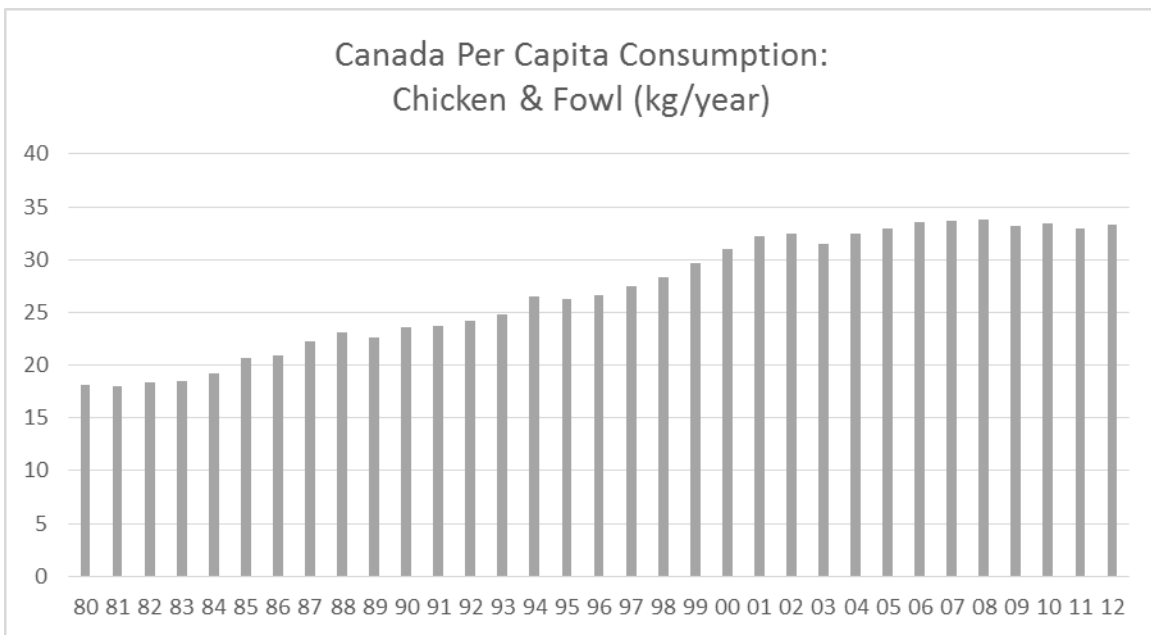


FIGURE 1 CANADA PER CAPITA CONSUMPTION OF CHICKEN  
SOURCE: AGRICULTURE & AGRI-FOOD CANADA

Also during this time, there has been increased trade liberalization, which has increased the amount of chicken imports allowed into Canada. Canada’s chicken farmers’ share of the domestic market has decreased as a result.

Furthermore, processor and grower members of BCCMB’s PPAC have stated that additional food safety, animal care and biosecurity regulations have increased their capital costs significantly, causing their break even volumes to be much higher than originally anticipated.

Chicken growers and processors in BC, who have invested heavily in their businesses, have not experienced the same rate of growth that they were expecting when the original historical investments were made due to stagnant consumption, increased imports and increased regulations.

## SUPPLY CHAIN EFFICIENCIES

The stagnant growth in the chicken sector can be a threat to historical based investments, causing an under-utilization of capital and ecological assets in our sector.

BCCMB receives an allocation for production for each period from Chicken Farmers of Canada (CFC). This amount in recent years has consistently been less than the total quota holdings of BC chicken farmers. Figure 2 shows, BC’s share of the national allocation since December 2007. BC has reached the level of total quota holdings only 6 times out of the last 40 periods.

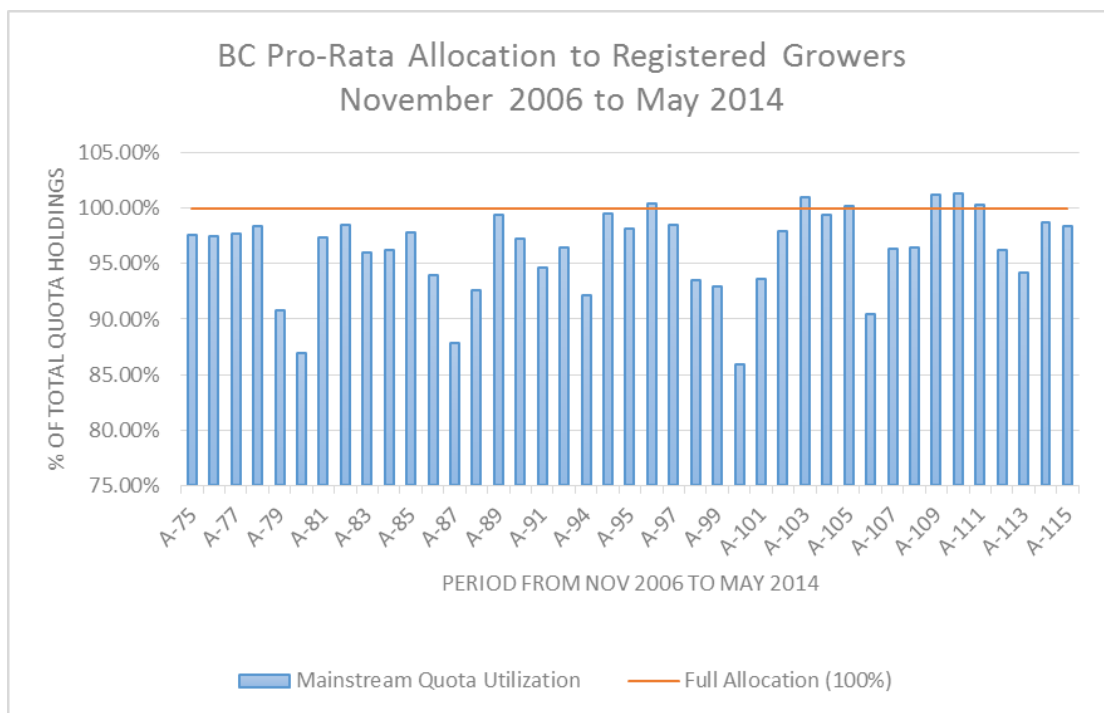


FIGURE 2 BC’S PRO-RATA QUOTA ALLOCATION TO REGISTERED GROWERS

Because chicken farmers in BC are required to have enough barn space to meet 100% of their quota holdings, the infrastructure is inefficient. Buildings, processing equipment other underutilized assets for growing of chicken in BC are underutilized. In addition, because new entrants are smaller, they are less efficient in terms of economies of scale.



BCCMB, in evaluating policy changes, must balance the costs starting new entrants with the benefits of sustaining existing producers and processors.

## SCENARIO WITH EXEMPTIONS

Even with an exemption to the NEG policy, BCCMB still expects to create opportunities for new growers to enter the industry and grow the specialty sector. Since 2005 approximately 56% of BCCMB's transfers are external transactions. Using the average amount over last nine years, if family transfer/corporate restructuring transfers were excluded from the formula, there would be an average of 41,000KG of quota available for new entrants annually, or enough for approximately five new entrants per year.

Specialty markets are expected to grow and prosper with an exemption with the NEG policy. Chicken Farmers of Canada recently adopted a specialty policy that will allow for a different class of quota for specialty chicken, such as Taiwanese and Silkies. BCCMB will no longer have to take quota from mainstream to supply these markets, allowing this segment to grow with market demand. The organic market is also expected to grow. In 2013, BCCMB completed a market analysis of the organic market. The BCCMB organic program has been a success, growing over 600% since 2005. BCCMB has completed a consultation and evaluation process for a change in the organic policy to ensure that this market segment continues to be satisfied. The specialty chicken market segments are strong and are expected to grow, even if there is an added exemption for the NEG calculation.

With a policy including exemptions for family transfers and corporate restructuring, there will still be a significant amount of quota available for new entrant chicken growers in BC, the specialty Asian market, and the organic market.

## POLICY RECOMMENDATION

Facilitating new growers, providing additional access to the industry and improving our market responsiveness to specialty products are important facets of the regulated marketing system. However, protection of historical investments, consistency with other supply managed boards and maximizing supply chain efficiencies are also important facets of sound marketing policy. BCCMB's NEG program is the only one in BC that does not exempt family transfers and corporate restructuring from its funding formula. Since 2005, BC chicken growers and processors have experienced little, if any growth. The lack of growth not only causes return on investments to fall, but also slows new investment in environmental sustainability, food safety and animal care. Adding to this encumbrance is that BC chicken farmers are not receiving 100% of their pro-rata quota allocation in recent years so chicken growing and processing facilities are not being used to their fullest capacity.

***BCCMB's New Entrant Grower program should exempt the following transactions from its funding formula:***

- 1. Transfers to Direct Family Members***
- 2. Business restructuring involving :***
  - a. a change from partnership to corporation with the shareholders remaining the same***
  - OR***
  - b. a change in the percentage of ownership between shareholders of a company.***

## PRINCIPLE-BASED ANALYSIS

In addition to consultation with stakeholders and the application of sound marketing policy, BCCMB follows higher levels principles to all decisions and analysis to ensure that we are interpreting and implementing principles-based regulations within our legislative and policy framework. The BC FIRB has recommended six higher level principles to guide our decisions and policy recommendations: Strategic, Accountable, Fair, Effective, Transparent, and Inclusive.

### Strategic

BCCMB has authority to make the above-mentioned policy recommendation under the powers granted to it under the Natural Products Marketing (BC) Act and the BC Chicken Marketing Scheme (1961).

This policy change is consistent with sound marketing policy because it will provide greater industry stability.

In addition, this policy recommendation would increase the efficiency of the BC chicken supply chain and help achieve one of BCCMB's strategic goal to optimize system efficiencies by using the infrastructure already in place for growing and processing chicken in BC to its fuller capacity.

### Accountable

In implementing this policy recommendation, BCCMB will continue to be accountable to all our stakeholders. We will continuously monitor quota transfers. The NEG program calculation is reported every year to BC FIRB, BCCGA and other industry stakeholders.

### Fair

The parties affected by this policy have been given opportunities to give information through the consultation processes done in 2009 and 2012. Even with the implementation of this policy, there is still expected to be considerable quota available for the NEG program.

### Effective

This policy change is relatively minor, yet will help achieve a much larger strategic goal of maximizing system efficiencies.

**Transparent**

This discussion paper will be distributed for discussion of PPAC, which represents industry. If the PPAC decides to pursue the policy recommendation, it will go to the BCCMB board for approval. Once approved by the BCCMB board, an executive summary will be put in BCCMB's monthly board report.

**Inclusive**

While this policy may result in a slight decrease in the amount of quota allocated to the NEG program, it is expected that the BCCMB will still make significant annual deposit into the NEG program, starting several new growers every year.

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