

BC Farm Industry Review Board
Final Project Terms of Reference – February 28, 2017
Quota Assessment Tools Evaluation

I. Purpose

The overall purpose of the Quota Assessment Tools Evaluation project (Evaluation Project) is to assess the outcomes of BCFIRB's 2005 Specialty Review transfer assessment and industry entry related directions, as they pertain to their continued effectiveness, utility and appropriateness. The evaluation will be conducted in light of:

- The 2005 transfer assessment and industry entry related policy objectives; and,
- Supporting delivery of sound marketing outcomes in a rapidly changing environment.

II. Areas of Focus

The finalized Areas of Focus for the Evaluation Project are as follows:

1. Transfer Assessment Structure

Evaluate whether, and to what extent, the current structure of transfer assessments is impacting the movement of quota between producers and related consequences.

2. Industry Entry

Evaluate whether, and to what extent, the current programs and tools used to reduce quota-related barriers to entry continue to support industry entry by new farmers (i.e. people new to the industry who are not part of family-farm succession planning). This will include an evaluation of whether, and to what extent, existing transfer assessment exemptions continue to serve their intended purposes.

III. Rationale

Since 2005, supply managed commodity production and associated value chains have changed considerably. An evaluation of BCFIRB's 2005 (and subsequent) quota transfer assessment and industry entry related directions is warranted and timely. The evaluation is intended to determine if desired policy outcomes are still being achieved and if there are unintended or adverse consequences that need to be addressed.

Some commodities have seen significant growth in production and diversification, including dairy, eggs, and chicken - and by extension, hatching eggs. Other commodities face a more challenging market environment, such as turkey. Retail and processor consolidation continues not only provincially, but also nationally and globally, with associated pressures on market share. Industry and market conditions have not only changed since 2005, the pace of change is also accelerating. Alongside these changes, public demands are shifting rapidly, with increased interest in where food comes from and how it is produced.

Since 2005, several commodity boards have proposed different industry driven changes to BCFIRB's 2005 quota transfer assessment directions. BCFIRB has approved some of the requested changes. Others were not approved due to a lack of data, rationale or other due process considerations. Some of the approved changes may apply across all commodities (e.g., establishment of family transfer assessment exemptions), while others may only apply to one commodity (e.g., extension of transfer assessment exemptions to nieces, nephews and grandchildren in dairy). Looking forward, change requests from the Egg Board and Turkey Board are under development.

Given industry developments over the last eleven years, past and future requests to amend BCFIRB's transfer assessment directions, and accelerating rate of industry change, an analysis of changes made since 2005 will help determine if the assessment tools are still meeting intended outcomes and apply as appropriate to all or some sectors.

Informal producer and stakeholder input to BCFIRB and the commodity boards continues to be received on the effectiveness, utility and continued appropriateness of the assessment tools. A comprehensive consultation of the producers and other members of the value chain in the supply managed industries will be part of this project.

BCFIRB is the supervisory agency of commodity boards under the *Natural Products Marketing (BC) Act*. BCFIRB is responsible for ensuring its regulatory directions support the supply managed sector in being responsive and successful now and in the future, in support of orderly marketing and the public interest.

IV. Background – 2005 Specialty Review

BCFIRB's review of specialty production and new entrant programs completed in 2005 ("2005 Specialty Review"), established overarching quota management principles and specific directives, in consultation with the supply-managed commodity boards ("boards"), industry stakeholders and the Ministry of Agriculture.

The 2005 Specialty Review's primary goals were to develop policies and principles to support and promote specialty markets and new entrants in the supply management system, consistent with the Ministry of Agriculture's July 2004 Regulated Marketing Economy Policy.

Principles and Directives

A summary of BCFIRB's 2005 policies, principles and directions is attached.

Subsequent amendments to BCFIRB's 2005 directions include:

September 2, 2005 - Policies and principles established on September 1, 2005 arising from the 2005 Specialty Review were extended to all quota (mainstream, specialty and new entrant).

January 26, 2007 - Siblings exempted from transfer assessments. Limited to transfers for succession planning purposes and where the quota transferred would remain attached to the “family farm”¹.

July 20, 2006 - Turkey Board requested, and BCFIRB agreed, to change from “direct transfer assessment” to “deemed transfer assessment”.

September 2, 2009 – Turkey Board requested and received no objection from BCFIRB to change from “deemed transfer assessment” to “direct transfer assessment”.

January 26, 2015 – BCFIRB approved the Milk Board request to extend transfer assessment exemptions to include nieces, nephews and grandchildren of quota holders and the nieces, nephews and grandchildren of spouses of quota holders², based on several conditions. These conditions included new entrant program recipients are not entitled to receive benefits in the form of quota transfers exempt from transfer assessments in addition to new entrant benefits for a period of ten years following receipt of new entrant quota; and, the Milk Board demonstrates to BCFIRB and stakeholders in its annual reporting that quota continues to be available and is being used to fulfill the policy objectives as described in the 2005 Specialty Review.

Additional requests for amendments received by BCFIRB that did not result in amendments to BCFIRB’s 2005 directions include:

May 2014 – Egg Board requested amendments to eliminate the 5% assessment on historical quota; replace Last-In-First-Out with First-In-First Out; and replace 10/10/10 with 20/6/0. The Egg Board later withdrew its requests before BCFIRB reached any decisions.

May 2014 – Chicken Board requested the new entrant program be able to exempt the following transactions from its funding formula: transfers to direct family members; and, business restructuring involving change from partnership to corporation within the shareholders remaining the same or a change in the percentage of ownership between shareholders of a company. BCFIRB requested further clarification.

July 2014 – Turkey Board supported extending the transfer exemptions to include nieces, nephews and children (Milk Board proposal); removal of 5% on historical quota (Egg Board proposal). BCFIRB requested further clarification.

¹ Exemptions transfer assessments were originally limited to direct family members as defined as spouse, sons and daughters and for business reorganization purposes where the ownership percentages do not change.

² NOTE: This extension of transfer exemptions ONLY applies to the Milk Board.

V. Process

A three phase SAFETI-based³ approach with a total of approximately 12 month timeline is set out as follows:

Phase I: Establishing project framework, information requirements and submission timeline (3 months)

November – February 2017

Announcement made to commodity boards on November 22, 2016 about the review, including the project purpose, scope and rationale. Follow up letter from Executive Director in mid-December containing further details about the review, date of an introductory workshop (February 3, 2107), and areas for review by commodity boards in advance of the workshop.

Commodity boards and BCFIRB prepare for workshop in December and January 2017.

February 3, 2017

A one day workshop was held between BCFIRB and all of the supply managed commodity boards to discuss terms of reference for the project. Follow-up meetings can be held as needed.

The workshop will be followed by a formal letter communicating the final process approved by BCFIRB: scope, timelines, BCFIRB expectations of the commodity boards and their role in the process, and confirmation of specific questions to be answered.

Phase II: Commodity Board Analysis/Consultations & Submissions to BCFIRB (4 months)

March – June 2017

Commodity boards research, analyze and consult on the identified questions. BCFIRB would continue to work with the boards to support and guide their work where needed.

Phase III: BCFIRB Analysis and Decision-Making (4-6 months)

July – December 2017

Commodity boards provide submissions to BCFIRB by June 30, 2017.

From July to December, BCFIRB reviews and analyzes in context of intended policy outcomes, industry strategic plans, and other considerations as needed. Further information or process may be needed in some areas.

BCFIRB will use a SAFETI-based analysis to determine what changes, if any, are needed to its current quota assessment directions to continue to support industry growth and diversification, reduce barriers to entry and promote industry renewal.

³ Strategic Accountable Faire Effective Transparent Inclusive

VI. BCFIRB's Initial Questions

Evaluate transfer assessment policies on market entry, quota movement and price

- Have quota transfer assessments (direct and deemed) been successful in making quota available for reducing barriers to entry, promoting new entrants and meeting other policy objectives, such as market development?
- Have transfer assessments been successful in keeping people active and engaged in the industry, deterring selling quota for windfall gains vs. producing it? How big is this risk?
- Have transfer assessments limited the transfer of quota, as if so, to what extent? Do you think this is contributing to increases in the price of quota?
- If assessments are limiting quota sales between producers, are the resulting effects dependent on the state of the industry? (e.g., declining, stable, growth)?
- Do transfer assessments impact new entrants, specialty and mainstream producers differently, and if so, how?

Evaluate quota-related barriers to entry

- How successful have new entrant programs been at bringing new entrants into the supply managed industries, thus reducing barriers to entry?
- Are there other ways in which new people are entering the industry? What are they and how prevalent are they?
- What contribution are transfer assessments making towards 'board reserve' for addressing barriers to entry and changing markets? In other words, how much of the quota allocated to new entrants and specialty production is garnered from quota assessments?
- What is the longevity (success rate) of new entrants in your industry?
- Can quota be leased in your sector and, if so, under what circumstances? Does the leasing of quota reduce barriers to entry or enable more new entrants?
- Are there any changes to quota transfer assessments – or other tools - that could further reduce barriers to entry and increase quota availability?

Evaluate the traditional outlook on succession (family) and quota assessment exemptions

- Do current transfer exemptions work to support industry renewal or succession planning in your sector? If yes/no, why? What changes, if any, are needed?
- Do current transfer assessments and exemptions enable producers to sell/transfer their farms sufficiently intact to remain financially or operationally viable? Are whole farm transfers still important for succession or industry health?
- Is the traditional "family farm" approach to succession changing? If so, to what degree?
- To what extent and how do 'succession transfers' support industry health and growth -- now and in the future?

- Are non-family succession structures important for industry success going forward? If so, are there related quota management tools that could support this approach to farm succession in addition to, or in place of, transfer assessment exemptions?

VII. Additional Considerations

BCFIRB and the supply managed boards operate in a coordinated federal-provincial system. Within that system, BCFIRB can:

- Take direct action provincially to help achieve outcomes (e.g. this evaluation); and,
- Influence actions nationally to drive outcomes.

While this project focuses provincially, questions regarding quota movement, barriers to entry and industry renewal are also impacted by decisions made at the national level.

BCFIRB can work directly to manage limited resources (quota) within the province to support sound marketing policy outcomes.

Concurrently, BCFIRB can work at the national level on receiving adequate allocations and operating to fulfill the intent of the system (e.g., chicken operating agreement, egg federal provincial agreement, and the turkey allocation policy).

1 Executive Summary

1. The British Columbia Farm Industry Review Board (FIRB) has been undertaking a review of specialty products and markets in the province's supply managed sectors.
2. This document outlines a series of FIRB directions and principles to be implemented by the five supply managed Marketing Boards in B.C. (Boards) concerning proposed Specialty and New Entrant Programs.

1.1. Context

3. B.C.'s supply management system is designed and operated to manage and control the production and marketing of several commodities, including the five that are the subject of this review: eggs, chickens, turkeys, hatching eggs and milk. Each of these five commodities is managed as part of an integrated national supply management plan.
4. In 2003, FIRB initiated a review of specialty production and marketing across all Boards.
5. In July 2004, the then Ministry of Agriculture, Food and Fisheries, now the Ministry of Agriculture and Lands (MAL) released a *Regulated Marketing Economic Policy*. Among other things, it recognized that one role of the regulated marketing system is to ensure that British Columbian industries serve the developing demand for organic food and other specialty products. (See Schedule 1)
6. In August 2004, FIRB suspended its review and provided the Boards and Government with its proposed principles for specialty programs within B.C. supply management system. (See Schedule 2)
7. In January 2005, the Minister of Agriculture (Minister) released a recommended policy framework for managing specialty agri-foods within the regulated marketing system based on a report titled *Recommendations for Managing Specialty Agri-Food Products in B.C.'s Supply Managed System* dated December 2004.
8. In January 2005, FIRB resumed its review of specialty and new entrant programs, and subsequently issued several process letters to govern the review.
9. In April and May 2005, following a required consultation process with interested stakeholders, specialty and new entrant program proposals were submitted by all Boards to FIRB.
10. Following submission of the Boards' proposals, a further round of comments was received from interested persons, closing in June 2005.

Specialty Market and New Entrant Submissions Policy, Analysis, Principles and Directions

1.2. Assessment Principles

11. The Boards' specialty and new entrant submissions have been assessed on the basis of the following policy principles, which are more fully discussed at Section 5.

Registration

- a. Boards should have plans to register all producers regardless of size or type of license.
- b. All classes of product and all producers are to be subject to government-approved food safety and biosecurity protocols.

Designation of Specialty Product Markets

- c. Designation of specialty product/market classes is to be based on clearly defined criteria.
- d. Certification is to be required as a condition of licensing for all designated specialty product classes. Certifiers are to be qualified by a skilled and reputable third party accreditation agency.

Allocation

- e. Provincial allocation received from the National Agencies is to be allocated among the various quota classes based on the market needs for each class.
- f. Allocation to producers within each quota class is to be pro rata to quota holding within that class.

Production and Marketing Quota

- g. Specialty classes of quota are to be designated. Each class of quota should be managed separately from other classes of quota. Quota administration policies should be the similar for all classes with exceptions only when necessary.
- h. Marketing a product other than the designated product type intended to be marketed by a specific class of quota should be authorized only in extraordinary situations and then only on a temporary basis.
- i. Existing specialty permit programs are to be converted to quota of a class applicable to the type of product produced, except in the case of small lot programs (see j below). Production volumes recognized for quota should be equal to the permittee's

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production in the twelve months ending December 2004, or the nearest applicable quota period ending after December 2004.

- j. Boards are to provide annually renewable small lot permit programs authorizing production levels greater than the personal use exemption level and less than the quota incentives provided through the new entrant programs.
- k. The number of small lot permits issued should be unrestricted, subject to eligibility criteria which should include only one permit issued per property and that direct marketing by the permittee be encouraged.
- l. Permit programs for new innovations are to be provided, potentially through the small lot permit system.
- m. Personal use exemption levels should remain unchanged.
- n. Government, FIRB and the Boards should jointly take all necessary steps at the national level to ensure that the provincial allocation is not unfairly impacted by personal use and small lot production.

Quota Transfer

- o. All quota, including specialty quota, is to be transferable subject to the terms and conditions set out below.
- p. Quota should be transferable within, and not between, classes of quota.
- q. New quotas issued through permit conversion, specialty program establishment and new entrant programs are to be subject to license conditions, including a declining transfer assessment schedule.
- r. The assessment schedule should provide for 100% of the issued quota to be automatically retracted (i.e., non-transferable) in the first year following issuance if the producer ceases production or purports to engage in commercial quota transfer. Subsequently, the amount retracted declines by 10% per annum until it reaches a minimum assessment of 10% in year 10. Transferability, therefore, commences in year two, at 10% of the quota allocation, and increases by 10% per year, until it reaches 90%.
- s. The starting point for the declining transfer assessment schedule should be the date on which the new quota was issued, or in the case of permit conversion, a date reasonably established between the Board and the permittee.

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- t. A condition of quota transfer should be that the last quota issued is the first quota to be authorized for transfer by the Board.
- u. Exceptions to transfer assessment for all classes of quota are to be permitted only for transfers among direct family members, defined as spouse, sons, and daughters; and for business reorganization where the ownership percentages do not change.

Levies

- v. Specialty production levies assessed by the Boards should be service-based. Boards should examine assessing levies separately for different quota classes based on the costs incurred to manage each class of quota.
- w. Subject to the discretion of the Boards, all levies and fees charged for permits or temporary quota up to December 31, 2004 should be due and payable.
- x. Levies and fees assessed specifically for permits or temporary quota use, not including regular administration and marketing fees charged by a Board on all regular quota production, are to be terminated from January 1, 2005 forward.

New Entrants

- y. New entrant programs are to be established. They are to provide a mechanism to determine the number of new entrants on a periodic basis.
- z. New entrant programs should provide priority to new producers seeking and/or willing to produce a designated specialty product or serve a regional market when there are identified specialty and/or regional market needs.
- aa. Eligibility criteria for new entrant status should include, at a minimum: residency, not having previously owned supply management quota, and a commitment by the applicant to be actively involved in the farming operation.
- bb. New entrant waiting lists are to be established where they do not currently exist. Existing new entrant waiting lists are to be renewed in accordance with the eligibility criteria established by each Board.
- cc. New entrant quota incentives should be funded by transfer assessments and growth in provincial allocation.
- dd. To retain any quota received as a new issuance by a Board, whether specialty or mainstream, the licensed producer is to be actively engaged in the production and marketing of the farm product.

Representation

- ee. Specialty Markets Advisory Committees are to be established with clear terms of reference. The Committees should be comprised of an equal number of specialty producers and specialty processors or graders, a Board member, and an independent Chair appointed by the Board.

1.3. Program Monitoring

- 12. FIRB is directing Boards to prepare draft Orders applying the principles summarized above.
- 13. Government, FIRB and the Boards should develop a clear understanding among themselves concerning compliance and enforcement of Board Orders regarding specialty product/market programs.
- 14. FIRB intends to closely monitor the individual Board specialty and new entrant programs on an ongoing basis.
- 15. The FIRB plans to formally review the specialty and new entrant program performance after three years.

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