ART FRIESEN
[redacted]

BY EMAIL: firb@gov.bc.ca

January 07, 2014

BC FIRB
780 Blanshard Street
Victoria, BC
V8W 2H1

Dear Sir/Madam:

Re: Mandatory Poultry AI Insurance Plan

As a producer, I am opposed to a mandatory avian influenza insurance plan for the following reasons:

Background to Establishing a Plan

Subsequent to the AI outbreak in BC, the various poultry associations began developing a plan to reduce the risk and financial burden of another outbreak. This included testing farms regularly for the low pathogen influenza virus and implementing a strategy to encourage both registered producers and backyard farmers to "clean-up" their facilities quickly, so that farms within a quarantined area can be repopulated as quickly as possible. Thereby, reduce the financial cost to the undiseased depopulated neighbouring farms.

Insurance Does Not Accomplish Objectives

The insurance plan does not accomplish these objectives. A random testing of farms can be done by the BC Poultry Association, with funding from the various marketing boards.

Although an insurance plan would provide a financial incentive for a registered producer to clean-up his facilities promptly, it does not force him to do so without holding the industry hostage. A better plan is to have each registered producer sign a "Letter of Undertaking" allowing the BC Poultry Association to clean-up his facilities at his cost if he does act promptly. This would allow a clean-up crew to enter his facilities and get the job done so that neighbouring quarantined farms could get back into production. To ensure the association has the financial resources to embark on a clean-up, each registered producer could provide a bond or assign an insurance policy to cover the clean-up costs. Also, providing a bond provides those farmers morally opposed to insurance an option.

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The insurance plan is not available to backyard farmers and does not deal with non-registered producers. During the previous outbreak, one of the biggest problems was backyard flocks. These backyard farmers can hold up repopulation and I think this can be better dealt with by the BC Poultry Association (rather than an insurance company) negotiating with backyard farmers, with funding from the various marketing board contingency funds.

Mandatory Duplicate Earnings Coverage

As a producer, I already have insurance coverage for loss of earnings. Firstly, CFIA will pay money for the destruction of my birds. If producers feel the amount payable by CFIA is not enough, they need to negotiate a better compensation package with CFIA. An industry mandated policy could allow CFIA to say "You already have an insurance plan. Why should we give you more money, or perhaps why should we give you any money?"

I am also able to participate in AgriStabilty. This fairly inexpensive insurance not only covers me for AI and other diseases, but also other large disasters (even if they are my fault).

My private insurance company is prepared to provide AI insurance along with insurance for four other diseases.

As an egg producer, CEMA is currently collecting a $.005 per dozen risk management levy. This levy was originally established for SE, but now that egg producers have established a separate SE insurance plan, I have been informed that these risk management funds will be used to assist in an AI outbreak in other provinces. Why should BC make producers pay for another plan?

Production is the Key

One of the concerns during the last outbreak, was the need to provide processors with product. An earnings insurance plan makes it easy for farmers to stay out of production. It also alleviates the marketing boards from doing the job they are mandated to do, manage supply.

The BC Chicken Marketing Board could allow the depopulated farmers to lease their quota to another farmer and perhaps produce some kilograms in another cycle. In this scenario, the broiler farmer would receive compensation from CFIA for the lost birds, and partial earnings recovery from a lease fee.

The BC Turkey Marketing Board allocates quota on an annual basis. This board could allow a depopulated farmer to lease his quota to another producer or produce it at a later time in the year. Similar to a broiler farmer, he would receive compensation from CFIA for the lost birds, full earnings recovery by growing the birds later in the year, or partial earnings recovery from a lease fee.

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The CFIA payment schedule to egg producers includes a loss of earnings. The payment for a 20 week old layer far exceeds the current replacement cost of $6.50. The BC Egg Marketing Board has two options with respect to a depopulated grower. They could allow the producer to import pullets from another province or USA and the farmer could be repopulated within 20 weeks. The other option is to import eggs from another province or the USA. Since the cost of these eggs (surplus eggs removed from the Canadian market are at world price) is less than the amount normally paid the BC producer, the profit to the Board could be returned to the farmer.

The bottom line is, the marketing boards need to find an innovative way to get the production to the processors in a AI positive situation. They should be part of the solution, not simply a bystander. An insurance company allows the boards to say to producers "What's your problem? We gave the money to your insurance plan. They should make you whole." However, it does not help the other industry stakeholders.

Small Outbreak not Industry Wide

The previous discussion deals only with a small isolated outbreak, similar to the insurance plan, with its $10,000,000 limit. Should there be a outbreak like the previous one, the $10,000,000 would not be enough. Do only the first infected farmers get money?

Industry Funding A Problem

The plan includes transferring board contingency funds to a private (farmer owned) insurance company. The contingency funds are currently available for all sorts of potential problems, including default of payment to producers by processors. By removing these levy accumulated funds, the boards have reason to maintain or increase levies to rebuild contingency funds for other potential problems.

In addition, the premiums to broiler farmers is being somewhat disguised as broiler farmers will no longer receive an annual rebate cheque, based on the interest earned on the contingency fund.

It is also my understanding that the annual cost to maintain this insurance company (captive), including paying its directors could be as much as $200,000. Currently, these contingency funds are being held by the boards at no cost.

Also, if the mandatory insurance policy does not compensate a farmer adequately, there could be complaints filed regarding a mandatory policy that does not have adequate coverage, given the Board used its funds to support this policy.

It is also unclear as to how these funds would be disbursed if the captive were to dissolve.

Vote Not a Real Indication

A plebiscite indicated that there was support for this insurance plan. The plebiscite was promoted as one supporting the general idea and that there would be further details once the final plan was in place. It was an all or nothing vote. Producers were not given the exact policy wording or price, given an option of mandatory vs voluntary, nor were they given the mitigation response by the various boards. Many producers were lured by the fact that with CFIA and this insurance plan, they could make more money than could from actually producing.

Producers were informally advised that the cost of the insurance would be added to the COP, and therefore the consumer would bear the cost. There was also gossip indicating that this captive was a way of getting the large contingency funds into the hands of the producers.

Producer Run Organization

Finally, I have a real concern about producer run organizations. I have seen many producer run organizations fail. Farmers, who are unfamiliar with the business, are elected and they make decisions that seem reasonable but are not what they would normally do, as they are using someone else's money.

After instituting this mandatory insurance, the directors could change the policy wording and they will be given a carte blanche to raise premiums. Currently FIRB provides a final check, but once this plan is instituted, will it be majority rule to the detriment of the minority?

I would be honoured to discuss my concerns with you in person or by phone as it would explain my concerns more clearly. In the meantime, should you have any questions with regard to this matter, please do not hesitate to contact me.

Yours truly,

Art Friesen

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Producer