

## Quota Distribution Approval and Egg “Core Review”

### Legislative Requirements

Section 37(c) of the *British Columbia Egg Marketing Scheme (Scheme)* requires BCFIRB to prior approve any new allocation of quota to producers, as well as any terms and conditions established by the BCEMB for issuing and transferring quota.

Section 38(1) of the *Scheme* requires “if requested to do so by the British Columbia Farm Industry Review Board, the board must, (a) conduct a review of the continued appropriateness and adequacy of the provisions of section 37, and (b) report the conclusions of that review to the British Columbia Farm Industry Review Board.”

Section 36(c) and 38(2) of the *Scheme* requires “The Board must consult with the committee (*Egg Industry Advisory*) and consider the committee’s advice before the board makes any decision relating to pricing or production” and “a review ... must be conducted in consultation with the Egg Industry Advisory Committee ...”.

### Prior Approvals

The BCEMB has taken into consideration previous prior approval allocation decisions and directions from 2001, 2009 and 2010.

### 2000 Supervisory Review

In 2000, the then Canadian Egg Marketing Agency (CEMA) quota order provided for an increase in the allocation to British Columbia of 107,415 birds. The BC Marketing Board established a panel to conduct a supervisory review of issues.

The panel released its report with instructions to the BCEMB. The BCEMB’s proposed 3% pro-rata allocation was not approved in that the quota allocation proposals did not satisfactorily address regional and specialty egg production issues. The panel further stated that the BCEMB must consider how to ensure that consumers in regions have better access to locally produced regulated product, how to make the Temporary Restricted License Quota (TRLQ) program more effective and less restrictive, improve the transparency of quota transfers and improve communications with industry stakeholders.

The 2000 approval resulted in:

- Granting 30,000 birds of the new growth to registered producers.
- The BCEMB withholding quota (not exceeding 20,000 birds) to maintain the 97% CEMA threshold to ensure no quota cuts would be required.
- Establishment of the Market Responsive Allocation Pool (MRAP) to hold quota allocated from a percentage of any new growth allocated to BC (57,415 birds), collecting quota through the 5% surrender of quota on transfers, an accounting

for all quota presently held for the new entrant program and quota returned by holders of TRLQ and quota under a Market Responsive Quota program.

- Establishment of a TRLQ designated for specialty production to enable flexibility to respond to changes in consumer preferences, as well as to bring new producers into the industry. Priority to be given to the allocation of 5,000 birds for Vancouver Island and 17,000 birds for organic production.
- Establishment of a Market Responsive Quota (MRQ) program to respond to market issues and regional production shortages.
- Creation of a Provincial Egg Quota Exchange that provides transparency and fair access to information regarding quota transfers so as to maintain both producer and consumer confidence in the system.

There are no outstanding issues from the 2000 prior decision. All directions provided were implemented by the BCEMB.

### **2009 Prior Approval Review**

In 2009, the Egg Farmers of Canada (EFC) approved an overbase allocation of 60,139 layers of quota to British Columbia and subsequently approved a further 22,750 layers of additional quota and a further overbase allocation of 775 layers, for a total of 83,664 layers. The BCEMB proposed a 3% pro-rata increase in allocation to all registered producers and 12,000 layers be used as part of a new entrant program.

The FIRB Panel reviewing the proposed allocation approved:

- 12,000 layers to the New Producer Program in 2009, with preference to specialty production;
- 3% increase over current quota on a pro-rata basis to all registered producers; and
- A further 12,000 layers under the New Producer Program in 2010.

The FIRB Panel also identified the following issues for follow-up by the BCEMB:

- Monitor the Small Lot Authorization Program and adjust the industry management reserve accordingly;
- Establish mechanisms for better tracking regional market demands for both mainstream and specialty products going forward; and
- Place a high priority on facilitating and finalizing an arrangement for production of the Eggs for Processing (EFP) Quota.

### **2010 Prior Approval Review**

In 2010, EFC approved an over-base allocation of 62,534 units of quota. The BCEMB proposed to allocate the EFC quota along with 37,000 units of quota held in reserve for

a total of 99,534 layers through 12,000 for the 2010 New Producer Program and through a 3.46% pro-rata allocation of the balance amongst all registered quota holders.

The FIRB Panel reviewing the proposed allocation approved:

- 3.46% pro-rata allocation to all registered producers; and
- 12,000 layers to the New Producer Program to be assigned by no later than March 2011.

The FIRB Panel also directed the BCEMB to:

- Select a minimum of two new entrants per year under the New Producer Program starting no later than 2012.
- Starting in 2011, at least one new entrant allocation per year to be prioritized for applicants holding Small Lot Authorization permits and at least one new entrant allocation per year to be prioritized for applicants intending to produce in regions other than the Lower Mainland.
- The BCEMB is to report annually on its progress in implementing the New Producer Program, both to the BCFIRB and to its stakeholders, by way of its website and annual report.
- The BCEMB to provide a full reporting of its quota reserves to BCFIRB.
- Consider the appropriateness of its 10,000 layer limit set for the Small Lot Authorization Program.
- Continue to explore opportunities for obtaining more extensive information on specialty and regional egg markets for British Columbia.
- Consider whether alternative approaches to serving specialty markets would be more appropriate going forward.
- Continue vigilance in ensuring industry biosecurity and food safety standards are met.
- Place high priority on facilitating and finalizing arrangements for utilizing British Columbia's Eggs for Processing quota.

## **Stakeholder Engagement**

The BCEMB has seriously considered the advice provided by BCFIRB staff on the subject of stakeholder engagement. The BCEMB has been guided by the following principles,

- Consideration of who to consult given the specific policy recommendations (e.g. food safety, access to farming, enforcement).
- Providing reasons as to why certain stakeholders were consulted (or not).
- Providing evidence stakeholder input was considered and reasons why input was incorporated or not.

A comprehensive stakeholder engagement strategy was developed and implemented. The strategy is included as Attachment 1 in the background documentation accompanying this letter. The BCEMB retained the services of Agri-Saki Consulting Inc. to be the primary lead for the "Core Review" stakeholder engagement and provided

support to the BCEMB Chair and Executive Director on the Quota Allocation engagements. The BCEMB also offered the services of Agri-Saki Consulting Inc. to the BC Egg Processors Council and BC Egg Producers Association to facilitate further discussion and dialogue on both the Quota Allocation and “Core Review”.

The BCEMB also employed new approaches to producer engagement through the services provided by Peak Communicators. The approach included utilizing professional communicators in the design and execution of the producer engagement sessions, audio recordings and making the recordings available on the BCEMB website. All stakeholders were provided the opportunity to send in follow-up comments directly to Agri-Saki Consulting Inc. for consideration or through the BCEMB website. As well, the “As it was Heard” reports were sent to the respective individuals and groups for validation. The “As it was Heard” reports have incorporated any additional comments or submissions received. Final copies have been provided to the groups for future reference.

### **Highlights of the Engagement Strategy**

Quota Allocation, January 22, 2014 - The implementation of the stakeholder engagement strategy commenced on January 22, 2014 involving a session between the BCEMB and the BC Egg Producers Association on Quota Allocation. With producers being the primary beneficiaries of any new quota allocation, they were the first group consulted. This session was well attended by producers with attendance representing 71% of the total provincial egg supply. Representation by region was Lower Mainland, 72%; Interior, 71%, and Island 58%. To facilitate the province-wide discussion, the BCEMB reimbursed producer travel for those from outside the Lower Mainland. Three presentations were prepared and used at the session. This information is included as Attachment 2 in the background documentation accompanying this letter.

“Core Review”, Abbotsford, February 24, 2014 - The “Core Review” stakeholder engagement strategy commenced with a Producer Session in Abbotsford on February 24, 2014. Producers being most directly affected by any policy changes were a primary stakeholder for consultation. A presentation and Draft Policy Summary document were prepared and used at the session. The presentation and Draft Policy Summary are included as Attachment 3 in the background documentation accompanying this letter. Forty-five registered producers attended the session to share their views. The issue of quota transfer assessment (5%, Last In First Out (LIFO) and 10/10/10 policies) and its impact, inflating quota prices, was highlighted by participants at the session. Participants also expressed the need to ensure that quota leasing was time-limited and used to facilitate industry transition. Quota leasing should not be allowed on a permanent basis.

Participants supported the New Producer Program, but expressed the need to increase the amount of quota issued to at least 5,000 birds in order to provide for establishment of an economically viable unit. The upfront capital investment and the inability to

leverage the New Producer quota for the purchase of additional quota limits the ability of existing new entrants in the growth of their operations.

Participants were very supportive of a Buy BC eggs branding initiative. They saw the need for connection between the branding program and an industry-wide traceability system.

In addition, participants expressed concern with the contradictory and conflicting policy objectives of government, in particular as it relates to the promotion of the sale of ungraded eggs beyond the farm gate at farmers markets; farm property tax assessment benefit; reuse of egg cartons by non-registered producers selling eggs beyond the farm gate. Some of these policy directions of government are in direct contravention of the *Shell Egg Grading Regulation*.

Participants were of mixed view on the value and effectiveness of the existing advisory committees, with some being totally unaware of the existence of the Specialty Egg Advisory Committee. Some participants were of the view that the Committees were created at a point in time when relationships between groups were not well established. The evolution of the industry to its current state requires advice and engagement on a different level; more direct Board engagement with specific groups such as the BC Egg Producers Association and the BC Egg Processors Council.

The “As it was Heard” report on the session which provides more details as well as follow-up submissions received is included as Attachment 4 in the background documentation accompanying this letter.

“Core Review”, Victoria, February 26, 2014 - A second producer “Core Review” session was held in Victoria on February 26, 2014 and was attended by four producers, representatives of BCFIRB and the Ministry of Agriculture. A second session with producers was held in Victoria to provide a regional forum of producers on the review. Policy staff of the Ministry of Agriculture and BCFIRB Member and staff were invited to hear first-hand views of the producers. Key messages arising from this session were similar to those raised in the Abbotsford session. Some different issues raised included participants view that the existing policy framework for the egg industry was in itself a challenge.

Participants raised the need to respect regional development opportunities and to not create policies that take away quota from Vancouver Island. The “As it was Heard” report on the session is included as Attachment 5 in the background documentation accompanying this letter.

BC Egg Processors Council (BCEPC) and Graders, Vancouver, March 6, 2014 – The BCEMB met with graders and the BCEPC, and provided information on the Quota Allocation and “Core Review”. Graders and processors are important participants in the egg value chain and have important market considerations for future quota allocation

and are affected by any changes in policies. A subsequent follow-up session between Agri-Saki Consulting Inc. and the BCEPC was held and resulted in the BCEPC submission. The submission is included as Attachment 6 in the background documentation accompanying this letter.

Some of the specific points raised by the BCEPC include:

- Support for a Small Lot Authorization program allocation, but with reservation and concerns.
- Support for a pro-rata allocation to licenced producers as the most fair and equitable approach, provided that producer decisions with respect to implementation be done in concert with their grader to ensure that the supply and timing of eggs is consistent with market demand, particularly as it relates to specialty production.
- Support the issuance of the 100,000 units of Eggs for Processing as part of the allocation process based on the growing demand for processed egg product using a model similar to that used in Ontario.
- Non-support for an allocation of quota to the New Entrant Program.
- Support the need to review the mandates of the current Egg Industry Advisory Committee (EIAC) and Specialty Egg Advisory Committee (SEAC) with the view that if the regulatory requirement for the BCEMB to continue with an EIAC, then the BCEMB should consider refreshing the EIAC mandate to include any specialty matters and eliminate the SEAC.
- Support for a mandatory traceability system for the BC egg industry, but the BCEMB should limit its role to setting the standards for a system that will isolate non-registered, ungraded egg problems.

Ministry of Agriculture, Abbotsford, March 10, 2014 – Representatives of the Animal Health Centre were invited to a session to identify any poultry health, animal care or other regulator considerations. They were provided a combination of the Quota Allocation and “Core Review” material. Of particular note was the lack of resources to enforce the provisions of the *Shell Egg Grading Regulation*. Representatives provided good insight and contacts to follow-up with on the issue of animal care/welfare.

BC Egg Producers Association (BCEPA), Abbotsford, March 19, 2014 – The BCEPA met with Agri-Saki Consulting Inc. and developed a submission on both Quota Allocation and “Core Review”. While egg producers were afforded three separate consultation sessions, it was important to gain a cohesive submission on the key issues of the reviews from an association perspective. The BCEPA submission is included as Attachment 7 in the background documentation accompanying this letter.

Some of the specific points raised by the BCEPA include:

- Non-support for an allocation to the Small Lot Authorization program based on the inability to control the growth of non-registered egg production and sales.
- Support for pro-rata allocation as being the most fair, equitable and transparent approach.

- Suggest a “lease pool” as opposed to allocation as an approach to facilitate the required transition in the BC egg industry.
- Need to fully allocate the quota given the \$5.80 EFC service fee on the quota given that any quota held back by the BCEMB could result in higher costs to producers, dependent on how quota not allocated is handled.
- Support for issuance of Eggs for Processing (EFP) allocated units on a pro-rata basis which in turn could serve to place downward pressure on quota values if the EFP allocated units were tied to regular quota.
- Support for an allocation to continue the New Producer Program as an effective means of industry renewal, as well recommend reconsideration of the 3,000 bird quota limit per new entrant.
- View the 5% transfer assessment policy as being redundant and should be eliminated.
- Elimination of LIFO in exchange for a quota “lease pool”.
- Support retention of 10/10/10 subject to the elimination of LIFO and the 5% transfer assessment.
- Supports the BCEMB practice to engage the BCEPA.
- Opines that the EIAC and SEAC have fulfilled their original intended purposes and suggests merging the two committees with a new mandate.
- Conflicting government policies as outlined in the Abbotsford session.
- Support for a BC eggs produced in BC by BC producers branding program.
- Wants to see government demonstrate its willingness to ensure compliance with existing regulation.

Animal Care/Welfare Groups, Vancouver, March 25, 2014 – Meetings were held with the Animal Welfare Program, UBC, the Vancouver Humane Society and the BC SPCA. The BCEMB views animal care/welfare as an important consideration in the development of its policy direction for the future. Animal care/welfare standards are gaining increased consumer awareness. The presentation used and the “As it was Heard” Report is included as Attachment 8 in the background documentation accompanying this letter.

Some of the specific points raised by the groups include:

- Public awareness and concerns regarding animal care/welfare have been growing since the 1970’s and continue to increase.
- Pressures from special interest groups such as Mercy for Animals will only increase the level of awareness and concern over animal care practices.
- Enriched cages present an underlying value conflict with a justifiable science-based case because “furnished” cages allow the birds to perform natural behaviours, however, to the public, many see cage production as inherently bad for animal welfare.
- Simply adopting cage-free as a policy will not, in and of itself guarantee animal care or welfare.

- Supply management can provide an advantage and be leveraged to move forward, if there is a concentrated effort to focus on socially beneficial outcomes and achieve a level of animal welfare not in place in other jurisdictions.
- Support for full allocation of quota and EFP allocated units to cage-free production based on supporting displacement of imported cage-free shell and liquid egg products.
- Support concern that Nielsen sales data is inadequate for tracking special egg sales; and if the missing data were to be added, a larger specialty supply gap would result.
- Not taking a strong stance to allocate to cage-free production will further delay transition to cage-free as producers will want to realize the 20-year amortization period on new capital investments in cages.
- Support allocation to the New Producer and Small Lot Authorization programs.
- No support for consideration of enriched housing as being “specialty production”.
- Value one-on-one engagement, but also willing to participate in multi-stakeholder forums, but feel that the ability to freely express concerns is constrained.
- Consumer confusion exists with respect to breadth of choice and nomenclature around production types.
- Current demand for specialty outstripping ability to supply.

Canadian Food Inspection Agency (CFIA), email, April 3, 2014 – CFIA was provided the policy paper for review and consideration given its licencing and inspection authorities for grading stations, grades and labelling. CFIA responded via email that there was not much to comment as most of the policy fell outside the CFIA’s mandate. They expressed interest in what the new regulations would look like once they are drafted and potentially provide comment at that time.

Vancouver Coastal Health (VCH), Vancouver, April 9, 2014 – Food borne illness resulting from eggs can have a major impact on the industry. It is important for the BCEMB to gain insights and perspectives of food safety regulators. A meeting was held with Mark Ritson, Senior Environmental Health Officer, who indicated that VCH’s primary consideration would be regarding food safety. He was impressed with the responsiveness of the BCEMB in dealing with the Salmonella Enteritidis in the past, especially the ability of the BCEMB to stop shipments of eggs from the potential source of the bacteria. He acknowledged the interagency forum that was established involving the Ministries of Agriculture and Health, the Health Authorities, the BCEMB and graders as providing networking opportunities that proved most beneficial in dealing with food borne illness situations. He would like to see these types of forums continue in the future to enable networking (project funding under Growing Forward was fully utilized).

Mark reported that health inspectors do act on problems with dirty eggs found on premises or at temporary food markets. He foresees continued growth of sales of agriculture and food products at temporary food markets. While guidelines exist for the Sale of Shell Eggs and Raw Foods of Animal Origin at Temporary Food Markets he also

expects to see increased regulation in the future, not unlike those seen in European markets.

Egg Industry Advisory Committee (EIAC) – The BCEMB has deliberately chosen not to call a meeting of the EIAC to consider the quota allocation or “core review”. The BCEMB has taken the much broader approach of engaging producers, processors, regulators and special interest groups in these reviews. The BCEMB is strongly of the opinion that there is nothing that the EIAC can provide that has not already been raised by other stakeholder interests.

More specifically, stakeholders expressed the view that they prefer the one-on-one engagement as it enables more open dialogue and in-depth discussion of issues and topics of interest. Multi-party forums require stakeholders to be more guarded in presenting their views and opinions.

While the *Scheme* requires consultation with the EIAC, the BCEMB is requesting BCFIB waive the requirement based on the comprehensive stakeholder engagement process implemented and the views expressed by stakeholders with respect to the limited value that may be gained through the EIAC. The engagement strategy has provided an opportunity for all named representative groups specified for the EIAC in the *Scheme* to express their views.

### **Outstanding Issues from Previous Prior Approvals to be addressed:**

- Market data for specialty table egg demand and specialty processed egg product and regional egg demand.
- Alternate approaches to serving specialty markets
- Quota reserve reporting
- New Producer Program report
- Biosecurity and food safety standards
- Quota allocation consideration for
  - Small Lot Authorization
  - New Producer Program
  - Reserves
  - Eggs For Processing

### **Marketing and Sales Data**

As previously concluded in previous quota allocation prior approval decisions, regional and specialty market data is limited. The BCEMB has contracted additional consumer insights and data from various providers . This data is provided in the presentation material used in the Quota Allocations discussion included in Attachment 2. To summarize:

- Specialty egg production and sales have continued to increase year over year since 2007 to 15.7% of production and 20.8% of sales, with a corresponding decline in percentage of sales and production of regular eggs. Note that brown

cage, and feed-enriched eggs (omega, vitamin D, etc.) are not considered specialty production and are included in the regular egg production data.

- Sales data from Nielsen represent the best available source of retail performance, but not necessarily a complete picture of consumer buying behaviour.
- It is clear that the Nielsen data is unable to capture the organic market as comparing reported sales with registered production shows that 70% of the sales of organic eggs are outside of data captured by Nielsen. With respect to free-run, Nielsen is capturing approximately 50% of sales, while in free-range and regular it is capturing 75 to 80% of sales.
- Growth in industry demand for eggs in both regular and specialty eggs has been growing over the past five years. Specialty is now 6.9% of the Industrial Product
- Imports have been decreasing since 2009, an indication that out of province eggs are not affecting the BC market.
- BC egg sales continue to be impacted by cross-border shopping, particularly as it relates to regular table eggs. Sales by region show a 2% loss of sales in the Metro Vancouver area. The markets outside of Metro Vancouver however have grown by 3.6% in order to make up for the losses experienced in Metro Vancouver to arrive at a net zero provincial growth in sales.
- The BCEMB will continue to pursue cost-effective measures to source data to provide the most accurate market demand in order to facilitate future allocation decisions.

### **Alternate Approaches to Serving Specialty Markets**

The BCEMB has not adopted or considered any alternate approaches to serving specialty markets as part of the current reviews. In some respects, the anecdotal information on the “growth” of “exempt” production and “local” sales is providing an alternate approach to serving the demand for “local” specialty production. Quantifying the degree and extent of the “unreported” sales and production would require a significant expenditure of the BCEMB’s time and resources. It is not considered at this time a “value for money” initiative and would be counterproductive for any future allocation by EFC as a result of existing market share methodologies.

### **Quota Reserve Reporting**

The BCEMB as reported in the Quota Allocation presentation material in Attachment 2 has a reserve of 35,284 birds. This amount has been mostly derived from assessments on transfers. The BCEMB will report its reserves on an annual basis in its annual report, which is posted on its web-site.

### **New Producer Program**

The BCEMB conducted two New Producer Program Lotteries in 2010 and 2011 resulting in 10 conditional licences for 3,000 units of quota being issued. The first lottery in 2010 resulted in four conditional licences issued to applicants from the Lower Mainland based on a draw of eligible applicants. Based on lessons learned in 2010 and subsequent BCFIRB feedback and direction, the BCEMB conducted a lottery in 2011

and received 231 applications from which 107 were deemed eligible for the program lottery by an independent three person panel. The BCEMB awarded six conditional licences, two to Small Lot Authorization applicants, two to applicants outside the Lower Mainland and the final two to applicants from the Lower Mainland. News releases announcing the results of the lottery were issued and the Board will consider adding a New Producer Program section to its annual report in 2014 as well as adding a section to its website.

While the BCEMB has not held subsequent lotteries, it is of the opinion that the 10 new producers resulting from the two lotteries have enabled the BCEMB to meet the spirit and intent of the targets coming out of the 2010 Prior Approval. Three of the 2011 lottery winners were Small Lot Authorization producers and four of the six were applicants outside the Lower Mainland. The BCEMB's current quota allocation proposal considers allocations to conduct future new entrant program lotteries which would take into consideration the directions from the 2010 prior approval.

### **Biosecurity and Food Safety Standards**

The BCEMB continues to apply due diligence in its operation of the mandatory biosecurity program as well as the national Stay Clean on-farm food safety program. Increasing numbers of egg producers are being recognized for their achievements overall farm management. In 2013, a total of 96 farmers qualified for the Producer of the Year Award, an increase of 24 over 2012. This award represents a measure of compliance and excellence with respect to food safety and production management. No egg farmers have failed to meet and comply with the mandatory biosecurity program requirements.

### **Eggs For Processing**

The BCEMB has yet to work out the specifics of the program, but have included the EFP allocation in this submission to address the directions of the 2009 and 2010 prior approvals. Support for the allocation has been received from various stakeholder interests. No objections have been raised by any stakeholder interest.

### **Allocation Request**

Upon review of the stakeholder engagement results; acknowledgement of directions given by BCFIRB; analysis of best currently available BC egg market data; application of principles and criteria for allocation (see Attachment 2, 2014 Quota Allocation Part A Backgrounder Multi criteria analysis points); SAFETI principles and with due consideration to the common and competing interests of egg industry stakeholders, the BCEMB proposes to distribute the 2014 allocations received from EFC as follows:

### **Quota**

The BCEMB is currently holding the following quota:

Quota Reserve	35,284
<u>2013-14 EFC Allocation</u>	<u>67,890</u>

## **Total Quota Held by BCEMB      103,174**

The BCEMB is proposing to allocate 103,174 birds on a pro-rata basis to all licenced quota holders. This recommendation is based on:

- Best supporting the strategic vision of the egg industry in British Columbia. The allocation combined with the changes in the Hen Housing policy will require producers to weigh the various production options available when putting the 2014 allocation into production. This may result in a greater percentage of production going into cage-free production systems, particular where existing farms do not have barn capacity to accommodate the increased allocation and meet the new housing standards.
- Growth in market demand exists for both specialty and regular eggs.
- Graders continue to import regular eggs to meet market demands.
- Specialty growth can be accommodated through a pro-rata allocation as well as the additional allocation to the Small Lot Authorization program.
- Producers and processors view pro-rata allocation as being the most fair and equitable approach to balancing the interests of the producers and the markets.
- The approach requires producers to make informed choices and decisions in consultation with their graders to meet expected future market demand.
- A pro-rata allocation provides the most transparent option.
- The BCEMB has sought the input of various non-industry stakeholder interests in its proposed allocation. While some of the non-industry stakeholder interests would prefer to see the BCEMB allocate all of the quota to specialty (non-cage) production based on perceptions of market demand, the data surrounding market demand is not so clear in creating a division amongst producers by allocating all of the quota to specialty.

### **Eggs For Processing**

The BCEMB is currently holding 100,000 units of Eggs for Processing quota and is proposing to allocate all 100,000 units to existing licenced quota holders on a pro-rata basis. This recommendation is based on:

- Support expressed by both the Egg Processors Council and the Egg Producers Association.
- The growth in demand for liquid egg product, both regular and specialty.
- Ability to increase the supply of eggs to support processed product growth in British Columbia.
- Recognition that the production of eggs for processing will not return a “profit” to producers and as such, the cost of EFP should be equally shared amongst licenced quota holders.

### **New Producer Program (NPP)**

The BCEMB is not proposing to reserve an allocation to enable a New Producer Program lottery in 2014. In recognition of the BCFIRB directions coming out of the 2010

Allocation Review, the BCEMB is proposing to initiate an evaluation of its NPP. These decisions are based on:

- Split in views between processors and producers.
- Non-viability of pick-up of NPP production outside of the lower mainland by graders.
- Views expressed by current NPP lottery producers:
  - Valued the opportunity to produce eggs.
  - A 3,000 bird allocation is insufficient to establish a “going concern” production unit.
  - No reasonable means by which successful lottery winners can purchase additional quota to enable a “going concern” production unit”.
  - Returns barely covering costs of production, with no real return on investment resulting from a 3,000 bird production unit.
  - No ability to leverage New Producer quota allocation to enable purchase of additional quota.
  - Limited availability of quota, at “reasonable” prices to enable purchase by New Producer lottery winners.
- Desire of the Board to not create uneconomic enterprises that will subsequently be purchased by existing licenced quota holders to add to their holdings.
- Proposed evaluation would seek the views of existing NPP lottery producers, Small Lot Authorization permit holders, plus a sample of the former TRLQ producers now with specialty quota on the effectiveness of the current NPP policies with a view to develop recommendations for BCEMB consideration to determine if the current NPP meets the SAFETI principles; what changes if any are required to contribute to the achievement of outcomes and objectives for the program and the implications of any program changes.

### **Small Lot Authorization Program**

The BCEMB is proposing to increase the Small Lot Authorization Program Allocation by 10,000 birds from general slippage of quota issuance, bringing the total allocation to 20,000 birds. The proposal is based on:

- The current program being fully subscribed.
- The current program and increased allocation being directed at serving the specialty egg demand outside of the retail chain market system.
- Providing for continued regional development opportunities while at the same time respecting economic viability considerations (ability of individuals to direct market).
- Consistent with the overall strategic direction, by providing increased ability to register greater levels of production existing outside the system and provide program support to ensure food safety, animal care, environmental stewardship, along with consumer confidence.
- General support by all stakeholders.

### **Fee for Service**

The BCEMB feels that it has no option other than to pay the \$5.80 per bird service fee being applied by EFC to the 2014 allocation. The BCEMB has carefully considered the actions taken by other provinces, but is supportive of the need to maintain the capacity of the national organization. The BCEMB also proposes that the service fee be time bounded, i.e. for a two-year period. The proposal is based on:

- Producer association acceptance of the need to maintain national organization capacity.
- Producer association acceptance is based on a pro-rata allocation of the quota to all licenced quota holders in order to effect the most fair and equitable treatment of the service fee, whereby each licenced quota holder pays their share of the service fee.

### **“Core Review” Policy Changes Proposed**

The BCEMB conducted a “Core Review” of the Specialty Markets and New Entrant Programs policy directives issued by BCFIRB in 2005. The BCEMB is pleased to report that the intended outcome of the Specialty Review as defined by the recommended framework for managing specialty agri-food products in BC’s supply management system has been realized.

The BCEMB has had nearly 10 years of experience with the policy directives emanating from the Specialty Review. This experience has demonstrated the complexities of administering quota and achieving sound governance practice in the management of egg supply in British Columbia.

Based on the review of stakeholder input, acknowledgement of BCFIRB expectations, analysis of best currently available information and data; application of SAFETI principles; and with due consideration to the common and competing interests of egg industry stakeholders, the BCEMB proposes the following changes in policy for BCFIRB prior approval.

### **Quota Administration**

The BCEMB has assessed the impacts and effects of the transfer assessment policies, 5% on transfers prior to September 1, 2005; the 10/10/10 transfer assessments on quota allocated after September 1, 2005; and the Last In First Out (LIFO) policy on transfers. The primary impacts and effects of the implementation of these policies include:

- Limited success in achieving the policy objective to make available quota to the BCEMB to utilize and apply to the NPP, innovation and specialty production.

Producers have found creative ways and means to avoid and minimize the assessment.

- Limited quota available for transfer on the Quota Exchange, with the vast majority of transfers being conducted through exemption provisions.
  - The LIFO requirement is causing producers with recently allocated quota (2009 and 2010) to use longer-term leasing arrangements with other producers to utilize their quota and retain the “value” of the quota.
- Value of quota on the Quota Exchange being at record high levels and higher than quota for transfer in other jurisdictions. This is attributable to the assessment on quota transfers:
  - Producers increasing the price of quota offered to capture the 5% assessed on pre-September 2005 quota.
  - Producers increasing the price of quota offered to capture some or all of the assessment applied through the 10/10/10 policy on post-2005 quota.

The BCEMB is proposing the following changes in quota assessment policies in order to realize its strategic vision, “A cohesive, profitable and growing egg industry that meets the needs of consumers while being socially and environmentally responsible”:

#### *Eliminate the 5% Transfer Assessment*

The current assessment on the transfer of quota issued prior to September 1, 2005 has limited utility in contributing a source of quota for the BCEMB to use and apply to the NPP, innovation or specialty markets. Given the existence of LIFO and 10/10/10 policies applicable to quota allocated post September 1, 2005, the 5% assessment on transfers is redundant and is only applicable on the transfer of quota exceeding the pro-rata allocations to all licenced quota holders in 2009 and 2010.

If the objective and intended outcome is to provide the BCEMB with quota to carry out a NPP, top-up the Small Lot Authorization Program, provide for innovation and new market development, this objective can be better served by requiring the BCEMB to retain a portion of any new national allocation for these objectives. Elimination of the 5% Transfer Assessment going forward will eliminate the practice currently employed by producers to inflate the price of quota offered for transfer and should result in a reduction in quota values.

The BCEMB proposes going forward from the date of BCFIRB approval for this request of new issuance, the elimination of the 5% assessment on quota transferred on quota issued prior to September 1, 2005. The BCEMB will put in place allocation policies to retain a percentage of future national allocations to create the necessary pool for programs such as NPP and Small Lot Authorization Programs. The BCEMB will put in place and report on the following measures of effectiveness:

- Quota allocation policy to reserve a percentage of national quota allocation.
- Quota on reserve with the BCEMB by program.

- Declining quota price as represented by successful transfers via the quota exchange post policy implementation compared against a baseline of 2011, 2012 and 2013 monthly quota prices as represented by successful transfers via the quota exchange.
- Growth in number of new producers and Small Lot Authorizations.

Replace the 10/10/10 surrender of quota on transfers of quota allocated after September 1, 2005 policy with a 20/6/0 surrender of quota on transfer of quota issued after December 31, 2013 policy.

The current policy whereby a producer must surrender 100% of quota allotted on or after September 1, 2005 if the transfer takes place within the first year of that allotment and the surrender reduces by 10% per year over the next 10 years combined with the LIFO policy is further adding to the lack of availability of quota for transfer. While the 10/10/10 is consistent with the policy regarding quota allotted to New Producers and can serve to achieve the objective of minimizing windfall gains by producers from the allotment of new quota, in both cases the policy objective fails to take into full consideration the consequence of the policy. Consequences of significance include:

- Inability of the producer to utilize quota transfers as a mechanism for raising capital required for reinvestment, expansion, retooling or succession management.
- Incurring opportunity costs.
- Producers withholding quota from the quota exchange.

The BCEMB proposed replacing the 10/10/10 surrender of quota policy with a 20/6/0 surrender of quota policy based on:

- Increasing the transferability of quota.
- Reducing the inflationary pressure on the price of quota for transfer.
- Facilitating industry transition and renewal.

The BCEMB will put in place and report on the following measures of effectiveness:

- Number of producers with licence quota investing in expansion, transition, retooling per year.
- Declining quota price as represented by successful transfers via the quota exchange post policy implementation compared against a baseline of 2011, 2012 and 2013 monthly quota prices as represented by successful transfers via the quota exchange.

Last in First Out (LIFO) policy and First in First Out (FIFO) Policy

The current LIFO policy is unduly constraining the availability of quota for transfer as producers are reluctant to forego future value of the quota or incur the “opportunity cost” of recently allocated quota. Producers are required to utilize quota allocated and where the producer is unable to utilize the quota within the existing operation, they turn to

other policy options, such as Permissible Leases to avoid having to incur the 10/10/10 assessment on transfers.

The BCEMB recognizes the limitations and secondary effects of the LIFO policy but is also cognizant of the pressure from external agencies to ensure that producers do not “flip” quota upon issuance of new quota. Whether the quota is LIFO or FIFO the effect is the same, selling quota that was issued for free for gain is an unacceptable long term policy outcome.

The BCEMB therefore recommends the retention of the LIFO policy.

#### Quota Leasing and Quota Exchange

The BCEMB heard through its engagement process that quota leasing is an important policy for facilitating industry growth, transition and adjustment. Producers strongly endorsed a policy of the licenced holder being “actively engaged in the farming enterprise”. They do not support continuous leasing of quota as a means of avoiding assessments on the transfer of quota.

The BCEMB also heard that the current quota exchange does not serve its intended objective of making quota available to any interested party, nor the desired transparency.

The BCEMB has not had time to fully evaluate the issues and options for quota leasing or the quota exchange to make a proposal for BCFIRB prior approval at this time. The BCEMB is proposing to implement a further review of quota leasing and quota exchange.

#### **Governance**

The BCEMB values the direction provided by BCFIRB and the Province through the *Scheme* requirements to establish an Egg Industry Advisory Committee (EIAC) and through the Specialty Review to establish a Specialty Egg Advisory Committee (SEAC). The directions were appropriate at the time the *Scheme* and Specialty Review directives were drawn up. They have assisted the BCEMB in securing the necessary advice and input on policies and decisions of the BCEMB.

The sophistication of the industry and complexity of issues to be dealt with by the BCEMB, as well as the good governance principles-based regulation require a greater

degree of stakeholder engagement than can be offered by mandated committees. The view of the BCEMB that is shared by stakeholders is that the EIAC and SEAC have served their intended purpose and need replacement.

Stakeholders expressed a strong view that they valued and appreciated the one-to-one strategy implemented by the BCEMB for the 2014 Quota Allocation and “Core Review”. Stakeholders were of the opinion that the one-to-one sessions enabled more fulsome and open dialogue on the breadth of issues that would not likely have resulted in a multi-stakeholder forum. If necessary to maintain the mandated committee, suggestions were made to combine the two advisory committees and refresh the terms of reference. Maintaining committees and requiring comprehensive engagement with stakeholders adds to the administrative cost of the BCEMB. The BCEMB sees value in the engagement process employed for this review and will review the lessons learned and build them into the development and implementation of future engagement strategies.

After due consideration of the points, the BCEMB is proposing to abandon the use of the EIAC and SEAC in exchange for a BCFIRB prior approval of a stakeholder engagement strategy on matters requiring BCFIRB prior approval, i.e. quota allocation, review of powers and duties. The Board will also include in its Governance Manual a section on stakeholder engagement with a minimum requirement for semi-annual sessions with the BC Egg Producers Association and the BC Egg Processors Council. The BCEMB believes that due diligence within a good governance framework supports the proposed approach. Simply relying on advisory committees will not in and of itself provide for the full spectrum of stakeholder views.

In the event that the regulatory requirements for the EIAC contained in the *Scheme* cannot be waived without amendment to the *Scheme*, the BCEMB proposes the elimination of the directive for a SEAC and refresh the mandate of the EIAC ensuring that specialty producers and processors are duly represented on the EIAC.

The BCEMB will put in place and report on the following measures of effectiveness:

- Annually report on stakeholder engagements.
- Incorporate into its Governance Manual a section on Stakeholder Engagement.

### **Other Recommendations**

The BCEMB considered other issues during the course of the “Core Review” including, registration, food safety, biosecurity and compliance and enforcement. In general, the BCEMB feels that its current powers, duties and policies will address the registration, food safety, biosecurity, compliance and enforcement issues.

The BCEMB received anecdotal information from stakeholders regarding the apparent “growth” in unregulated egg production, the double standards of government with respect to limited to nil inspection for compliance and enforcement of regulation and the

risk to poultry health and food safety through unregistered production in violation of regulations. The BCEMB has no power of “cracking down” on unregistered production, but it shares the concerns expressed.

More specifically, the BCEMB is concerned with the impact of a human health issue related to the consumption of eggs or egg products on sales and reputation of the BC egg industry. Of particular concern is the “reuse” of egg cartons for sale of unregistered eggs. There is a risk to the industry that a human health issue may wrongly be attributed to registered production through identification of the source solely through the use of the egg carton.

A further example of stakeholder frustration with regard to the apparent double standard or lack of compliance and enforcement of unregistered production is as follows:

The BC Centre for Disease Control has issued Guidelines for the sale of "Shell Eggs" at "temporary food markets". A specific point in the Guidelines states "The minimum information on crates should indicate the name of the farm/producer and the packaging or sale date". If a vendor is "recycling/reusing" existing egg crates that have the "name of the farm/grader" and their "packaging date" and has not replaced the farmer/grader name or packaging date with their own information, what are the penalty provisions for non-compliance with the Guidelines? Are Health Inspectors empowered or authorized to act on the provisions of the *Shell Egg Grading Regulation*, such as:

- 3 (2) "No person shall sell, offer for sale or process ungraded eggs or send or convey them from one place to another other than
  - (a) a producer sending or conveying eggs produced on his farm to an egg station or an egg grading station, or
  - (b) with the prior written approval of a producer, an egg station sending or conveying ungraded eggs received by it from the producer to an egg product station for processing."

It seems that the issuance of guidelines for the Sale of Shell Eggs at Temporary Food Markets is condoning the contravention of another piece of provincial legislation.

The BCEMB recognizes that these areas are beyond the scope of supervisory authority of BCFIRB but will propose to the provincial government to initiate a review of its agricultural policies as they relate to promotion of temporary food markets, property assessment, inspection duties and obligations under the *Shell Egg Grading Regulation* and the impact and effects on the ability of marketing boards and commissions to be able to effect registration and management of the supply of regulated products.

In summary, the BCEMB is proposing prior approval for:

- The allocation of 103,174 birds of quota on a pro-rata basis to existing quota licence holders.
- Designating an allocation of 10,000 birds of quota to expand the Small Lot Authorization Program.
- In lieu of allocating any quota to the New Producer Program, initiating a New Producer Program Evaluation to be completed by December 31, 2014 with recommendations for prior approval by BCFIRB.
- Allocating 100,000 units of Eggs for Processing quota on a pro-rata basis to all existing quota licence holders.
- Paying the \$5.80 per bird service fee to EFC on the national allocation to British Columbia announced in November 2013 for a period of three years.
- Eliminating of the 5% assessment on quota transfers going forward from issuance approval date .
- Replace the 10/10/10 with a 20/6/0 surrender of quota on transfer policy on quota issued after December 31, 2013;
- Implementing a review of the Quota Lease and Quota Exchange.
- Abandoning the use of the Egg Industry Advisory Committee and Specialty Egg Advisory Committee. In its place the BCEMB proposes BCFIRB prior approval of stakeholder engagement strategies on matters requiring BCFIRB prior approval (i.e. quota allocation). Additionally, the Board would adopt a stakeholder engagement policy that requires a minimum of semi-annual sessions with the BC Egg Producers Association and the BC Egg Processors Council.

While beyond the authority of BCFIRB, the BCEMB will be approaching the provincial government to review its agricultural policies as they relate to promotion of temporary food markets, property assessment, regulatory inspection duties and obligations such as those required under the *Shell Egg Grading Regulation* and the resulting impacts and effects on the ability of marketing boards and commissions to be able to effect registration and management of supply of regulated products.

The BCEMB appreciates the guidance and support of BCFIRB staff throughout the Review process. The BCEMB would be pleased answer any questions to assist in BCFIRB's review and decision on the proposals put forward in this submission.

### **2014 Quota Distribution and Egg "Core Review" List of Attachments**

Attachment 1 – Stakeholder Engagement Strategy

Attachment 2 – 2014 Quota Allocation Presentation, January 22, 2014

- Part A – Backgrounder
- Part B – Data

- Part C – Analysis

Attachment 3 – 2014 Specialty Market Policy Review Presentation, February 2014

- Draft Policy Summary Paper

Attachment 4 – “As it was Heard” Summary – Egg Producers, February 24, 2014  
Abbotsford

Attachment 5 – “As it was Heard” Summary – Egg Producers, February 26, 2014,  
Victoria

Attachment 6 – BC Egg Processors Council Submission, March 2014

Attachment 7 – BC Egg Producers Association Submission, March 2014

Attachment 8 –Quota Allocation and Specialty Markets and New Entrant Program Core  
Review Presentation, March 19, 2014

- “As it was Heard” Summary – Animal Care/Welfare Groups, March 25, 2014