



October 31, 2014

File: 44200-60 CMB TRANSFER
ASSESSMENT

DELIVERED BY E-MAIL

Robin Smith
Chair
BC Chicken Marketing Board
101 – 32450 Simon Av
Abbotsford BC V2T 1W5

Dear Mr. Smith:

**SUPERVISORY REVIEW – BC CHICKEN MARKETING BOARD QUOTA TRANSFER
ASSESSMENT AMENDMENT PROPOSAL**

In its April 24, 2014 discussion paper and cover letter, submitted to the BC Farm Industry Review Board (BCFIRB) on May 22, 2014, the BC Chicken Marketing Board (Chicken Board) proposed adding exemptions to the Deemed Transfer Assessment approach used to fund the New Entry Grower (NEG) program. Currently, all quota transfers are included when determining the total volume of quota transferred for the purposes of calculating the deemed transfer assessment.

BCFIRB considered the Chicken Board's submission alongside related applications from the BC Egg Marketing Board, BC Milk Marketing Board, BC Turkey Marketing Board and BC Hatching Egg Commission at its September 11, 2014 board meeting.

BCFIRB directed me to request further clarification and substantiation on specific points to support its decision making.

Supervisory Review Overview

In its 2005 Specialty Review¹, BCFIRB directed that:

The BCCMB deemed assessment approach is acceptable providing that there are no exceptions in determining the total volume of quota transferred for the purposes of calculating the assessment.

The policy objectives behind BCFIRB's directive were to help ensure:

¹ http://www.firb.gov.bc.ca/reports/specialty_reports/sept1_05_directions.pdf

- The Chicken Board would have quota available for new or established producers to meet changing markets.
- The Chicken Board would have quota available for new producers in order to reduce barriers to entry (quota prices are often seen as prohibitive to entry).

The Chicken Board is requesting BCFIRB modify its 2005 Deemed Transfer Assessment direction to exempt the following transactions when determining the total volume of quota transferred for the purposes of calculating the assessment:

1. Quota transfer between direct family members; and,
2. Quota transfers for business restructuring involving a change from partnership to a corporation where the shareholders remain the same, or a change in the percentage of ownership.

BCFIRB must decide whether the proposal meets sound marketing policy, including BCFIRB's 2005 policy objectives. BCFIRB used a SAFETI²-based approach in reviewing the Chicken Board process, rationale and recommendation.

Request for Further Clarification and Substantiation

BCFIRB is requesting the Chicken Board provide further clarification and substantiation on the following items.

Industry signals

1. The submission notes 10% of respondents to the 2012 NEG on-line survey "...took the time to comment that family transfers and corporate restructuring should be excluded from the funding formula" when asked if the funding formula should remain the same or if there should be exemptions to the funding formula.

If the survey was distributed to all growers, then BCFIRB observes that 10% seems to be a low level of industry indication that change is required.

- *Do the 10% represent a significant volume of production, and/or other matters that Chicken Board considered significant when deciding whether exemptions are to the strategic benefit of the industry as a whole?*

Industry sustainability

2. The submission maintains that NEG success comes at the expense of existing producers who are facing a tougher business environment (slow rate of growth, an increase in trade liberalization, and additional costs due to food safety, animal care and biosecurity regulations). In addition, the submission notes Chicken Farmers of Canada allocations have not been meeting producers' full quota holdings³, leading to under-utilization of capital assets. The submission argues that these factors are negatively impacting historical

² Strategic, Accountable, Fair, Effective, Transparent, Inclusive

³ 85.4% of the last 41 periods were below total quota holdings

investments and that the Deemed Transfer Assessment taken from the national allocation represents an additional pressure on these investments.

Based on the data in the submission, BCFIRB observes the amount of production that would be 'regained' by current producers is approximately 32,000kg or 0.1% of total production for 2013. While support of existing producers is an important part of sound marketing policy, so is the board's capacity to meet other policy objectives such as bringing in new producers, supporting regional production and meeting innovation and market flexibility needs. Quota management involves balancing sometimes competing interests. Supply management is not intended to assure a return on historical investments; rather, its purpose is a fair return to efficient producers for a safe, continuous supply of product.

How does 'regaining' 0.1% by existing producers support sound marketing policy in the public interest, taking in to account other quota management policy objectives? For example:

- *Would existing producers be under business pressure sufficient to threaten the sustainability of the industry if the 0.1% is not 'regained'?*
- *Given the quota under question is being produced⁴ (either through lease until distributed to NEG's or by NEG's), how does shifting this fraction of production from NEG to existing producers "...provide greater industry stability"?*

Meeting policy objectives

3. The submission notes that the addition of transfer exemptions would reduce by about half the amount of quota available for new entrants. It also observes there is a new Chicken Farmers of Canada specialty allocation for Asian breeds. Overall it argues that there would "... still be a significant amount of quota available for new entrant chicken growers in BC, the specialty Asian market, and the organic market."

BCFIRB understands the Chicken Board uses its NEG program to help meet innovation, market flexibility, specialty (including organic) and regional production policy objectives. With the amount of quota being cut in half through exemptions, this would seem to have some impact on the Chicken Board being able to meet these policy objectives through the NEG program or other means.

- *What measures does the Chicken Board plan to put in place to ensure sufficient quota continues to be available to meet the above policy objectives in a fair, strategic and accountable manner?*

Closing

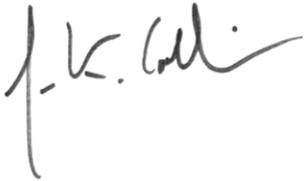
Balancing the tension between existing producers and other policy objectives in order to ensure a sustainable chicken industry is an on-going challenge. BCFIRB appreciates this is no simple task and is requesting further clarification and substantiation on the points in this letter to support a decision that satisfies sound marketing policy requirements.

⁴ The fundamental intent of quota is that it is produced

Robin Smith
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If your board has any questions about the substantiation BCFIRB is seeking, please feel free to contact this office.

Yours truly

A handwritten signature in black ink, appearing to read "J. K. Collins". The signature is fluid and cursive, with a long horizontal stroke at the end.

Jim Collins
Executive Director

cc: BCFIRB web site