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RE: Quota Assessment Tools Evaluation SAFETI Analysis of LIFO and 10/10/10

The LIFO and 10/10/10 quota assessment policy was developed as a result of the 2005 Specialty Review in response to the following policy objectives:

- 1) Quota is intended to be produced
- 2) Quota is transferrable
- 3) Producers are actively engaged and committed to the industry
- 4) Quota is available to commodity boards to support policy objectives, including development of specialty markets and providing for new entrants in the supply management system

A SAFETI Analysis of the LIFO and 10/10/10 policy has been conducted against each of the policy objectives.

Strategic

The LIFO and 10/10/10 policy **is not** strategic in meeting the objective that quota is intended to be produced. LIFO and 10/10/10 do not provide a mechanism that encourages to a producer to place hens in their barn and produce that quota. On the contrary, LIFO and 10/10/10 increase the amount of quota that is not being produced as quota reverts back to BC Egg on transfer and is placed in the reserve. The reserve quota is then held until BC Egg issues it to new producers.

Provincial egg boards are unable to allot more quota to producers than what Egg Farmers of Canada has allotted to the province, meaning that unlike the other feather boards, BC Egg is unable to fluctuate its quota pool. As a result, assessments result in a long-term decrease in our total quota pool causing our utilization rate to drop below 100%. This is unfavourable for our producers, graders, processors and markets.

If the objective were reworded to state that quota is produced by the person who was first provided with the licence for that quota, it would be strategic as LIFO and 10/10/10 strongly discourage the transfer of quota.

The LIFO and 10/10/10 policy **is not** strategic in meeting the objective that quota is transferrable. LIFO and 10/10/10 provide a strong disincentive to producers who are wishing to transfer their quota. While BC Egg does not attach a value to quota, producers do. When quota reverts back to the board on transfer, they see a financial impact. With each quota issuance, a producer looks at the date that they will be able to see the full financial benefit of that quota. With each subsequent quota issuance that date is extended further into the future. While producers continue to see this finish line, the disincentive will remain.

The LIFO and 10/10/10 policy **is not** strategic in ensuring that producers are actively engaged and committed to the industry. Nothing within the policy defines active engagement and commitment or provides a mechanism on what a Board should do if that condition is not met as LIFO and 10/10/10 do not come into effect until the quota is allocated to a producer.

It was made clear to the commodity boards that in order to receive a quota issuance, producers must be actively engaged and committed to the industry. As LIFO and 10/10/10 do not ensure this, the commodity boards were required to develop their own tools to ensure this objective was met. This is seen in the requirements for the BC Egg New Producer Program where applicants must provide BC Egg with proof that they intend to be actively engaged and committed as a condition of application. It is also apparent in Amending Order 11 of the BC Egg Marketing Board's Consolidated Orders (Part V) which came into effect prior to the 2014 quota issuance as a mechanism to ensure that BC Egg was not issuing quota to inactive producers.

The LIFO and 10/10/10 policy **is** strategic in ensuring that quota is available to commodity boards to support policy objectives, including development of specialty markets and providing for new entrants in the supply management system. Any policy that includes assessments would be strategic when compared to this objective.

Accountable

The LIFO and 10/10/10 policy **is not** accountable to stakeholders in meeting the objective that quota is intended to be produced as when quota is assessed and not being produced, our utilization rate is below 100% and BC Egg producers are shorting their markets, increasing the number of imports that are required from other provinces or the United States.

The LIFO and 10/10/10 policy **is not** accountable to stakeholders in meeting the objective that quota is transferrable. As this policy represents a disincentive for transferring quota, it is not encouraging the transfer of quota. In a growth situation, this reduces the transferability of quota for at least 10 years which reduces access to quota for both new producers and existing producers, increasing barriers to entry. This policy directly opposes the intent of decreasing barriers of entry from the 2005 Specialty Review.

The LIFO and 10/10/10 policy **is not** accountable to stakeholders in meeting the objective that producers are actively engaged and committed to the industry. Imposing a disincentive on the transferring of quota discourages producers from exiting the industry even when they wish to do so. This creates producers who may not be actively engaged and feel "stuck". They are waiting for the 10 years to expire so they can leave. This situation requires BC Egg to use alternative regulations to ensure they are active or encourage them to leave through other penalties. See Parts III and V of the BCEMB Consolidated Orders.

The LIFO and 10/10/10 policy **is** accountable in ensuring that quota is available to commodity boards to support policy objectives, including development of specialty markets and providing for new entrants in the supply management system. Any policy that includes assessments would be accountable when compared to this objective.

Fair, Transparent and Inclusive

Both the development and the implementation of the LIFO and 10/10/10 policy **was** Fair, Transparent and Inclusive. This assessment is conducted against the three principles directly.

The 2005 Specialty Review was conducted through a large stakeholder consultation that included many perspectives including industry groups, Marketing Boards and Government. Interested parties had the opportunity to respond to the review and marketing board submissions.

All producers are included in the LIFO and 10/10/10 assessments and are affected according to their willingness to transfer quota under the current restrictions. The Board can clearly demonstrate how much quota has been assessed and through which quota transactions.

Effective

The LIFO and 10/10/10 policy **is not** effective in meeting the objective that quota is intended to be produced as when quota is assessed it is not being produced. As mentioned above, provincial egg boards do not have the same flexibility to increase our total provincial quota beyond what EFC has issued the province. This causes our utilization rate to drop below 100% which is unfavourable for our producers, graders, processors and markets.

The LIFO and 10/10/10 policy **is not** effective in meeting the objective that quota is transferrable. As this policy represents a disincentive for transferring quota, it is not encouraging the transfer of quota. In a growth situation, this reduces the transferability of quota for at least 10 years which reduces access to quota for both new producers and existing producers, increasing barriers to entry. This policy directly opposes the intent of decreasing barriers of entry from the 2005 Specialty Review.

The LIFO and 10/10/10 policy **is not** effective in meeting the objective that producers are actively engaged and committed to the industry. Imposing a disincentive on the transferring of quota does discourage producers from exiting the industry however it does not encourage active engagement or commitment. Each of the feather boards have developed alternative regulations or orders to encourage those qualities in producers.

The LIFO and 10/10/10 policy **is not** effective in ensuring that quota is available to commodity boards to support policy objectives, including development of specialty markets and providing for new entrants in the supply management system. The LIFO and 10/10/10 policy is responsible for providing some quota for BCEMB's policy objective however it has not been a meaningful amount. Over the last 11 years, the LIFO and 10/10/10 policy has been successful at obtaining just under 20,000 quota units; this would support one new entrant every 2-3 years which falls short of BC Eggs commitment of starting two new entrants each year. This would leave BC Egg unable to support our policy objectives without the alternate mechanisms that have been created such as a 10% assessment on growth quotas prior to issuance.

Conclusion

Based on the above rationale and policy objectives, overall the LIFO and 10/10/10 policy no longer meets the SAFETI principles as defined by BC FIRB.