

BC Broiler Hatching Egg Commission Report to the BC Farm Industry Review Board

Quota Tools Assessment Review

June 30, 2017

I. Introduction

The following constitutes an initial report by the BC Broiler Hatching Egg Commission in response to the February 28, 2017 letter and Terms of Reference of the BC Farm Industry Review Board (BCFIRB). As previously communicated to BCFIRB, the Commission is not providing a complete response now for two principal reasons. One is that issues arising in other commodities with respect to transfer assessments are not of immediate concern in the broiler hatching egg sector. The second is other priorities and commitments facing the Commission, including other supervisory direction from BCFIRB. The Commission intends providing further information at the proposed September meeting between BCFIRB and the Commission. This will also give the Commission opportunity to assess the recommendations of other boards in terms of their applicability to the hatching egg sector going forward.

However, after initial consultation with stakeholders the Commission can provide some information on issues related to the Quota Tools Assessment Review (QTAR) by reporting on the following:

- i. The Commission's continued support for the overarching policy objectives of Government and BCFIRB;
- ii. The Commission's agreement with the four key policies that BCFIRB identified in its February 28, 2017 letter as applicable to the QTAR;
- iii. At a high level, the Commission's initial observations about allocations and quota transfer assessments in support of specialty, regional and new entrant policy objectives;
- iv. The Commission's initial observations about its New Entrant Program; and
- v. Quota distribution, transfer, leasing, assessment, new entrant and other factual background information requested at Outcomes Expectations #1 and #2 on page 4 of BCFIRB's February 28, 2017 letter.

II. Consultation

The Commission has drawn the attention of sector stakeholders to QTAR information on its website, including with links to BCFIRB and other board websites/information related to QTAR. The Commission also met with the BC Broiler Hatching Egg Producers

Association and existing new entrant producers and this report was provided to stakeholders for comment.

The Commission continues to discuss and exchange QTAR-related matters and information with the other supply managed boards.

i. The Commission's continued support for the overarching policy objectives of Government and BCFIRB.

As part of its review, the Commission examined various policy documents of Government and BCFIRB, including:

- The Ministry of Agriculture's Regulated Economic Policy (July 2004);
- BCFIRB's Specialty Marketing and New Entrant Submissions: Policy, Analysis, Principles and Directions (September 2005);
- Various BCFIRB policy directions following up September 2005 (new entrants, sibling exemptions, BC Milk Marketing Board Quota Governance Review); and,
- The B.C. Agrifood and Seafood Strategic Growth Plan (2015).

The Commission acknowledges that it operates by way of a legislated privilege granted to the regulated hatching egg sector in B.C. through the *Natural Products Marketing (BC) Act* and the British Columbia Broiler Hatching Egg Scheme. As noted in the Regulated Marketing Economic Policy, with that privilege comes specific responsibilities to serve the public interest and to support new entrants:

"The regulated marketing system operates in the interests of all British Columbians. Boards and Commissions operating under the authority of the Natural Products Marketing (BC) Act are responsive to the needs of British Columbia producers, as well as to processors, consumers and other participants in the British Columbia food system.

...

The British Columbia regulated marketing system facilitates the entry of new producers to sustain and renew regulated industries in new and existing markets..."

The Commission continues to support the overarching objectives related to regulated marketing policies outlined in these documents. That is not to say that there are not certain specific operational policies or directions that should be periodically reviewed,

updated, rescinded, developed or new approaches considered; such as BCFIRB's current review of quota transfer assessments.

ii. **The Commission's agreement with the four key policies that BCFIRB identified in its February 28, 2017 letter as applicable to the QTAR.**

As part of QTAR, consideration should be given to whether these key policy principles, which inform decisions with respect to quota transfer assessments and new entrants, remain valid today. The Commission believes they are and concurs with BCFIRB's February 28, 2017 wording that these four policies are "key in ensuring delivery of sound marketing policy in the public interest through a stable, diverse industry able to meet and grow with changing market demands in an accountable manner."

- **Quota is intended to be produced.** The Commission agrees. Further, the Commission notes that a fundamental requirement of supply management is an obligation for quota to be produced.
- **Quota is transferrable.** The Commission agrees that subject to the discretion of a board in specific circumstances, this should remain a policy for the B.C. supply managed sector. Under s. 8(1) (b) of the British Columbia Broiler Hatching Egg Scheme, quota remains "the exclusive property of the commission" however producers should continue to have the ability to transfer the privilege of farming it.
- **Producers are actively engaged and committed to the industry.** The Commission agrees this should remain a policy principle for the B.C. supply managed sector. It is legitimate for boards to take measures to address concerns about speculation in quota. What is meant by "actively engaged" is sometimes difficult to determine. The Commission already has certain policies in place – prohibition of full or long-term quota leasing for example – and looks forward to reviewing the recommendations of other boards which have had to examine this question in detail due to circumstances in their respective industry.
- **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.** Such management of allocations (in quota or other form) is necessary to support these and other policy objectives of the Regulated Marketing Economic Policy. The distribution of hatching egg allocation within the Province is the responsibility of the Commission and these decisions are made as necessary.

- iii. **At a high level, the Commission's initial observations about allocations and quota transfer assessments in support of specialty, regional and new entrant policy objectives.**

Currently, specialty production is allocated to B.C. but is not managed through issuance of quota. The mainstream new entrant program is funded through quota transfer assessments. At present, no regional allocation is necessary but with increased chicken production, and planned expansion of hatchery capacity in the Okanagan within the next two years, the Commission will have to examine if and how production can be allocated and supported in the Interior. The Commission acknowledges that the Regulated Marketing Economic Policy states that marketing boards are to "ensure their policies and decisions do not inhibit the economic viability of regional industries (and) consider the need for appropriate mechanisms to sustain regional industries". This will require intensive consultation with stakeholders to determine viability as there are many considerations involved.

As hatching egg producers will not reach 100% utilization until the 2018 production year, Last In First Out (LIFO) and 10/10/10 have not been a problem for the Commission as no new quota has been issued to non-new entrant producers. To the extent members of the BC Broiler Hatching Egg Producers Association were familiar with this problem (mostly from cross-commodity experience), concerns like those heard in the egg and dairy sector were raised. As stated earlier, the Commission does support quota being allocated to "active" producers and using other measures to prevent quota speculation.

While it agrees that these measures must be effective, the Commission would recommend that they be as straightforward and streamlined as possible to reduce regulatory administration. There should also be an onus on producers to be able to substantiate their continued active involvement. Hatching egg new entrant producers, all mainstream to date, are subject to LIFO and 10/10/10 and consultation with those producers and mainstream producers revealed no pressing need to amend that requirement for new entrants. One recommendation that might be considered is to ensure that at the end of year 10, new entrant producers are treated the same as other mainstream producers. This would include transfer assessments so that if there are no or different direct assessments for mainstream producers, it would be 10/10/0, 5 or whatever other number has been established for quota transfer assessments.

Quota for the new entrant program is funded by 5% assessments on the transfer of existing quota, with certain family and other exemptions. This has been successful to date in providing quota sufficient to start four new entrants in the sector, with two more in the offing.

Although Canadian Hatching Egg Producers has recently made changes to the national allocation system to improve forecasting, the nature of hatching egg production and planning means that it lags the current growth in the broiler industry. If the B.C. hatching egg sector exceeds 100% utilization starting in the 2019 production year, this would enable the Commission to supplement funding for the new entrant program by reserving some of the new allocation for that purpose.

The deemed assessment approach where (5% of) all quota transfers are calculated industry-wide on a three-year rolling average and that amount reserved for new entrant and other policy objectives is another method that the Commission will consider. It has the advantage of not impacting upon individual producers (both transferor and transferee) when quota is transferred and is a straightforward calculation for boards as they already record and approve all quota transfers.

Transfer assessments would be necessary in cases where a sector is experiencing static or little growth (as was generally the case for B.C. boards at the time of the Specialty Review). Reserving a small percentage of new allocation for these purposes in times of growth can also be an effective tool which can also be used in combination with assessments. The onus should be on boards to effectively and transparently demonstrate they are meeting these policy obligations in a way that balances the public interest and business needs of their sector rather than BCFIRB directing specific regulatory or performance measures.

iv. The Commission's initial observations about its New Entrant Program.

As part of the Specialty Review, the Commission proposed to BCFIRB that new entrants be granted 10,000 breeders/quota cycle. The minimum farm size in the mainstream hatching egg sector then and now is 12,000 units. Ten thousand breeders represented approximately 33% of the average hatching egg quota holding (other proposals: egg 17.5%, chicken 8.5%, turkey 3%, milk 20.5%).

As explained at page 37 of BCFIRB's September 2005 report:

"the (Commission) proposal stands out from the others as being a very sizable incentive. This is based primarily on the need for a hatching egg production unit to be viable not only for the producer but also the hatchery and an attempt to avoid criticism that small lots of quota are not readily available for purchase to match incentive amounts or to top up to an amount required for a viable unit. Note also that the (Commission) is different than the other Marketing Boards in not presently having a designated specialty class of hatching eggs."

BCFIRB advised the Commission that its "proposed 10,000 unit incentive should be revisited as being too large" but also that the Commission should "consider relaxing its minimum farm size for new entrants or re-examining ways quota could be made available for new entrants by transfer." Subsequently the entrant figure was reduced to 5,000 units where it remains today. It should be noted that new entrant producers will soon represent over 10% of registered producers with their mainstream production important to the industry as allocations increase and the demand for expansion of hatching egg production capacity grows. Non-new entrant program producers have also entered the industry in recent years.

The Commission is currently operating off a lottery-derived list of 10 applicants, four of whom have entered the industry (as well as a new entrant from an earlier program). Invitations to the next two applicants are pending. The four latest new entrants are in different circumstances but presently all intend to remain in the industry.

The concerns noted in 2005 about the availability of quota in small lots for purchase (or lease) were raised by new entrants as still being an issue for them. This question will be included in an examination of the Commission's existing quota transfer, leasing and related policies, which will also benefit industry producers more generally given the pressure on the sector to expand its production capacity. It is expected that current growth (and potential modification of LIFO and 10/10/10) will assist in making quota available. This is another area where the Commission looks forward to discussing the recommendations of other boards.

The 2005 concerns about both new entrant producer and hatchery viability remain valid and providing opportunity for new entrants to grow to minimum farm size remains an important objective in the mainstream hatching egg sector.

- v. **Quota distribution, transfer, leasing, assessment, new entrant and other factual background information requested at Outcomes Expectations #1 and #2 on page 4 of BCFIRB's February 28, 2017 letter.**

A partial outline of the requested information is appended to this report. For reasons outlined earlier and due to Commission record-keeping prior to current management, this information remains a work in progress.

III. Conclusion

The Commission continues to understand and support the overarching policy objectives of the Regulated Marketing Economic Policy and the Specialty Review. However, the former was issued in 2004 and the latter in 2005 – 13 and 12 years ago respectively. As already stated, it is critical that specific operational policies or directions should be reviewed, updated, rescinded, developed or new approaches considered as times and industries change. The Commission also understands and accepts its responsibility to demonstrate that its regulation of the B.C. hatching egg sector balances the public interest with the business needs of its industry through sound marketing policy developed and supported by SAFETI.

The Commission looks forward to future discussion and consultation with BCFIRB, other boards and stakeholders in support of this important initiative and the effective regulation of the B.C. broiler hatching egg sector.

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Appendix

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Outcomes Expectations as asked by BCFIRB in the letter dated February 28, 2017 Page 4 Questions:

- **Quota Distribution Policy within and between quota classes:**
Currently, there are not classes of quota in the hatching egg sector, only Placement Quota defined as *"the maximum quantity, as determined by the Commission, of broiler breeder pullets that may be received by a Producer in a Quota Period..."* (Consolidated Order p.4)
- **Quota Leasing Principles:**
"Permissible Lease means a Transfer of Placement Quota by way of lease or licence for a term of not more than two years, where:
(a) *The Transferor is a Registered Producers who has been actively engaged in Broiler Hatching Eggs production for at least the immediately preceding Quota Period; and*
(b) *The placement Quota so leased or licenced does not exceed 10% of the Transferors total allotment of Placement Quota"* (Consolidated Order p.3)

Lease is permitted to take place when the utilization of quota increases and a Producer would need to make a business decision to either build or sell. This allows Producers sufficient time – two years – to make a strategic and efficient decision.

"No Producer may Transfer Placement Quota by way of lease or licence for a term exceeding two years, and any such Placement Quota so leased or licenced is subject to cancellation by the Commission." (Consolidated Order p.11)

- **Assessments applied to the first time a quota is transferred between producers:**
Not applicable in the hatching egg sector as we have not yet reached 100% utilization. All transfers are subject to a 5% assessment except for those meeting the exemption criteria and New Entrant Quota which is subject to LIFO and 10/10/10.
- **Transfer assessment exceptions:**
 - Permissible lease as described above
 - The Transferor's spouse, child, or child and the child's spouse
 - All Placement Quota is transferred to the Transferor's sibling together with the associated Production unit

- Two or more Producers enter into an agreement of partnership and the partnership interest of each Producer is proportionate to the Placement Quota registered in that Producer's name
 - The amount of Placement Quota deemed to have been allotted to a Producer having an interest in a partnership remains registered in that Producer's name upon dissolution of the partnership (Consolidated Order p.18)
- **Entry programs:**
 - *The New Producer Program* is funded by assessments at 5,000 birds per quota cycle (2 years July 1 – June 30; Consolidated Order p.39)
 - *Small Lot Innovation Self-Marketer Program* is funded by assessments at 5,000 birds per quota cycle (2 years July 1 – June 30; Consolidated Order p.67)

Amount of allowable provincial production by year:

Year	Allocation	Utilization of Quota
2005	114,255,540	88%
2006	108,155,638	85%
2007	106,001,208	85%
2008	108,967,994	85%
2009	106,391,009	85% / 82%
2010	102,690,332	82%
2011	102,855,777	86%
2012	101,337,449	82%
2013	100,521,711	82%
2014	104,765,686	86%
2015	108,255,014	88%
2016	112,647,036	93%

Transfers per Year:

Year	Family Transfers	Non-Family Transfers	Amount of Quota Transferred
2005	0	2	45,830
2006	0	19	191,265
2007	0	6	38,622
2008	0	9	75,658
2009	0	8	76,437
2010	2	10	149,743
2011	0	11	113,633
2012	0	5	37,950
2013	0	8	55,137
2014	0	3	24,967
2015	1	2	39,835
2016	0	7	80,676

New Entrants Snap Shot:

Year	Number of New Entrants Launched through Program	New Entrants Who Grew to Minimum Farm Size
2005	No records	
2006	No records	
2007	No records	
2008	1	1
2009	0	
2010	0	
2011	1	1
2012	0	
2013	0	
2014	0	
2015	3	2 planning on it in the very near future
2016	0	
2017	1 planned	
2018	1 planned	

There has been no uptake of the Small Lot Self-Marketer Program to date.