

September 21, 2015

Supervisory Review: The Future of Regulated Vegetable Marketing on Vancouver Island

A Stakeholder
Engagement
Discussion Paper

Message from the Chair

On behalf of the BC Vegetable Marketing Commission (the Commission) I would like to invite you to take part in this opportunity to define the future role of regulated vegetable marketing on Vancouver Island.

The Vancouver Island region has been faced with many challenges. We want to hear from you on how these challenges can best be addressed and how we can take advantage of existing opportunities and create new ones.

We are committed to implementing a solution that is based on a fair and inclusive process that observes a common vision for the industry. To ensure stakeholders have sufficient time and options to deliver their input, the review period has been extended and will include the opportunity to submit a written submission and attend facilitated workshops.



Alf Krause, Chair

Due Date for Written Feedback: Friday December 14th, 2015

The Commission will accept individual submissions in person, by mail, e-mail or fax. *Submissions are kept in confidence and individual input will remain confidential.*

Two Facilitated Workshops will be held in January 2016

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Purpose

The purpose of this supervisory review is to support industry stakeholders and the BC Vegetable Marketing Commission (the Commission) in building a sustainable system that leads to positive outcomes for the Vancouver Island vegetable industry and the public it serves.

This discussion paper, and the facilitated consultations to follow, will provide the regulated vegetable industry stakeholders (producers, agencies, retailers, and others) with an opportunity to help define a vision and direction for this important sector of the Vancouver Island economy. The Commission will use the input received through this inclusive consultative process to evaluate its current regulatory structure and, where necessary, propose changes to BCFIRB for prior approval.

Introduction

Vancouver Island has the climate, as well as soil and water, suitable to produce a wide range of vegetable crops. Producers also have relatively strong local support for their products amongst retailers and consumers. Despite these advantages, the region is facing major challenges that threaten the viability of the vegetable industry.

The major challenges faced by the Vancouver Island region include:

- A limited land base available for vegetable production
- A declining number of producers
- Increasing production costs
- Retail sector consolidation
- Significant competition from product imported into BC

The regulated vegetable sector has also experienced increasing difficulty in managing orderly marketing within the region. This has resulted in a number of appeals submitted to the BC Farm

Industry Review Board (BCFIRB) that arose from Commission decisions and unresolved conflicts between regulated producers, agencies, and the Commission. There have been several unsuccessful attempts by BCFIRB (through informal and formal processes) to resolve ongoing issues in a manner intended to support collaborative solutions. At this point, both the Commission and BCFIRB consider these unresolved conflicts a serious threat to the future of orderly marketing of commercial vegetable production on Vancouver Island.

Given the challenges facing the Island’s regulated vegetable sector, the Commission recognized that it must take strategic action to find a way forward for the benefit of the industry. This led the Commission to request that BCFIRB initiate a supervisory review. BCFIRB concluded that a supervisory review is an appropriate tool to help determine if a regulated system best serves the Vancouver Island region.

The “Future of Regulated Marketing on Vancouver Island—Supervisory Review” was initiated on October 12, 2014.

Review Process and How to Participate

Step 1: This discussion paper provides background information and questions for your consideration. It is distributed to all Vancouver Island producers and agencies, and is available on the Commission website for review by other value-chain partners and the general public.

Step 2: The Commission will accept your feedback in writing until **December 14th, 2015**. The feedback will be assessed and the amalgamated ideas and comments are to be made public. *Individual input will be kept in confidence and submissions remain confidential.*

Step 3: Facilitated workshops will be held in **January 2016** to explore the ideas and comments provided by stakeholders and to draft a vision for Vancouver Island.

Step 4: At the conclusion of the supervisory review, the Commission will examine the input received and submit its decisions and recommendations to BCFIRB.

Step 5: BCFIRB will assess whether there are outstanding issues and how those issues should be dealt with (for example, is a BCFIRB decision required; are further processes needed; or, is other action required).

Industry Context

This section provides some insight into the purpose of regulated marketing, as well as information on the Commission’s regulatory authorities, and background on challenges facing the Vancouver Island regulated sector and associated value chain. This information is meant to assist you in your consideration of the questions listed on pages 8, 9 and 10.

Purpose of Regulated Marketing

The overall purpose of regulated marketing is to provide a framework for producer economic stability and to satisfy other related public interests. It is intended to benefit producers, the sector's value chain, and the public. Regulation should be strategic and effective in meeting the evolving needs of all stakeholders.

Market competitiveness is also an important consideration and needs to be considered at the industry level rather than between agencies and producers within the regulated vegetable industry. The ideal marketing structure should help producers make sound business decisions that work for them, while promoting industry competitiveness, adaptability, and growth.

Orderly Marketing of BC Vegetables

The BC regulated vegetable industry is organized under the *Natural Products Marketing (BC) Act* and the British Columbia Vegetable Scheme (the Scheme).

The Commission is the first instance regulator and is responsible for applying the Scheme, including coordinating producer activities, to ensure orderly marketing. Orderly marketing is achieved through managing the promotion, control, and regulation of production, transportation, packing, storage, and marketing of vegetables.

The Commission's General Orders¹ sets out how the Commission manages the promotion, control, and regulation of production, transportation, packing, storage, and marketing of the vegetables it regulates.

In delivering its responsibilities, the Commission takes into account the economic stability of the industry, including producer price, and encourages growth of vegetable production in naturally strategic areas. To help support these actions the Commission pulls together current production and marketing data. The Commission also represents the interests of the industry inter-provincially, as well as nationally and internationally (for example, the Potato Anti-Dumping Order).

Although the Commission has the authority to regulate all vegetables grown in the province, it currently chooses to only regulate storage, processing, and greenhouse vegetable production in the Fraser Valley, Interior, and Vancouver Island regions². The Commission administers the Scheme by way of a sub-delegation of powers to the various sales agencies.

Under the *Natural Products Marketing (BC) Act (NPMA)*, BCFIRB is responsible for the general supervision of the Commission, including ensuring sound marketing policy. BCFIRB is also responsible for prior-approval in the designation of agencies by the

¹ Orders available online at www.bcveg.com/orders.asp

² For a list of the regulated vegetables, see Schedule II of the Commission's [Consolidated Order](#)

Commission under the *NPMA Regulations*, as well as hearing appeals of any Commission decision, determination, or order.

Activities of the BC Vegetable Marketing Commission

The following is a synopsis of Commission activities. See **Appendix I** for a more detailed description (from the *BCVMC Industry Profile*).

- *Coordination & Oversight*: The Commission coordinates the collective activity of producers through facilitation amongst producers and 1st receivers.
- *Agency Designation*: The Commission designates agencies, which allows producers to organize into marketing groups so they can compete against larger competitors.
- *Minimum Pricing*: The Commission establishes minimum pricing for the processing and storage crop sectors. This helps stabilize prices and creates a floor below which producers are not to sell or buyers may not buy. The Commission is given the authority to discuss prices by both Provincial and Federal legislation which protects the Commission from the risk of prosecution under the Canadian Competition Act.
- *Industry-wide Contract Negotiations*: The Commission assists the processing vegetable sector to collectively negotiate standard contract terms and minimum pricing provisions.
- *Dispute Resolution*: The Commission helps address disputes through information gathering and dialogue, mediation, and formal hearings. These decisions may be appealed to BCFIRB.
- *Supervision*: The Commission is responsible to ensure that producers and 1st receivers follow the rules.
- *Food Safety*: The Commission works with all producers to assist them in meeting food safety requirements required by the market.
- *Coordinating Production Expansion*: The Commission uses delivery and production allocation to do this.

Delivery allocation is a coordinating mechanism within the storage crop category that is used for managing growth and assisting the orderly flow of fresh products into seasonal markets. Designated agencies have the responsibility to use each individual producer's delivery allocation to determine the producer's delivery opportunity to supply the agency's demand for its product in the market place. There are no restrictions on the planted acreage of a storage crop. Producers make planting decisions based on their delivery allocation and (in consultation with their Agency) forecasted market demand.

Production allocation is a production-based system utilized by the greenhouse sector. It is specific to a greenhouse vegetable crop and the growing area within a greenhouse footprint. Only producers assigned greenhouse vegetable production allocation may produce the greenhouse vegetable crop as approved by the Commission.

The principles underlying the delivery and production allocation policy are:

- The preservation of market access for producers who have served the market over time
- Pro-rata sharing of market access amongst ALL producers
- Providing a mechanism to market access by new entrants
- Providing the opportunity to share in industry growth
- Facilitating long-term farming operations that maximize returns to producers
- The provision of an orderly marketing system

Some of the Issues Faced by the Vancouver Island Industry

The Vancouver Island regulated vegetable industry faces a number of challenges. Three issues identified in the introduction are explored below.

High Cost of Production and Marketing

Several factors contribute to the high cost of production and marketing for producers on Vancouver Island. Two of these factors are transportation and access to land.

The added expense for transporting goods to the Island increases overall production costs. Likewise, the cost of transporting product off the Island may limit returns to the point of not being price-competitive in off-Island markets.

Affordable access to agricultural land is also a challenge for producers. Vancouver Island has a limited land base suitable for vegetable production. Vegetable producers compete for this limited and desirable land with hobby farmers, housing, and other land uses. Even though suitable farm land for vegetable production exists in the Agriculture Land Reserve (ALR), this high demand for land is driving up price and is preventing farmers from purchasing agricultural land. Less than half of the ALR is actively farmed on Vancouver Island and the Gulf Islands.

Given the high cost of production and marketing, Island producers struggle to achieve efficiencies and economies of scale that enable them to compete effectively with producers located on the Lower Mainland.

Changing Retail Environment

Historically, most regulated vegetable marketing on Vancouver Island was done directly from farm to store. Today, producers and agencies must deal with competition from imports, retail consolidation, and direct entry of large retailers. Though larger retail chains offer seasonal, local production, the core of their vegetable business demands year-round service. With little to no import protection, local producers are price takers and compete with quality product that is readily available to consumers from the United States, Mexico, and around the world.

Local producers have difficulty accessing large distribution networks because they are often too small to meet the requirements of the marketing and distribution system. In addition, some producers may not be able to meet the distributor's requirements related to labeling, quality control, traceability, and food safety.

While there is no question that the consolidation and market power of the large retailers has presented major challenges for the Vancouver Island vegetable sector, new opportunities also exist. In the Greater Victoria area alone, retailers such as The Red Barn, Peppers, TruValue, Market on Yates, Niagara Grocery, and The Root Cellar are all small to medium sized, locally-owned retailers that focus part of their marketing on local and seasonal food products. The phenomenal growth in BC farmers markets in recent years also indicates that consumer demand for locally-grown food is much more than just a short-term trend.

The evolving and increasingly complex business environment demands that producers and agencies adopt diverse strategies. These include: developing niche markets that cater to 'locally grown' and 'in season' produce; working together to supply larger retailers when product is in season; and providing year-round service by importing product to fill the gaps when local product is not available.

Lack of Industry Cohesion

Ongoing conflicts between Vancouver Island producers, agencies, and the Commission point to a lack of industry cohesion. This fragmentation within the industry works against a sustainable vegetable sector and value chain.

The Vancouver Island vegetable industry has, through previous reviews conducted by the Commission and BCFIRB, articulated what it sees as its future direction. While the industry does lack cohesion, it is also evident that there is a consistent viewpoint on the key elements necessary for a sustainable future.

It was clearly stated by stakeholders that the Vancouver Island vegetable sector needs to:

- Satisfy a range of local market opportunities that demand diversity of locally-grown products
- Build a reputation for high-quality Vancouver Island products, so they become the product of choice in local markets
- Develop strong linkages throughout the entire value chain
- Establish equality and fairness amongst producers for market access
- Adopt on-farm environmentally sustainable practices

The Commission wants to implement a solution that adheres to a common vision for the industry and meets SAFETI principles (Strategic, Accountable, Fair, Effective, Transparent, and Inclusive). As regulator, the Commission abides by the principle of a fair and inclusive process to build a strategic, effective, and accountable outcome.

See **Appendix II** for more information about the SAFETI principles.

Building a Sustainable Future – What You Can Do?

This supervisory review is focused on the road ahead for the Vancouver Island regulated vegetable industry. The Commission acknowledges that there have been past tensions that still remain. All stakeholders are encouraged to put these tensions aside and think about their vision for the future.

That future may involve deregulating the Island or modifying the current regulatory structure. Your input is vital for the Commission and BCFIRB to work with you to find a positive path forward. We encourage you to answer the questions in this section in as much detail as possible.

As you respond to the questions in this paper, you may want to consider the context provided in this document as well as key elements that stakeholders previously identified as necessary for a sustainable future. This is your opportunity to share your vision for the future of the Vancouver Island vegetable industry.

Questions for Stakeholders

1) Describe your vision for the Vancouver Island vegetable industry

i) *(Think about your experience in today's context)*

2) Are there major barriers to success for the commercial vegetable sector on Vancouver Island not identified in this paper?

- i) Does the current regulated system help reduce or manage these barriers? If yes, how?
- ii) If no, do you think the regulatory system can be adapted to help reduce or manage these barriers? If so, how?

3) What are the opportunities to strengthen the commercial production of vegetables on Vancouver Island?

- i) Does the regulated system contribute to these opportunities, or create barriers? Please explain how the regulated system helps or hinders commercial vegetable production.

4) What are the opportunities to strengthen the marketing of Vancouver Island commercial vegetable production (e.g. 'buy local', niche, specialty)?

- i) Does the regulated system contribute to these opportunities or create barriers? Please explain how the regulated system helps or hinders the marketing of vegetable production.

Questions for Stakeholders *(Continued)*

5) Does the current regulatory system provide predictability for producers and value-chain members, required to invest in Island vegetable production and purchasing?

- i) If yes, how?
- ii) If no, how do you think the regulatory system can be adapted to provide predictability?

6) Does the current regulatory system provide producers and value-chain members the flexibility to service an increasingly complex retail environment?

- i) If yes, how?
- ii) If no, how do you think the regulatory system can be adapted to provide flexibility?

7) Are agencies an effective marketing tool for Vancouver Island producers and value-chain members?

- i) If yes, how are they effective?

And,

How many agencies are effective and strategic for the Island for both producers and value-chain members? *(There are currently five Agencies available for Vancouver Island producers to market their products. Three of these Agencies are located on Vancouver Island.)*

- ii) If no, what do you think are effective marketing tools?

And,

What, if any, adaptations to the regulatory system (including funding via levies) could support effective marketing tools?

Questions for Stakeholders (*Continued*)

8) Does the current regulated system significantly hinder the future of commercial vegetable production and marketing on Vancouver Island?

i) If yes, how?

And,

What would support the future of commercial vegetable production and marketing on the Island?

ii) If no, how does the current system need to be adapted to better support the future of commercial vegetable production and marketing on the Island?

9) Please provide any further information in as much detail as possible that in your view will achieve positive outcomes for the Vancouver Island vegetable industry.

Thank you for your input into this important process.



Andre Solymosi
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Due Date for Written Feedback: Friday December 14th, 2015

The Commission will accept individual submissions in person, by mail, e-mail or fax. *Submissions are kept in confidence and individual input will remain confidential.*

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