



November 22, 2013

Jim Collins
Executive Director
British Columbia Farm Industry Review Board
PO Box 9129 Stn Prov Govt
Victoria, British Columbia
V8W 9B5

Email: firb@gov.bc.ca

Dear Mr. Collins,

**Re: THE OCTOBER 31, 2013 DECISION OF THE BC VEGETABLE MARKETING COMMISSION
"VMC" CONCERNING VANCOUVER ISLAND FARM PRODUCTS INC. (VIFP) AGENCY STATUS**

**JOINT SUBMISSION OF BC FRESH VEGETABLES INC. "BCfresh" AND VIFP
TO THE FARM INDUSTRY REVIEW BOARD "FIRB"**

Background

1. *BCfresh* has been a stable and model marketing agency licensed by the Vegetable Marketing Commission since 1992. They are an Agency in good standing. They market regulated and non-regulated vegetables throughout western Canada and into the western US.
2. For the past 2-years, the Shareholders and Management of *BCfresh* have witnessed the unstable and uncertain regulated vegetable environment on Vancouver Island. Disputes within the original shareholder group of Vancouver Island Produce resulted in a series of events that culminated in VMC meetings, mediated sessions, hearings, ongoing litigation, and lastly, direction from FIRB. *BCfresh* has participated in some of these hearings as an interested party.
3. This ongoing process has created an environment of financial uncertainty and angst for the growers and staff of VIFP. It has also created supply chain uncertainty for those Vancouver Island customers who have been using VIFP as their preferred vendor. These ongoing disputes have affected the reputation of the regulated industry in which we all operate.

4. Vancouver Island retail and wholesale customers are fully aware of the disputes between the various stakeholders and are often caught in the middle. This ongoing regulatory saga has not been in the best interests of orderly marketing in BC. This should be unacceptable and embarrassing to all involved.
5. The Farm Industry Review Board acknowledged in its January 7, 2013 that *“the irreconcilable tensions described above in respect of the VIP agency make it unrealistic to attempt to force all the previous growers back into one agency structure”*.
6. As an interested party and the largest marketer of regulated potatoes and vegetables in BC, BC*fresh* believed in a solution between willing, and like-minded stakeholders. BC*fresh* commenced a dialogue with the Shareholders of VIFP in June 2013 to investigate an opportunity to do business together that was mutually beneficial, create a more orderly approach to the Vancouver Island market, and hopefully reduce some of the conflict among Vancouver Island stakeholders.
7. The Boards of VIFP and BC*fresh* negotiated what they believed to be a sound business and regulatory solution. They reached an agreement whereby VIFP, if approved, would operate as a sub-Agency of BC*fresh*. This business and regulatory structure would provide financial stability for VIFP and its growers, and a shared marketing vision between the two companies. The only mutual agreement that has been reached between stakeholders to date is the one before the FIRB panel.

Approval of VIFP as a Sub-Agency

8. The growers and staff of VIFP have appeared in front of the VMC and FIRB panels since the spring of 2012. VIFP was granted interim Agency status by FIRB on June 1, 2012. Their Agency application was supported by the other root vegetable Agencies; Okanagan Grown Ltd., IVCA and BC*fresh*. They have complied with the requirements of the VMC and FIRB orders as directed since June 2012. Following a Hearing between the interested parties, the VMC has now recommended that FIRB approve VIFP as an Agency and they are to operate as a Sub-Agency of BC*fresh*. There have been sufficient opportunities over the past 2-years for all interested parties to be part of the process and be part of a solution.

Operation of VIFP a Sub-Agency of BC*fresh*

9. As a sub-Agency, VIFP would continue to operate as an independent and stand-alone company. It will maintain a sales office in Courtenay, BC. It will continue to service the Vancouver Island growers and customers it served as an interim Agency. There will be no disruption to other Agencies or orderly marketing.
10. VIFP will continue to market its products on Vancouver Island using a Vancouver Island Grown label and marketing approach. All VIFP and BC*fresh* volume produced on Vancouver Island will be marketed through VIFP to Vancouver Island based accounts.

11. All excess greenhouse vegetables will be marketed off of Vancouver Island as directed by the VMC in its October 31, 2013 Decision. All excess potatoes or root vegetables will be marketed off of Vancouver Island by *BCfresh* through its existing marketing channels. This will enhance orderly marketing by removing surpluses from the Vancouver Island market if required.
12. To ensure mid to long term stability, all growers marketing through VIFP will be required to sign 3-year Grower Marketing Agreements.
13. Pricing and marketing decisions will be made jointly with *BCfresh* to ensure a cohesive approach to orderly marketing. VIFP and *BCfresh* will strategically manage accounts to ensure orderly marketing and 12-month supply availability. There will also be a consistent approach to customer programs and quality controls.
14. It is acknowledged by all involved that there are higher operating costs on Vancouver Island. VIFP growers will have access to *BCfresh* volume buying and packaging rebate programs, reducing input costs. *BCfresh* has agreed to provide administrative services to VIFP as required with the goal of reducing VIFP overhead. VIFP will also have access to the *BCfresh* CHEP pallet program, further streamlining costs and meeting the workplace safety requirements of all major accounts in Western Canada.

Corporate Governance

15. VIFP's Corporate Governance was raised as an issue in previous hearings. *BCfresh* and VIFP addressed this specifically within their application.
16. VIFP will continue to have a 5-member elected Board with a Chair to be elected from the Board. Elections will be conducted annually. VIFP Board meetings will be held quarterly or more often if required. Minutes will be kept of all meetings and circulated to the VIFP and *BCfresh* Boards.
17. Monthly financial and operating reports will be developed by *BCfresh* and provided to the VIFP Board and management. Delivery Allocation reports will be developed and circulated by *BCfresh* to the VIFP office and related growers. Shipment and Delivery Allocation reports will be made available to the VMC as required.
18. *BCfresh* will provide all regulatory oversight for VIFP required by the VMC as outlined in its October 31, 2013 Decision.

Long Term Strategic Interests of the Regulated Vegetable Industry on the Island

19. The Canadian retail and food service market continues to consolidate. The recent purchase of Canada Safeway by Sobey's is following a consolidation trend that has been ongoing for the past 15-years. Retailers are becoming ever larger. Over 90% of the BC retail market is

now controlled by 5 companies. Over 85% of the food service market is controlled by two companies.

20. To be a relevant vendor to these larger accounts requires sufficient volumes of core products 12-months a year. Volumes of regulated potato and vegetables grown and marketed on Vancouver Island have been in decline for years. The number of growers has also been in decline. A fractured supply base is a producer and marketers' worst enemy. Fracturing a declining supply base is fraught with peril.
21. The supply base on Vancouver Island is not large enough to support three Agencies. It could be argued that the current supply is barely sufficient to cover the overhead of two Agencies.
22. Vancouver Island production has survived because of a distinct market that is extremely loyal to its producers. This has benefitted the Vancouver Island growers immensely over the years as it has allowed the industry to exist against more efficient and lower cost competition.
23. In some respects, it has also hampered the industry. As the Vancouver Island industry has had a relatively captive market for its products, it has been slow to change because of it. Price returns for Vancouver Island producers have been artificially superior compared to other competing areas. This can be attributed to Island loyalty and the direct to store sales approach for most of their sales. It is also attributable to high transportation costs to move competing product onto the island.
24. These factors have delayed the industry's need to change or possibly consider consolidation. As part of a long-term vision VIFP is strategically aligning with BC*fresh* to become part of a larger grower owned Agency and marketing company while maintaining its island independence. It is strategically beneficial to do so in this changing market environment. Both companies see an opportunity for growth on Vancouver Island for regulated and non-regulated produce. They want to use their synergy and joint expertise to achieve that goal. Time wasted in hearings and meetings resolving conflict is better spent planning in how to grow the regulated vegetable business on Vancouver Island and elsewhere.

Orderly Marketing

25. We believe the Agency structure approved by the VMC serves the growers of VIFP, and the growers of BC*fresh*. We also believe it is in the best interests of orderly marketing.
26. Both VIFP and BC*fresh* have an extensive customer base on Vancouver Island. Collectively, all major island accounts are serviced. BC*fresh* has over 250 acres of potatoes under a GMA contract on Vancouver Island driving BC*fresh* to make a very clear choice. They could develop a "*Vancouver Island Grown*" label for potatoes and market them throughout their extensive Vancouver Island customer base, further diluting orderly marketing. Or, they

could partner with VIFP to reduce the amount of labels and marketers of island grown potatoes.

27. In their submission to the VMC, VIP alleged that the majority of island growers do not support this application. We beg to differ. There are four Vancouver Island greenhouse vegetable growers marketing through VIFP, and only one is marketing through IVCA and VIP combined. Of the five actual potato farms located on Vancouver Island, three of them would market through VIFP in 2014. We suggest that VIP should do the math. The majority of Vancouver Island based greenhouse and potato *farms* and *production* that are marketing through agencies, market through the two agencies making this application.
28. *BCfresh* and VIFP are currently quasi competitors within the regulatory framework. Under this application, they would be partners. Only self-serving parties interested in exploiting the regulatory system with their protectionist views could find fault with this arrangement.

Kennebec Potatoes

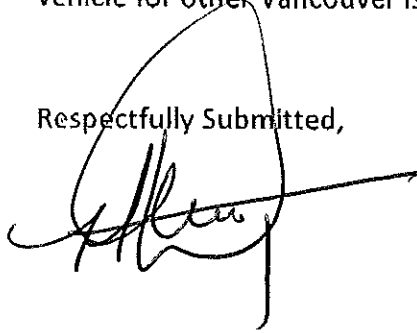
29. Under Clause 50 of the VMC October 31, 2013 Decision, a restriction has been placed on the growing and marketing of Kennebec potatoes on Vancouver Island for the 2014/2015 season. We believe the VMC erred in inserting this clause. This issue was never raised by any of the parties at the Hearing. It was never raised in any of the post hearing submissions. We believe it was a clause inserted without proper consultation as a result of pressure placed on the VMC outside of the hearing process. It should be removed until such consultation has taken place.

Closing

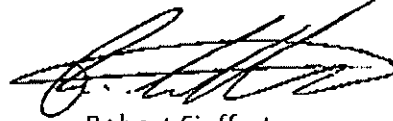
30. The respective Boards of *BCfresh* and VIFP believe this business and regulatory relationship is beneficial to both companies and to the orderly marketing of regulated potatoes and vegetables. This Agreement was negotiated by willing partners who share a common vision. It ensures the continuation of a financially stable, professional sales and marketing company on Vancouver Island that is capable of marketing regulated and non-regulated vegetables grown on Vancouver Island with a plan to increase the Vancouver Island production base over time. To encourage this investment requires resolution of the outstanding disputes plaguing the Vancouver Island regulated potato and vegetable sector. Given these ongoing disputes, there will be little if any investment in this sector until these conflicts are resolved. Instability and uncertainty does not attract investment.
31. There will be no disruption to orderly marketing on Vancouver Island under our plan. VIFP and its growers will continue to operate in the best interests of their growers and customers. By aligning with *BCfresh*, they will reduce overhead costs and have access to off-island markets as required. Previous concerns with governance and regulatory oversight have been addressed within their Agreement with *BCfresh* and the VMC decision.

32. The VIFP management and grower stakeholders are well respected within the produce community on Vancouver Island and we believe this marketing platform will become a vehicle for other Vancouver Island producers to join and utilize in the future.

Respectfully Submitted,



Murray Driediger
President & CEO
BCfresh



Robert Sieffert
President
VIFP

cc BCfresh Board
VIFP
IVCA
Okanagan Grown
VIP
BCVMC