



June 20, 2017

Dear: All Industry Stakeholders,

The following draft report has been prepared by the Commission as required by the BC Farm Industry Review Board's Quota Transfer Assessment Review.

As stated in the report, the Commission is not in a position at this time to complete the level of review required by BCFIRB but is commenting on the legal, policy and operational framework under which the regulated broiler hatching egg sector functions.

As per the work plan, any stakeholder who wishes to comment on this draft is to please submit those comments to the Commission office by Monday, June 26, 2017.

Thank you.

Regards,

A handwritten signature in black ink that reads "J. K. Collins".

Jim Collins, Chair
BC Broiler Hatching Egg Commission

BC Broiler Hatching Egg Commission

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QUOTA ASSESSMENT TOOLS EVALUATION (QTAR) – INITIAL REPORT:

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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 QTAR by reporting on the following:

1. The Commission's continued support for the overarching policy objectives of Government and BCFIRB.
2. The Commission's agreement with the four key policies that BCFIRB identified in its February 28, 2017 letter as applicable to the QTAR.
3. 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.
4. The Commission's initial observations about its New Entrant Program.
5. 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.

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.



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1. 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.

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.



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2. 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 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 does have 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 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.



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3. 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. 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 and 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-percent 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



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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 on 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 directing specific regulatory or performance measures.

4. 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 was then (and is now) 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



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figure was reduced to 5000 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. Several non-new entrant program producers have also entered the industry in recent years.

The Commission is operating off a lottery-derived list of 10 applicants, four of whom have entered the industry. Invitations to the next two applicants are pending. The four existing new entrants are in different circumstances but presently all intend remaining 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.

- 5. 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.**

This information is included at Appendix 1 to this report.

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



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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.

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