

**British Columbia
Farm Industry Review Board**

SPECIALTY MARKET AND NEW ENTRANT SUBMISSIONS

POLICY, ANALYSIS, PRINCIPLES AND DIRECTIONS

September 1, 2005



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1 Executive Summary

1. The British Columbia Farm Industry Review Board (FIRB) has been undertaking a review of specialty products and markets in the province's supply managed sectors.
2. This document outlines a series of FIRB directions and principles to be implemented by the five supply managed Marketing Boards in B.C. (Boards) concerning proposed Specialty and New Entrant Programs.

1.1. Context

3. B.C.'s supply management system is designed and operated to manage and control the production and marketing of several commodities, including the five that are the subject of this review: eggs, chickens, turkeys, hatching eggs and milk. Each of these five commodities is managed as part of an integrated national supply management plan.
4. In 2003, FIRB initiated a review of specialty production and marketing across all Boards.
5. In July 2004, the then Ministry of Agriculture, Food and Fisheries, now the Ministry of Agriculture and Lands (MAL) released a *Regulated Marketing Economic Policy*. Among other things, it recognized that one role of the regulated marketing system is to ensure that British Columbian industries serve the developing demand for organic food and other specialty products. (See Schedule 1)
6. In August 2004, FIRB suspended its review and provided the Boards and Government with its proposed principles for specialty programs within B.C. supply management system. (See Schedule 2)
7. In January 2005, the Minister of Agriculture (Minister) released a recommended policy framework for managing specialty agri-foods within the regulated marketing system based on a report titled *Recommendations for Managing Specialty Agri-Food Products in B.C.'s Supply Managed System* dated December 2004.
8. In January 2005, FIRB resumed its review of specialty and new entrant programs, and subsequently issued several process letters to govern the review.
9. In April and May 2005, following a required consultation process with interested stakeholders, specialty and new entrant program proposals were submitted by all Boards to FIRB.
10. Following submission of the Boards' proposals, a further round of comments was received from interested persons, closing in June 2005.

1.2. Assessment Principles

11. The Boards' specialty and new entrant submissions have been assessed on the basis of the following policy principles, which are more fully discussed at Section 5.

Registration

- a. Boards should have plans to register all producers regardless of size or type of license.
- b. All classes of product and all producers are to be subject to government-approved food safety and biosecurity protocols.

Designation of Specialty Product Markets

- c. Designation of specialty product/market classes is to be based on clearly defined criteria.
- d. Certification is to be required as a condition of licensing for all designated specialty product classes. Certifiers are to be qualified by a skilled and reputable third party accreditation agency.

Allocation

- e. Provincial allocation received from the National Agencies is to be allocated among the various quota classes based on the market needs for each class.
- f. Allocation to producers within each quota class is to be pro rata to quota holding within that class.

Production and Marketing Quota

- g. Specialty classes of quota are to be designated. Each class of quota should be managed separately from other classes of quota. Quota administration policies should be the similar for all classes with exceptions only when necessary.
- h. Marketing a product other than the designated product type intended to be marketed by a specific class of quota should be authorized only in extraordinary situations and then only on a temporary basis.
- i. Existing specialty permit programs are to be converted to quota of a class applicable to the type of product produced, except in the case of small lot programs (see j below). Production volumes recognized for quota should be equal to the permittee's

production in the twelve months ending December 2004, or the nearest applicable quota period ending after December 2004.

- j. Boards are to provide annually renewable small lot permit programs authorizing production levels greater than the personal use exemption level and less than the quota incentives provided through the new entrant programs.
- k. The number of small lot permits issued should be unrestricted, subject to eligibility criteria which should include only one permit issued per property and that direct marketing by the permittee be encouraged.
- l. Permit programs for new innovations are to be provided, potentially through the small lot permit system.
- m. Personal use exemption levels should remain unchanged.
- n. Government, FIRB and the Boards should jointly take all necessary steps at the national level to ensure that the provincial allocation is not unfairly impacted by personal use and small lot production.

Quota Transfer

- o. All quota, including specialty quota, is to be transferable subject to the terms and conditions set out below.
- p. Quota should be transferable within, and not between, classes of quota.
- q. New quotas issued through permit conversion, specialty program establishment and new entrant programs are to be subject to license conditions, including a declining transfer assessment schedule.
- r. The assessment schedule should provide for 100% of the issued quota to be automatically retracted (i.e., non-transferable) in the first year following issuance if the producer ceases production or purports to engage in commercial quota transfer. Subsequently, the amount retracted declines by 10% per annum until it reaches a minimum assessment of 10% in year 10. Transferability, therefore, commences in year two, at 10% of the quota allocation, and increases by 10% per year, until it reaches 90%.
- s. The starting point for the declining transfer assessment schedule should be the date on which the new quota was issued, or in the case of permit conversion, a date reasonably established between the Board and the permittee.

- t. A condition of quota transfer should be that the last quota issued is the first quota to be authorized for transfer by the Board.
- u. Exceptions to transfer assessment for all classes of quota are to be permitted only for transfers among direct family members, defined as spouse, sons, and daughters; and for business reorganization where the ownership percentages do not change.

Levies

- v. Specialty production levies assessed by the Boards should be service-based. Boards should examine assessing levies separately for different quota classes based on the costs incurred to manage each class of quota.
- w. Subject to the discretion of the Boards, all levies and fees charged for permits or temporary quota up to December 31, 2004 should be due and payable.
- x. Levies and fees assessed specifically for permits or temporary quota use, not including regular administration and marketing fees charged by a Board on all regular quota production, are to be terminated from January 1, 2005 forward.

New Entrants

- y. New entrant programs are to be established. They are to provide a mechanism to determine the number of new entrants on a periodic basis.
- z. New entrant programs should provide priority to new producers seeking and/or willing to produce a designated specialty product or serve a regional market when there are identified specialty and/or regional market needs.
- aa. Eligibility criteria for new entrant status should include, at a minimum: residency, not having previously owned supply management quota, and a commitment by the applicant to be actively involved in the farming operation.
- bb. New entrant waiting lists are to be established where they do not currently exist. Existing new entrant waiting lists are to be renewed in accordance with the eligibility criteria established by each Board.
- cc. New entrant quota incentives should be funded by transfer assessments and growth in provincial allocation.
- dd. To retain any quota received as a new issuance by a Board, whether specialty or mainstream, the licensed producer is to be actively engaged in the production and marketing of the farm product.

Representation

- ee. Specialty Markets Advisory Committees are to be established with clear terms of reference. The Committees should be comprised of an equal number of specialty producers and specialty processors or graders, a Board member, and an independent Chair appointed by the Board.

1.3. Program Monitoring

- 12. FIRB is directing Boards to prepare draft Orders applying the principles summarized above.
- 13. Government, FIRB and the Boards should develop a clear understanding among themselves concerning compliance and enforcement of Board Orders regarding specialty product/market programs.
- 14. FIRB intends to closely monitor the individual Board specialty and new entrant programs on an ongoing basis.
- 15. The FIRB plans to formally review the specialty and new entrant program performance after three years.

2 Specialty Review Process

2.1. Ministry Economic Policy Statement

MAL's July 2004 economic policy statement recognizes that, among other things, the regulated marketing systems are to accommodate specialty production and developing demand from specialty markets. This policy statement is provided at Schedule 1.

2.2. FIRB Principles for Specialty Production and Marketing

On August 25, 2004, FIRB issued its document *Principles for Considerations in Support of Specialty Production and Marketing in the British Columbia Supply Managed System*. These principles included:

1. Clarity in specialty product and market definition;
2. A requirement to operate within the National Allocation provided to the province;
3. Provision of access to non-quota holders;
4. Provision of exemptions where appropriate;
5. Service-based costs to producers;
6. Clear rules for permit and/or quota transfer;
7. Fair, transparent, effective, and accountable administration and governance, which must operate in a flexible and timely fashion;
8. Accountability, including compliance with terms and conditions by both the Board and specialty producers;
9. Allocation to specialty production such that existing demand is met and development of new markets is promoted; and,
10. Potential expansion of specialty production through assessments on quota transfers.

A copy of FIRB's Principles is provided at Schedule 2. Along with the release of these Principles, FIRB temporarily suspended its supervisory review pending the outcome of the Government's review regarding the appropriate policy solutions to key specialty production issues.

2.3. Policy Framework

A report titled *Recommendations for Managing Specialty Agri-food Products in B.C.'s Supply Managed System* was commissioned by the Ministry in the fall of 2004. This report recommended a policy framework for accommodating specialty production and marketing in B.C.'s supply management system and included summary recommendations that:¹

¹ Report prepared for the then Minister of Agriculture, Food and Fisheries, December 2004. This report was released to the industry in January 2005 and is available on FIRB website at www.firb.gov.bc.ca/.

1. *All producers of milk, eggs, chicken, turkey and broiler hatching eggs, regardless of size or class of product, should be registered with the Boards.*
2. *Specialty product definitions should reflect substantive farm level differentiation, 3rd party certification, and identity preservation through to the consumer.*
3. *Specialty production and marketing should be managed using a distinct and restricted class of quota.*
4. *Allocation procedures should ensure fair treatment of both specialty and mainstream producers, and Board allocation decisions should require prior approval of FIRB.*
5. *Small producer exemption levels should be increased.*
6. *A phased permit system should be developed to foster innovation and to progressively advance specialty producers to become holders of specialty quota.*
7. *Levies should reflect services provided. There should be no extra fees for specialty permits or quota, such as “quota lease fees”, that are not service-based.*
8. *Specialty producers should have Board representation, and Specialty Product Advisory Committees should be established.*
9. *New entrant programs should be revised to include clear financial commitment and permit issuance criteria, and incentive amounts issued should be non-transferable.*
10. *New entrant programs should be funded, in part, by a minimum 5% assessment on all transfers of quota.*

2.4. Provincial Board Supervisory Process

On January 7, 2005, FIRB issued a letter to the Minister and the Boards advising that the December 2004 report “*not only complement[s] the [FIRB policy principles], but also offer[s] very useful advice and information in support of implementing those principles. Accordingly, the Provincial board has decided to resume its own supervisory review in order to commence such an implementation process in consultation with the Ministry, the commodity boards and with industry stakeholders.*”

2.5. Minister’s Announcement

Also in January 2005, the Minister of Agriculture met with representatives of the five supply management Boards. The Minister endorsed the policy framework and encouraged the industry, under the supervision of FIRB, to prepare plans that would better accommodate pursuit of specialty markets by specialty producers from within the supply management system.

2.6. Development of Board Plans

FIRB supervisory review process directed the Boards to submit draft specialty and new entrant plans by March 31, 2005. Development of these plans was to include consultation with specialty and mainstream producers. Draft plans were submitted on or about March 31st by all five Boards.

On April 18, 2005, FIRB provided each Board with specific questions concerning its proposal, and directed the Boards to revise their plans for submission by May 18, 2005. FIRB also notified each Board that their revised plans were to be copied to industry stakeholders and posted on their websites, with notice that further input on the plans should be provided in writing directly to FIRB by May 31, 2005.

All Boards submitted revised plans and/or additional material to FIRB by May 18, 2005, following which FIRB received written submissions pertaining to those proposals from industry stakeholders.

2.7. Assessment of Board Submissions

A synopsis and description of each Board's submission was prepared in late May, and these descriptions were reviewed and affirmed by each Board as being accurate. These descriptions were subsequently distributed among all parties involved with the specialty review. FIRB also provided opportunity for all interested parties to make written submissions concerning the Board's proposals by early June 2005.

FIRB reviewed the Boards' submissions and the input received from interested parties. FIRB then prepared this report articulating the policy principles, with rationale, that FIRB intended to apply in assessing Boards' plans, and which would in due course be required to be legislated into force by way of Board Orders.

This document is designed to reflect the review of the Board plans, stakeholder submissions and FIRB's deliberations respecting these issues. The present document articulates FIRB's directions regarding policy issues at the heart of this review, with rationale. Appendices "A" to "E" are focused on addressing the specific proposals put forward by each Board as part of the review as follows:

- Appendix 1 – Broiler Hatching Eggs
- Appendix 2 – Chicken
- Appendix 3 – Eggs
- Appendix 4 – Milk
- Appendix 5 – Turkey

3 Definitions

This section provides definitions for selected terms used in this report.

Certain industry-specific terms are at times used differently by different people. This section provides definitions for selected terms used in this report.

Act	The <i>Natural Products Marketing (BC) Act</i> (the <i>Act</i>) unless otherwise stated.
Allocation	The volume of a regulated product authorized to be produced within a defined period of time. Provincial allocation is used to refer to B.C.'s authorized volume issued by a National Agency. Producer allocation is used to refer to the authorized volume issued by a Board to a licensed producer through quota or certain types of permits.
Boards	The five supply managed marketing Boards in B.C.: B.C. Broiler Hatching Egg Commission (BCBHEC), the B.C. Chicken Marketing Board (BCCMB), the B.C. Egg Marketing Board (CEMB), B.C. Milk Marketing Board (BCMMB), and the B.C. Turkey Marketing Board (BCTMB).
Commodity	A product with broadly recognized and accepted standards where the supplier or brand is irrelevant to the buyer.
Direct marketing	Farm operations that market, sell, and distribute on their own account to retail consumers and local retailers. The farm product may be processed on-farm or custom processed for the producer.
First receiver	The processor or grader who purchases from a producer. Processor often includes grader in this report. While the BCMMB serves as the "first receiver" for milk pooling purposes, the Board also regulates milk processors and the supply and the price to these processors.
Identity preservation	The situation where the identity of a farm product is preserved intact through processing and distribution and is represented as a food product with this farm-based pedigree.
Incentive quota	New quota that is issued by the Board to a producer. In general, incentive quota is restricted to quota issued to new entrants. New quota issued to established quota holders is typically not considered to be incentive quota by the Boards.

Permits	Temporary permits issued by a Board to authorize production for certain volume of a regulated product. Permits may or may not be renewable, and are not transferable from producer to producer.
Quota	The license to produce a defined amount of a regulated product within a certain period of time. Quota licenses are annually renewable and may, in accordance with various terms and conditions, be transferred from producer to producer upon approval of the Board. Can be considered synonymously with producer allocation in some situations.
Quota accounts	When a supply allotment, or provincial allocation, is received from an Agency, this authorized supply level is intended to be distributed among the different quota classes. The amount determined for each quota class can be considered to be placed into a quota account from which this authorized supply is then intended to be distributed among producers in accordance with Board policies and procedures for the management of that quota class.

4 The Context for Change

4.1. The System

Provincial marketing boards operate together and with federal agencies as a national coalition controlling the production and marketing of milk, eggs, hatching eggs, chicken or turkey. In each product group, this coalition is legally constituted through the Federal Agricultural Product Marketing and Farm Product Agencies Acts, Federal-Provincial Agreements and Provincial Acts. These Acts and Agreements give Boards considerable power to intervene in the market, including the authority to determine volumes that will be produced and the minimum prices that will be paid by first receivers for the regulated products. The rationale for supply management has been repeated several times, in court decisions and various other sources, and will not be reviewed here.

Boards are delegated authorities through their Schemes (Cabinet regulations) to license producers and processors, establish market volumes required, distribute production (quota), establish production and marketing rules, establish minimum prices, and set levies. In general, market volumes are established nationally, quota is administered provincially, pricing is based on cost of production and the price[s] established in other provinces, and levies are set at levels required to fund the Board and its share of National Agency costs.

Some producers have circumvented the system and produced one or more of the five regulated products without a quota license or permit issued by the Boards. Others have found creative ways to stretch quota through manipulation of production in a manner that maximizes quota production but might not necessarily reflect market needs.² The incentive to produce without quota is large because regulated prices provide attractive production margins. In the case of mid-to large-size commercial producers, attempts to circumvent the rules have been rooted in pursuit of margin without incurring the cost of purchasing quota rights. In the case of smaller producers who have sought to circumvent the system, various reasons have been asserted including ignorance of the system and objection in principle to restrictions on who can produce these regulated products.

It can be difficult for people producing outside the system to understand why supply must be regulated, and particularly why there should be controls on who should produce food. In some cases, such as small mixed farmers, their production is part of a diverse farming operation and their products are sold directly by them through local channels. They feel they are doing good work, earning a living, and providing a service to their community. They understand government policy as promoting diverse, community based agriculture; they see a requirement to purchase

² A case in point is milk whereby quota is issued as kilograms of butterfat yet producers ship milk. If they can increase the volume of milk shipped without increasing the butterfat content, and still retain a suitable mix of other components upon which they are paid, producers can maximize the revenue from a unit of quota.

expensive quota just so they can produce a food product as not just economically impossible but contradictory as well.

However, supply management has a long and well-justified foundation in Canadian economic policy. Further, supply management is the law, as reflected in judicial decisions that “a chicken is a chicken” regardless of type. On this basis, the Boards are responsible to regulate all classes of product, including specialty.

The legal authority to regulate all classes of product imposes a corresponding responsibility to ensure that this authority is exercised in a sound and principled manner. Consideration must be given as to whether or to what extent exemptions should be granted, and where regulation exists, whether and how the policy rules should accommodate the realities of the particular class of product being regulated. At the highest level, these are the key questions at issue in this review, and these are the issues this review is seeking to address in a fair and balanced manner.

4.2. The Border

The Canadian supply management system operates behind border controls which include minimum access levels and import tariffs. Minimum access levels are 5.0 - 7.5% of the domestic market³ and are managed by import quotas. Import tariffs for volumes above the minimum access level are very high.⁴ The impact of these two Canadian market access restrictions is that supply management can establish and control domestic volumes and domestic prices sheltered from international competition. As the current World Trade Organization (WTO) round unfolds, possible changes to import tariffs and minimum access levels have the potential to materially impact the determination of supply and the setting of price in Canada.

Some Boards (chicken, turkey) have developed programs that permit production of the regulated farm product for export, while others (milk) have had export programs challenged at the WTO. Nevertheless, the volume of export has remained relatively small in relation to the overall production in the country.

4.3. Producing for B.C.'s Market

Supply management establishes a share of the national market for each province. However, the provinces are not, today, equal in terms of their production advantages. For instance, a major production input is feed grain which some provinces produce very competitively while others must source their requirements from other regions or countries. Nor do all provinces have similar

³ Minimum access levels for broiler hatching eggs are quite a bit higher at 20%.

⁴ Import tariffs were established at the WTO in 1993 at 284% for milk, 289% for cheese, 351% for butter, 237% for skim milk powder, 280% for chicken, 182% for turkey, 192% for eggs, 280% for chicks and 280% for hatching eggs. Tariffs were required to decline by a minimum of 15% over the course of the agreement. Current WTO negotiations include Canada's trading partners seeking substantial improvements in access to the Canadian market for poultry and milk products.

consumer markets, yet each province has a market share in each product based on a combination of historic share and population. These provincial market shares are jealously guarded.

B.C.'s advantages lie in the areas of a diverse consumer market, an active small lot agriculture sector, and the most temperate climate and diverse microclimates and bioregions in the country. B.C. does not have a feed input cost advantage. As a result, when viewed from the perspective of commodities versus specialties, B.C. is disadvantaged in the area of commodity production, yet may have advantages in the area of specialty production.

Differentiation is a strategy chosen by many businesses. Since the founding of supply management programs in Canada in the 1960s, integration of markets, access to information, global supply chain logistics, containerized transportation systems, and ease of global travel have dramatically changed markets. Producers and processors in B.C. may have opportunities to compete by differentiating and developing products to meet the needs of niche markets.

Consumers have a wide range of needs and preferences. Specialty markets for supply-managed products have developed swiftly in B.C. over the past decade. Organic products have been the most visible and readily recognizable specialty product category. Other specialty products have also established market demand (e.g. Asian chicken, free range and free run eggs) or are seeking to develop market demand (e.g. SPCA). In many cases producers of these products have operated outside the supply management system or have been authorized to produce under a variety of temporary permits.

4.4. The Parties' Interests

Specialty and new entrant policies must be assessed in light of the established market relationships in the supply management system. These include:

1. **Producer to Producer.** Producers compete with one another for production share. Production shares are managed by quota systems. Competition for production share has resulted in quota being transferred among producers for cash.
2. **Producer to Processor.** Producers sell to processors. Processors have buyer power by virtue of there being few processors, many producers and a perishable farm product. Processors are obligated to pay producers a minimum price established by the provincial Board.
3. **Producer to Board.** In classic supply management theory, producers band together as Boards to improve their selling power to processors. They are authorized to work together and coordinate the production and marketing of their farm product by the *Act*. Individual production shares are determined by a quota system established and managed by the Board.

4. Board to Producer. Boards are governed by members/directors elected from all registered producers and/or appointed by Government. Boards approve Orders, authorized under a Scheme and the *Act*, which set down the rules for production and marketing of the regulated product. Boards hire staff to administer the Orders.
5. Board to Processor. Boards manage the marketing of the regulated farm product from producers to processors. They establish the terms and conditions, including but not limited to price, by which processors purchase from producers.
6. Board to Agency. Boards coordinate their behaviour nationally through the National Agencies. The Federal Acts and the Federal-Provincial Agreements authorize the coordination of production and marketing in interprovincial and export trade. At the Agency level Boards compete with one another themselves for provincial market shares.
7. Processor to Producer. Processing plants purchase from producers operating in accordance with Board Orders. In many cases, processors are also affiliated with the supply of key inputs such as chicks, poults, pullets and feed to producers.
8. Processor to Board. Processors are regulated by Boards for the minimum terms and conditions of sale and purchase of the farm product. In most respects their individual proportions of the production allocated are determined by Board policies and procedures.
9. Processor to Processor. Processors compete for supply as buyers from producers. Several processing plants in different provinces may operate jointly through common ownership or established contractual relationships. Processors are free to sell interprovincially and in export trade, and increasingly serve buyers seeking supply for more than one province.

The degree to which each Board is involved and intervenes in product sale and purchase transactions for the farm product varies. There are three general ways in which a Board may be involved:

1. The Board sets only the minimum price and leaves the terms and conditions for scheduling production, quality criteria and delivery for direct negotiation between the producer and the processor. Payments are made by the processor directly to the producer, with levies deducted by the processor and remitted to the Board. This occurs in B.C. with turkeys.
2. The Board, in addition to setting the minimum price, may direct product from a producer to a processor and schedule production to assure processor supply. Payments are made directly to the producer by the processor. Variations of this occur in B.C. with chickens, hatching eggs and, to some extent, eggs.
3. The Board not only sets price, but also works directly with processors on behalf of all producers by directing and transporting product to processors, by billing and collecting funds from processors, and by distributing net proceeds to producers. This occurs in B.C. with milk.

Whenever supply allocations at the national or provincial level are changed, economic interests are affected. Producers' production shares are determined and managed by quota. Processors' supplies are not as clearly determined and managed, although boards often do provide varying degrees of supply assurance to processors.

This brief summary makes it clear that any policy change requires careful consideration of a multitude of sometimes competing interests. Any policy resolution will affect the economic interests of someone, and it is therefore natural that there will be tensions and at times serious differences of opinion regarding the proper policy outcome.

4.5. Quota

Quota is the license to produce and/or deliver a certain amount of a regulated product in accordance with terms and conditions as established by a Board. National Agencies establish the total supply for the country which is then authorized, or allocated, to each province based on the application of principles and formulae agreed to in advance by the signatories to National agreements. Each provincial Board receives its allocation and distributes it to its producers. To be eligible for a portion of the provincial allocation from the Board, a producer must hold a quota license issued by the Board and must agree to produce the amount allocated to him or her.

The limits on provincial allocation received from the Agency necessarily results in limits on the Boards' ability to distribute production to its licensed producers. Therefore, the license to produce has evolved an economic value in the marketplace: quota is traded for value between licensed producers. Over many years, quota has attained a sizable monetary value.⁵ Business people have invested money in quota based on expectations of future returns. Banks have extended financing to producers to purchase quota on the basis of cash flow and asset value. It is obvious that the Boards' decisions regarding production allocation to established quota licensees also have financial implications.

Quota has been used primarily to produce commodities as this is by far the largest market segment. Innovation and differentiation to develop or serve new market segments has occurred within quota and, for the most part, has been undertaken by direct contract between a producer and a processor. In other words, the Boards have provided the minimum standards of product acceptance and minimum prices and the participants have been free to develop additional standards and price premiums.

Boards take the position that differentiation continues to be possible within quota. They also point out that some existing quota holders who have innovated and produced differentiated products have paid for quota to enter the system. Accordingly, they suggest that providing "free" entry to new specialty producers by way of issuing specialty quota would be unfair.

⁵ Based on current purported quota values, farm cash receipts and direct input costs, it is clear that there is a substantial market premium built into the value of quota. This value suggests expectations of attractive margins, capital appreciation, saleability, and favourable tax management, all of which are linked to a regulatory instrument – the quota license.

The amount of quota issued has increased over time as Boards have issued new quota units to existing quota holders as markets grew. Additionally, some quota holders have sought to grow their businesses faster than the growth provided by new quota issuance and allocation increases. These producers have purchased quota licenses from those who received quota when the system was first established, from quota holders who received additional quota issuance from the Board as markets grew, or from those who had purchased quota from other producers.

4.6. Commodity Approaches

The Boards have understandably approached the specialty market question in this review from the standpoint of the established supply management rules, procedures and perspectives of commodity production and markets. Management of the system is based on consensus decision making by producers with the advice of advisory committees and FIRB oversight, product standards characterized by objective, scientific measures, pricing based on cost of production, pooling of production rights and, in some cases, pooling of returns. These common-denominator approaches may not be fully effective or efficient in serving all market segments.

The Boards have faced challenges dealing with differentiation, which is the foundation of specialty production and marketing. In some cases certain market segments have been under-served as quota holders have found production of a specialty product to be economically disadvantageous. And, while quota holders have objected to incentives being provided to encourage specialty production, specialty producers have found it financially impractical to purchase quota for the purpose of producing higher cost specialty products. Not surprisingly, it has been difficult to achieve consensus and establish sustainable, growth-oriented programs based on innovation and serving new markets.

The Boards' specialty submissions respect the interests of existing producers, the majority of whom produce commodities and rely on a Board to assure market access, sales and a minimum price for their products. In their submissions, the Boards have tried to accommodate specialty producers by proposing procedures that are based, in large measure, on their experience managing commodities for over thirty years.

To capture the opportunities afforded by segmentation in the market, the Boards will need to shift from being exclusively focused on commodities to embracing difference. This may prove to be difficult as it is a cultural shift that will take time, energy and leadership, as well as a different approach to Board administration.

4.7. Constraints to Change

Making changes to B.C.'s supply management systems to better accommodate specialty markets and specialty producers will be constrained by a number of factors, which need to be realistically understood and addressed in the context of reform:

1. *Conformity vs. differentiation.* The established systems have developed detailed policies and procedures that tend to treat all producers and all products essentially the same. Specialty operations, products and markets focus on variety and differentiation, and the existing commodity-oriented procedures are unlikely to be directly applicable in all specialty circumstances.
2. *Different markets, different rules.* Developing markets are less predictable, and therefore regulation needs to be responsive and accommodating. This may pose difficulties for Board administration since the procedures or rules for differentiated markets may need to be different from those used for commodity markets, yet the relationships among all producers within the Board require principles of equity and fairness.
3. *The National Allocation System.* The National Allocation system sets a cap on the amount of production that may be produced in a province. Provincial allocations are a province's share of total production in Canada. Markets, however, are local, regional, provincial, national and international.
4. *Processor supply.* Processors' supplies are materially impacted by the Schemes and Orders. Supply is tightly controlled and managed by producer Boards and there are no alternative sources of supply. Any change to quota allocation by producers may result in product movement between processors which will, in some cases, impact a processor's supply of local product.
5. *Lack of trust between the parties.* There is a lack of trust between some specialty producers and some Boards. Whether this mistrust is based on reality or perception is not important in this context. The fact is that it will take considerable time and effort by all parties to build trust.
6. *Illegal actors.* There are situations where certain specialty producers have operated in contravention of Board Orders. It will be difficult to accommodate all specialty producers equitably when most have followed the rules while a few have not. It will also be difficult for Boards to accommodate producers who have consciously and in some cases conspicuously broken the rules.
7. *Incomplete market information.* Specialty markets, which are segments of the overall market, are often less understood than mainstream markets. This may lead to difficulties administering the Orders that are developed by each Board for specialty markets and new entrants.
8. *Entitlements.* Established producers may feel a sense of entitlement to production and production growth based on holding quota and paying levies over the years. Specialty producers feel entitled to new market segments because in their view they have established these market segments, sometimes in spite of the Boards.

9. *Regulatory burden.* Some supply management rules may not appropriately apply to all producers by virtue of there being different market needs. Applying unnecessary rules may put an unreasonable compliance cost on small producers and cause the Boards to incur extra administrative costs, both of which will constrain economic activity.

4.8. Structure and Systems

Successful implementation of a policy which develops and accommodates specialty production is a strategic initiative to ensure that the supply managed systems responsively serve the market. This initiative will require supportive organizational structures and systems.

In most cases, Board governance is quite operational. Board members are active on numerous provincial and national committees and the separation of Board and management is, at times, unclear. Boards should be primarily governing and focused on policy, while management should be operational and focused on procedures, implementation, and compliance.

Boards often make decisions that quite naturally focus on the interests of the majority of the industry. Specialty markets comprise a small proportion of the overall market and it is easy for these markets to be overlooked or subordinated. Boards and their management will need to examine the different needs of the various market segments and the producers serving these markets.

Operationally, management must prioritize its efforts. Specialty producers today comprise a small percentage (0 – 5%) of the production yet have the potential to represent a larger percentage of the total producers. Different amounts of staff resources may be required for managing different classes of production and marketing. Boards may need to determine which activities are shared versus those that are segment specific. This may lead to a need to allocate resources and reorganize staff workloads or add staff.

In accommodating and integrating specialty production and marketing into the established Board systems, the established systems, including Board orders, will benefit from a review of structural and systems matters such as producer representation, governance, management organization structure, and administrative policies and procedures. FIRB is willing to provide assistance and guidance to the Boards.

5 Principles for Assessing Board Submissions

This section outlines the policy principles used to assess each of the Board's specialty and new entrant plans.

5.1. Registration

The *Act* provides the authority to promote, control and regulate the production, transportation, packing, storage and marketing of regulated products in British Columbia, including prohibiting all or part of that production, transportation, packing, storage and marketing. These are broad powers.

To fulfill the responsibilities associated with the authorities provided by the *Act*, Boards must have a sound knowledge of producers and first receivers. Without complete records of who produces and who buys from producers (first receivers) it is difficult to effectively regulate the production and marketing of a farm product. Moreover, with global integration of markets, the increasing importance of food safety, the potential for disease outbreaks within animal populations and for animal borne diseases to spread from animals to humans, as well as the potential impact of the actions of individual producers on all other producers, it is important that authorities be able to find and communicate with all producers. Accordingly, registration of all producers is important.

The Boards are highly sensitized to disease risk, especially in light of the recent avian influenza outbreak in B.C. They recognize that all production must be in accordance with appropriate biosecurity standards so that an entire industry is not put at unnecessary risk due to actions of one or a few producers. This requires knowing who produces, where they produce, and under what conditions they produce. Registration is also required so that food safety assurance and traceback systems can be effectively administered.

Some producers see registration as an affront to their independence or an avenue for unreasonable administrative interference by Boards. It is asked, "Why should I register with a Board that will tell me how much and when I may produce, and at what price and through whom I must sell my product, when all I am trying to do is produce a food product and make a living?" Or, "Why would I register when it will expose me to enforcement action by the Board now that it knows where I am?" These are reactions based on objections to supply and price controls and fear of the Boards exercising their authorities, exacerbated in some cases by historical conflicts among the parties.

Registration does not mean all producers have identical requirements under the system. There are also issues of administrative burden and applicability of some rules on some categories of producers. This is why Boards have powers of discretion and exemption, and why different policies and procedures are established in the Board Orders to address differing needs of classes of producers and marketers. In short, registration does not prevent a Board from granting an exemption for specific purposes and activities.

Philosophical resistance to regulated marketing, inconsistent enforcement actions in the past, lack of awareness of the regulations among some small producers, and the administrative cost of registering all producers will make it difficult to obtain 100% registration. However, Boards need to know they have the full support of FIRB and Government in pursuing registration as completely as is reasonable and practical.

With respect to Registration, the following policy directions are given:

1. All producers, regardless of size or class of production, should be registered with the Boards.
2. Boards and Government should jointly determine a cost effective, administratively efficient way to obtain adequate levels of registration.

5.2. Specialty Definitions

The Boards' submissions require that specialty products have distinct attributes that reflect differentiation based on unique or special farm practices. These unique attributes are required to be preserved and marketed to consumers, effectively differentiating specialty products from mainstream products in the marketplace. A specialty product can be reasonably expected to require extra or specialized effort and receive a premium price in the market.⁶ Beyond the general definition, however, there is a lack of clarity concerning when designation of a specialty class may be warranted.

The BCEMB proposes to require that a defined market exists before designating a new specialty category, which may be difficult unless there is an effective innovation permit system. It is not possible in all cases to define a market very clearly before designating a new specialty class. This is particularly true for new markets where it is not possible to know what is not yet known. Boards must provide for innovation. Most proposals are unclear regarding how innovation will be fostered and encouraged.

More problematic is the overlap between specialties, and the potential use of specialty designation to gain low cost access to established mainstream markets. SPCA certification may fall into this category. All producers should be encouraged to follow humane practices. In fact, Board Orders require this and detailed protocols are well established. The SPCA apparently seeks to work with all producers, regardless of class of production, to assist them in becoming SPCA certified. It is reasonable that all Boards and all producers should be encouraged to continue developing their standards for humane practices. Many mainstream and other specialty producers may already meet SPCA standards, or could do so with relatively little extra effort.

⁶ It is possible that specialty products may, at certain times, be priced lower than commodity products. Price premiums and pricing are discussed in section 5.8.

It is unclear whether SPCA production requires extra effort, incurs higher production costs, certifies identity preservation, or enjoys sustainable market premiums. While the efforts of the SPCA to promote humane treatment of animals are admirable and helpful, it does not appear, on the basis of evidence provided, that SPCA certified production constitutes a principled basis by itself for identifying a specialty market category for the purposes of designating a specialty class of quota.

Direct marketing and heritage breeds are two areas that emerged during discussions with the Boards and specialty producers that had not previously been considered as specialty products or markets. It seems reasonable that producers who direct market to end consumers or maintain and produce heritage breeds could be defined as specialty producers.

The criteria for designating new specialty classes in the future needs further work by the Boards. The submissions have accepted the general definition of specialty products, and they have provided for Board discretion in designating new specialty classes. However, the criteria for designation may, in some cases, be too broad and general to be of value in considering designation of a new class of specialty product.

With respect to Definitions for specialty products, the following policy directions are given:

1. Designated specialty products are to respect the principles of farm-based differentiation with identity preservation, marketing and representation of the unique farm-based attributes to the end consumer. The designated product should also require extra effort to produce and market and it should receive market price premiums. The designated product will almost certainly require extra effort to produce and market and, as a result, should receive market price premiums.
2. Boards' Orders are to include procedures for the pursuit of new and innovative product/market segments in the future.
3. Boards should recognize local direct marketing efforts of individual producers and the efforts of individuals producing rare heritage breeds within the specialty production and marketing framework.
4. Specialty Markets Advisory Committees should be charged with recommending amendments, if considered necessary, to the criteria for designation of future specialty classes.
5. Humane treatment of livestock is to be required of all producers, and SPCA certification should be viewed as a positive step to further demonstrate humane production practices. However, SPCA certification should not, by itself, be sufficient for designation as a specialty class for quota purposes.

5.3. Certification

Certification is a key component in providing integrity to specialty programs. Without certification, the potential for cheating is increased. Most Boards have accepted the *Agri-Food Choice and Quality Act (AFCQA)* or other nationally or internationally recognized certification plans. However, some propose to restrict certification to the *AFCQA*, and others have proposed that, in addition to any nationally or internationally recognized standard, the Board may at its discretion accept alternative certification plans. It may be too restrictive to limit certification agencies to those accredited in accordance with the *AFCQA*. However, because there are risks in making Boards the sole arbiters of what constitutes an acceptable certification plan, any such discretion should be subject to FIRB approval.

With respect to Certification, the following policy directions are given:

1. Designated specialty products are to be third party certified as such along the entire supply chain from farm to end consumer.
2. Approved certification standards are to be based on legitimate third party standards that meet provincial, national or international standards or approval. Where standards outside the *AFCQA* are adopted, FIRB prior approval will be required before those standards are recognized.

5.4. Allocation

Allocation is at the heart of supply management. It determines a province's market share, an individual producer's quota, and the supply available to processors.

Allocation is both a process and an asset. As an asset, allocation represents the volume of production authorized to be produced by a quota holder in a defined period of time. As a process, allocation attempts to balance supply with demand. The changes required for allocation to different quota classes mean that market forecasting and distribution of approved supply need to more explicitly consider market segments.

It is important that there be oversight of allocation decisions. This involves two primary activities – pushing for positive change at the National Agency level and prior approval by FIRB of Board allocation decisions.

Government needs to take an active role with the Boards at the National level to ensure that B.C. is constantly pushing for an improved allocation. It will take time to redress allocation shortfalls to the province. Boards are highly protective of their provincial market shares. It will take a concerted, sustained, and cooperative effort on the part of Boards, FIRB, and the MAL working with good market information and a clear, principle-based goal to realize success.

Some Boards have proposed establishing separate allocation accounts for specialty production⁷. In general, these accounts will pose at least two questions: how will a Board allocate the growth available to a specialty account among existing specialty producers and new entrant specialty producers, and what will happen when the specialty account is fully utilized yet there is still unfilled market demand?

In most instances it is intended that specialty new entrants will be accommodated through the new entrant program. This has the potential to leave the growth available in any specialty accounts to be distributed among the existing specialty participants. Since the specialty quota proposed to be issued is, in some cases, more than the existing specialty permit amounts, it is important that protocols be established for how growth will be allocated to existing specialty producers; otherwise there could be short-term oversupply and price collapse. Additionally, is it appropriate that all growth directed to an account be distributed among existing quota holders in that class, or should some amount be set aside for new entrants? It seems reasonable that some amount of growth should be set aside to encourage new entrants.

If specialty markets are in fact growing at 20-25% per annum, as asserted by several parties to the Review, then the proposed amounts set aside for specialty accounts by the BCCMB, BCEMB and BCTMB will last about three years. It is unclear how additional amounts will be added to these accounts. The Boards recognize there will be differential growth between mainstream and specialty market segments, yet they propose that allocation will be pro rata to quota holding across all quotas. What is actually required is differential allocation to the different accounts based on differential market requirements, and then pro rata allocation of amounts within an account to the holders of that class of quota. Without this, differential market segment growth will not likely be realized.

FIRB intends to prior approve Board allocation decisions.⁸ Boards receive periodic allocation (provincial allocation) from their National Agencies. They can “slice and dice” the volume for distribution among producers based on their determination of market needs. Practically speaking, it is much easier to simply allocate pro rata to quota holding if there is one class of quota. However, with the designation of certain specialty classes, it will become necessary to first distribute quota among the different product classes. It is important that this distribution be based on criteria, including market response and differential growth, determined in advance.

⁷ The BCEMB is proposing to utilize most of the volume in the Market Responsive Allocation Pool (MRAP), which has the potential to provide a 75% increase above existing permit levels for specialty production. The BCCMB’s plan has provided for up to a 50% increase in permitted specialty production and will give priority to specialty new entrants to fill additional specialty market needs. The BCTMB is proposing to increase the amount available to Grower-Vendor Program (GVP) permittees by almost 100%, plus grandfathering the existing unregistered organic producers at existing production levels. The BCMMB is proposing to fill organic milk demand from growth in allocation and Domestic Dairy Product Innovation Program (DDPIP) quota granted to the program at the termination of existing contracts.

⁸ The Egg Scheme currently requires that the BCEMB obtain FIRB approval for Board allocation decisions.

Supervisory oversight will provide a degree of accountability to the allocation process by ensuring Boards have appropriately considered allocation criteria. It should be a relatively straightforward process for FIRB to approve the allocation decisions of all Boards by simply assessing each Board's discussion of the principles it followed in reaching its recommendation. In practical terms, this should be largely a governance matter.

With respect to Allocation, the following policy principles and directions are given:

1. All BC signatories to the National Agreements should take an active role in assisting the Boards achieve positive change in National Allocation formulae.
2. Boards are to establish principles and procedures for distributing the provincial allocation received from the National Agencies to the different quota accounts based on differential market growth.
3. Boards are to establish clear principles for allocation of amounts in the specialty quota accounts among specialty producers within each quota class.
4. FIRB is to prior approve Board allocation decisions, with approval based on the Board demonstrating how the decision meets the allocation criteria or principles.

5.5. Quota

If allocation is the heart, quota is the life-blood of the supply management system. Quota is the tool used by the Boards to manage production within provincial allocation. Each quota holder is authorized to produce a certain amount of the regulated product.

Integration of specialty producers within the system requires a distinct class of quota for production and marketing of each designated specialty product. Boards can issue different quota licenses for different classes of production. Different quota licenses would authorize production from the allocation account to which the license was linked.

Policies should generally be consistent throughout all quota classes, with procedural differences related to specific production or market requirements of the class. Quota rules for different classes of quota should respect the principle of reciprocity. For instance, the criteria for authorizing a switch from one class of production to another should be based, at a minimum, on market needs and the circumstances of established producers in the class to which the producer proposes to switch.

With a designated specialty class and restricted switching between classes, different rules for the distribution of allocation can be established for quota management within a class. For instance, specialty quota might be managed such that some defined amount of growth in allocation would be directed to innovation or new entrants.

The nature of the rules, in addition to production and market economics, will determine the value of specialty quota to specialty producers while used by them and upon eventual transfer.

With respect to Quota, the following policy directions are given:

1. Designated specialty quotas and licenses are required for the regulation of production and marketing of specialty products.
2. Rules for specialty classes of quota should be developed recognizing the principles of consistency, simplicity, fairness and reciprocity.

5.6. Conversion of Existing Permits

Specialty producers have been granted a variety of permits to produce regulated products. Permit agreements have had various terms and conditions, and in most cases have been more restrictive than regular quota rights in terms of the type or category of product eligible to be produced, the amount that can be produced, and the time during which it can be produced. Practically speaking, permits are simply temporary quota licenses that cannot be transferred.

The Boards are proposing to convert some existing permits to specialty quota. The approaches being proposed vary, partly due to existing permit contractual agreements. In general, the Boards are proposing permit conversion that would make any quota incentives non-transferable, provide for continuation of levies in return for transferable quota, and provide for short-term growth in specialty production. In some cases, non-transferable quota will also be ineligible for pro rata increases in allocation in the event of changes in the provincial allocation. Special levies or permit fees that provide for the issuance of transferable quota at some point in the future resemble an installment purchase plan whereby the Board converts the permit to quota upon receiving payment in full of the special levies. Going forward, growth is provided for specialty permittees in the form of either percentage allocations greater than 100% of the original permit amount or ability for the permittee to expand up to a fixed amount.

As noted above, permit conversion raises issues of transferability, levies and growth incentives. Transferability and levies are discussed separately at section 5.7 and 5.14 respectively while growth incentives are discussed below.

Growth incentives have been proposed by some Boards whereby permittees, subject to certain choices, may receive an amount of quota greater than their current permit amount. The BCEMB proposal provides that all existing permittees will be offered up to 5,000 units. Some permittees are presently at 1,000 units and may or may not wish to expand, while at least one producer is currently permitted at over 5,000 and the conversion amount proposed will result in a reduction in volume. The BCTMB program is similar to the BCEMB program in that it is offering all Grower Vendor Program participants the opportunity to increase to the same level regardless of their current permit level. The BCCMB is offering a 50% volume incentive if the permittee elects to receive specialty rather than mainstream quota. The BCMMB is basing its incentive amounts on

the amounts already established in the Graduated Entry Program (GEP), or in the case of established organic milk producers, an amount up to 10,000 kg.

There are two approaches being proposed for permit conversion. In egg, turkey and milk, all permittees are offered the opportunity to receive up to a fixed amount, while in chicken permittees are offered a percentage increase on their permit amount. The fixed amount approach treats all permittees equally regardless of size of operation, while the percentage approach treats all producers equally on the basis of their established operation and volume. In some fixed amount cases, the proposed quota amount is less than the amount already in production, while in others the permittee may have no interest or ability to increase to the fixed amount. It seems reasonable that permittees' established operations should be recognized.

With respect to Permit Conversion, the following policy directions are given:

1. Specialty permits are to be converted to quota licenses of a class applicable to the designated product produced.
2. Permit conversion to quota is to recognize, as a minimum, the authorized volumes produced in the twelve months ended December 31, 2004, or the nearest quota cycle to this twelve-month period.

5.7. *Transferability*

There was considerable debate among the parties to the specialty review concerning whether specialty quota should be transferable. Specifically, should quota received directly from the Board as a new issuance of quota, which is granted without the grantee being required to pay "market value", be transferable from one producer to another, subject to Board approval? In general, the Boards take the position that any incentive quota amounts provided to specialty producers and new entrants must be non-transferable. They base this position on the belief that everyone should pay to have the right to produce.

Quota is a license to produce. Transferability refers to the transfer of quota between producers. "Transferable" quota is transferred from one producer to another with Board approval, and the producer receiving the quota typically pays some amount of money to the producer who previously held the quota. "Non-transferable" quota is assumed to carry no monetary value in the marketplace.

In addition to quota, a producer must also have a suitable facility and sufficient working capital to produce the regulated product. The fixed assets required to produce the regulated product cannot be easily converted to the production of other products. For instance, poultry production facilities are not readily convertible to other unregulated livestock. Accordingly, a poultry or dairy facility without quota is of less value than one with quota.

Boards typically provide an exception to non-transferability for intra-family transfers. This is based on a policy objective to promote the family farm. Definitions of “family” vary among Boards, ranging from sons, daughters and spouses to also include nieces, nephews, grandchildren and others if none of the preceding is available. The intent is to provide for efficient transfer of the farm within the family.

Specialty producers have differing opinions regarding transferability. Some have no interest in having a transferable quota for its cash transfer value and are only interested in being able to produce and market the regulated farm product. Others believe that they should have the same specialty quota transfer rights as holders of mainstream quota.

Specialty producers, in some instances, argue that their efforts have built the segment in spite of the Boards, and that they therefore have indeed “earned” quota. Their supporting argument is that they have directly marketed their products to create and fill new demand while mainstream producers have had assured markets and returns. Specialty producers argue that they have direct relationships with customers and do not rely on the Board for marketing.

Businesses build equity over time and at some point the owners seek liquidity at an acceptable return on their equity. If a business is built around producing and marketing a regulated product and the ability to transfer the production rights is not available, the value of the business is negatively impacted. It seems reasonable that specialty producers, like any other producer who builds a farm business, should have the ability to realize a return on their investment.

Boards understand that quota values have risen in the marketplace, yet they decline to acknowledge that quota price is often an insurmountable barrier to entry. They have argued that the cash margins available from producing the regulated product, the potential for incremental quota issuance (stock dividends) and the salvage value of quota upon eventual sale all confer substantial financial benefits upon a quota holder. They have also argued that mainstream quota holders have purchased their quota and therefore have a “right” to the values, while those who have not paid the entry cost of purchasing quota should not be eligible for the stock dividends and salvage value.

Board opposition to transferability of incentive quota amounts is based on the potential for a windfall for the recipient, the creation of an inequity between existing producers and new entrants, and opportunity for serious abuses by those not wishing to be farmers of the regulated product, but merely opportunists farming quota. These arguments are all based on the monetary value that is realized by a quota holder when the Board authorizes the transfer to another producer.

The matter of quota value is complex and controversial, particularly as the Boards themselves are not to attach monetary value to quota they issue. Some Boards (milk, chicken, eggs and hatching eggs) have issued new quota units to existing quota holders when the provincial allocation has been increased in the past. This is similar to issuing stock dividends. Recipients of these dividends have not paid for these additional quota units; they received them by virtue of being quota holders in good standing with the Board. Some will argue that these dividends are

windfalls, and that the amounts of these windfalls over time have been substantial while the amounts being offered to new entrants are modest in comparison.

Another argument against transferability is that recipients of incentive quota will have a cost advantage over producers who have previously paid for quota. This presumes, in part, that quota value is captured in cost of production formulae upon which regulated pricing is based, yet this is not supposed to be the case. Nevertheless, if one person has to purchase quota and the other does not, one has a financial advantage.

The third argument that transferability may lead to serious abuses is based on Board experience whereby recipients have sold or leased quota received through previous new entrant programs. It is important that the Boards establish clear requirements for recipients to be actively engaged in the farming operation, and they should be prepared to enforce these requirements. This requires integrity of the new entrant eligibility and invitation process.

In some cases, Boards propose to require that all non-transferable quota be surrendered before the Board will authorize the transfer of any transferable quota that the producer may have purchased to expand his or her business above the incentive amounts. The logic for this position is unclear. It fails to recognize that people may simply wish to cut back the size of their operation for any number of reasons, personal or financial, and essentially says that if one wished to cut back production, all non-transferable quota must first be returned to the Board.

The issue of transferability is made more difficult by the Chicken and Turkey Boards' proposals to continue special permit levies in return for receiving transferable quota at the end of some period of time. These levies are seen by some as requiring producers to "buy" quota from the Board on an installment plan, albeit at very attractive discounts to current purported quota prices. Since a number of producers have entered into permit contracts with the Boards, unilaterally terminating these contracts seems unacceptable. At the same time, directing that non-transferable amounts could become transferable in the future would confer an unfair advantage on permittees choosing not to continue paying the special permit levies so that they remain eligible to receive transferable quota.

Creating a practice where non-transferable quota becomes transferable after a vesting time could be problematic. If quota has the potential to be transferable in the future, it is subject to being transferred earlier through commercial arrangements that do not involve authorization of the transfer by the Board until a future date when vesting is complete. In this situation, non-transferability will merely be optics and transfers will occur through commercial agreements. In practical terms, there are likely very few, if any, means to prevent enterprising individuals from finding ways to work around rules that are or may be established if there are sufficient monetary incentives to do so.

Interestingly, some submissions provided for non-transferable quota to become transferable after a period of time (see Egg and Turkey Submissions). Also, the existing chicken permit system provides that permits already issued can be transferred after six years, this being six years prior

to the issuance of primary quota in accordance with the permit contracts. And, some Boards have provided that non-transferable quota could be transferable within families. Clearly, the matter of non-transferability in the submissions is not absolute.

There are two basic options: make all incentive quota non-transferable in all situations; or make it transferable in principle from the day it is issued. Between these two options are a number of variants concerning exceptions to non-transferability, demonstrating active involvement in the farming operation, and the timing of transfer.

With respect to Transferability, the following policy directions are given:

1. Specialty quota is to be transferable in the same manner as mainstream quota.
2. All specialty and new entrant incentive quota is to be subject to a declining transfer assessment schedule described in section 5.8.

5.8. Transfer Assessment

It is a matter of sound marketing policy that, on the transfer of quota from one producer to another, the Boards require a surrendering back of some amount of the seller's quota. This gives the Boards flexibility by allowing them to utilize that quota, which is by definition limited, for other marketing purposes.

All Boards have put forward transfer assessment proposals. It is understood that the purpose of assessment is to provide for a degree of redistribution of quota rights to allow Boards to distribute a scarce resource (quota) in a manner that will improve market responsiveness to specialty markets and provide additional access to the system.

Four of five Boards propose that the assessment would be levied on the transferor (the party selling the quota), and effectively reduce the amount of quota that would be eligible for transfer by 5%. The BCCMB put forward an alternative "deemed transfer assessment" whereby the amount of assessment would be calculated as 5% of the total transfers in a period and the amount realized from this calculation would then be deducted from the provincial allocation prior to its distribution among all quota holders.

In practical terms, the BCCMB is proposing to set aside a portion of growth to distribute among new entrants, and it intends to determine the amount to set aside from the amount of quota transferred. A question that emerges is whether the Board will sustain the approach if there is no growth in provincial allocation from the Chicken Farmers of Canada. If there were no growth, remaining producers would fund the assessment by a reduced individual allocation while those leaving would retain the full benefit of their quota.⁹

⁹ Chicken producers have apparently supported the Board's planned approach. Does this provide any indication of the perception of quota value by producers? For instance, could it mean that the potential "cost" of a 5% assessment on sale of the quota is greater than the expected

The BCCMB approach has distinct advantages in that it avoids exceptions – it is simple. Other Boards' proposals provide for exceptions to transfer assessment for family members, corporate reorganization and Board discretion, all of which create opportunities for assessment avoidance. It is critical that clear criteria for any exceptions be provided.

It seems reasonable to let the Boards decide whether they prefer the direct or deemed assessment approach. Once established, the approach should be required to be left in place for sufficient time to determine its effectiveness prior to a review of program performance.

In designating and providing for the transfer of specialty quota, Boards also need to establish assessment policy rules regarding specialty quota transfers. Specialty quota is intended to be issued beginning at a point in time. The amount initially issued is proposed to be based on the total amount of production in effect at this point in time, and it will change over time as specialty markets expand or contract. Transfer assessment policies for specialty quota transfer need to be established from the outset.

If specialty quota is issued and becomes instantly transferable, there is a real possibility of windfall gains. It is a basic principle of the Boards that producers should be actively engaged and committed to being in the industry. If a specialty producer simply applied to transfer (i.e. sold or flipped) their quota immediately upon receiving it, this would not seem to indicate engagement and commitment. Some specialty producers argue that they have been in the industry for years and therefore transfer rights should recognize this involvement. This is offset, in some circumstances, by the manner in which they have participated. For instance, did they operate legally within the system?

Transfer assessment may be a way of addressing the windfall and engagement issues for both mainstream and specialty quota incentives. A schedule whereby the amount of the assessment declined over time would provide an earn-in approach. Assessment could be 100% in year one (effectively, non-transferability) and subsequently reduced by 10% per annum until it reached 10% in the 10th year. It could then remain at 10% thereafter.¹⁰ A declining transfer assessment schedule, with clear rules around being actively involved, is proposed as a solution to the debate over transferability.

future margins realizable from using that quota? If so, does this mean there are many producers looking to sell quota in the near term? It could mean a lot of things, but the bottom line is that quota value is at the heart of transfer assessment.

¹⁰ Assessment schedule. One may think of the declining transfer assessment schedule through the analogy of a redeemable, retractable, convertible preferred share. Common shares (transferable quota) and preferred shares (new quota issued) both have the responsibility to produce the issued volume of the regulated product and both enjoy the opportunity to earn operating dividends (production margins). Each year 10% of the preferred shares are redeemed and converted to common shares. Preferred shares are non-transferable and retractable by the issuer (the Board) upon no longer being used by the shareholder.

The Boards have, from time to time, issued additional quota units to existing quota holders where the National Agencies have allocated growth to the province for the particular commodity. It is possible that these “stock dividends” could also be subject to the declining assessment schedule. Administratively, it would be necessary to establish a “last-in, first-out” policy whereby a producer seeking to transfer some, but not all, quota would be required to transfer the dividend quota before any other quota would be authorized for transfer.

The effectiveness of transfer assessment will hinge on the exceptions provided. The Boards, with the exception of the BCCMB, are proposing that any non-arm’s length transfers within families, transfers for corporate reorganization purposes, and, in the case of the BCMMB, transfers through the quota exchange will be exempt from the assessment. What this means in practical terms remains to be seen. Current quota values provide an incentive for sellers of quota to find ways to avoid the transfer assessment.

It is necessary to determine the start date for the declining transfer assessment for those individuals issued specialty quota pursuant to permit conversion. Due to the time differences at which specialty producers were issued permits or when mainstream new entrants were provided an invitation to enter the industry, it seems reasonable that the start date should be the original date of permit or incentive quota issuance for the amounts provided at that time. For additional amounts permitted or offered by the Board to licensed producers subsequent to the original permit or incentive amount, the start date should be the date on which the additional amount was permitted. In practical terms, each recipient of additional quota could have a register indicating dates and amounts, and transfer assessment would be calculated based on the different dates and times in production.¹¹

Some permittees may argue that they should be recognized for time and volumes produced prior to the issuance of permits by the Boards. This will be difficult since the production may have been unauthorized and may not be verifiable.

With respect to Transfer Assessment, the following policy directions are given:

1. The BCEMB, BCBHEC, BCTMB and BCMMB proposals to implement a 5% transfer assessment or make modifications to existing transfer assessment procedures, as in the BCEMB case, on quota already issued is acceptable to FIRB subject to the following points.
2. The BCCMB deemed assessment approach is acceptable providing that there are no exceptions in determining the total volume of quota transferred for the purposes of calculating the assessment.

¹¹ There may be arguments by some that this is a complex system. It seems reasonable that with database information systems each licensed producer would have a register indicating dates and amounts of quota issued and transfer assessment would be easily calculable from the register. This should be a relatively straightforward arithmetic and accounting exercise.

3. In the cases where direct assessment has been proposed, exceptions to assessment are to be limited to direct family members only – these being defined as spouse, sons and daughters – and for business reorganization where the ownership percentages do not change.
4. All specialty and new entrant quota issued, regardless of how it is issued now or in the future, should be subject to a declining transfer assessment schedule. In the first year following issuance 100% of the quota should be automatically retracted should the producer cease production or purport to engage in commercial quota transfer. In year two and subsequently the amount retracted would subsequently decline by 10% per annum until it reaches a minimum assessment of 10% in year 10. Transferability therefore commences in year two, at 10% of the quota allocation, and increases by 10% per year, until it reaches 90%.
5. The start date for the declining transfer assessment schedule upon permit conversion to specialty quota should be the date on which the authorized amount was permitted.
6. All producers holding quota that is subject to the declining transfer assessment schedule should be specifically required to be actively engaged in the farm operation at all times or be subject to immediate retraction of all unearned quota.

5.9. Pricing

A central pillar of supply management is minimum price controls. No producer is permitted to sell below the minimum price, and no licensed buyer is permitted to pay a producer less than the minimum price. Price premiums above the minimum prices have also been established by the BCEMB and the BCMMB for specialty products.

To maintain order and prevent predatory behaviour it is important that all specialty producers be required to abide by any established minimum price regulations. If specialty producers aggressively competed to take market share from mainstream segments by selling at or below the minimum price, this could cause difficulties for sellers (i.e. processors) of mainstream products or cause general price erosion to unsustainable levels.

If specialty producers determine, through their Advisory Committees, that a specific minimum price for a specialty product is required to facilitate market order, then this should be established as and when required. In general, specialty products require extra effort to produce and market. As such, they can be expected to cost more to produce. In theory, therefore, they should receive higher market prices. This theory may, however, be inoperable in certain circumstances. For instance, a specialty product class may experience either a sudden increase in production or a reduction in market demand after production has been initiated. In these cases processors may be forced to lower their prices in order to sell their product, and this price erosion can be expected to result in reduced premiums. If the market erodes sufficiently that price drops to the minimum

regulated price, this would seem to indicate a reduction in demand that should be reflected in lower allocations.

With respect to Pricing, the following policy directions are given:

1. Specialty product minimum prices should be established when required as determined by recommendation of the Specialty Markets Advisory Committee to the Board.
2. All products should be subject to the minimum price established for the commodity.

5.10. Exemptions

Exemptions provide a tool by which Boards may authorize individuals, or groups of individuals, to produce and/or market outside certain of the Boards' Orders. Exemption does not necessarily (or even usually) mean exemption from all regulation. Section 11 (1)(e) of the *Act* provides a Board with the power "to exempt from a determination or order a person or class of persons engaged in the production, packing, transporting, storing or marketing of a regulated product or a class, variety or grade of it." It is important that any exemptions provided be clear regarding which parts of the Orders are included in the exemption.

As the markets for supply managed products have evolved, average farm sizes have increased and the number of producers representing a significant majority of the production has decreased. Smaller production units can experience greater difficulty remaining viable as market pricing established by the Boards recognizes scale efficiencies through productivity variables in cost of production models. Smaller and mid-sized producers may exit the industry, generally by selling their quota to larger producers seeking to expand and having greater financial capacity by virtue of higher productivity and therefore higher margins under a fixed price scheme.

Many specialty producers are smaller producers serving local or regional markets, often by direct marketing efforts. For them, regulation – particularly regulation that is not calibrated to the realities of the class of production being regulated – can constrain their ability to produce and market their products. The administrative burden imposed by the regulation may tempt small producers to operate illegally outside the system or to simply quit. In the first case, illegal operation threatens the integrity of the regulated system while enforcement of the regulations can subject the Boards to unconstructive criticism. In the second case, withdrawing from operation may result in local direct market segments not being served, innovation being constrained and regional economic activity being curtailed. Sound marketing policy as articulated by FIRB and the Ministry is clear that markets must be served and innovation must be fostered.

In general, the Boards have declined to increase exemption levels¹². They base this position on exemption having been provided for "personal use", not for commercial production and sale of a regulated product. The term "personal use" implies the product is being produced for

¹² Existing exemption levels are <50 turkeys placed, <99 laying hens housed, and <200 broiler chickens placed. The BCMMB and BCBHEC do not provide exemptions from the requirement to hold quota to market.

consumption by the producer's family and perhaps friends. Nevertheless, the personal use levels that have been established appear, by most reasonable estimates, to be greater than personal use requirements. For example, the BCEMB exemption level is 99 layers which could technically provide upwards of 35 dozen eggs per week year round¹³. This appears to be more than a family and friends would reasonably consume in a week.

There is a practical minimum level below which it makes little sense to try to regulate. This becomes a question of what level of production is sufficient to justify the administrative cost of regulation.

"Personal use" exemption levels may not effectively provide for innovation and small lot agriculture. Some argue that nothing prevents a mainstream quota holder from serving an emerging, innovative or new market segment, and that nothing prevents a small lot producer or innovator from purchasing a small volume of quota to produce the amounts required for either a new innovation or a specialty market segment. Others argue that mainstream quota holders have tended not to develop certain specialty market segments while at the same time preventing others from doing so by virtue of the quota system.

Two Boards, the BCEMB and the BCCMB have proposed small flock permit programs. These permits would be limited to a small amount of production on each site, would not be quota licenses, would be annually renewable, and would not be transferable. Levies would not be charged on these permit amounts when the producer directly markets to consumers. These small flock permits are proposed forms of exemption from certain parts of the Orders, but with the proviso that all permittees would still be required to register and be licensed by the Board annually.

The BCCMB small flock program would be open to any producer seeking production of less than 3,000 kg per year, although the Board reserves the right to limit the number of permits issued. The BCEMB small flock proposal is dedicated exclusively to the Certified Organic Associations of British Columbia (COABC) certified organic producers, proposes to provide permits for up to 399 layers/permittee, and is limited to 10,000 layers in aggregate. This will put a cap on the number of permits issued and may become, in due course, fully utilized leading to allegations by those wishing to obtain a permit that the system is unnecessarily restricting small lot agriculture. The proposal to restrict eligibility would also exclude those certified organic producers who operate under certification plans other than the COABC standards. The BCTMB, BCMMB and BCBHEC submissions did not provide for small lot programs.

The small flock permit program volume limits are a point of contention. If set too high, they will materially impact mainstream markets as production from multiple units is consolidated and directed through mainstream processors. If it is set too low, small lot producers will feel they have been unnecessarily constrained by the system.

¹³ Realistically, the productivity of many small flocks is often less than that found in larger mainstream commercial operations, and many small flocks exhibit distinct seasonal production fluctuations.

A case has been made that certain areas of the province should have regional exemption from the regulations. This is based on the absence of mainstream commercial production in the region and local market demand for locally produced products. Regional market demand for locally produced farm products, sold directly to consumers by producers, could be defined as a specialty channel. Production of small amounts that are sold directly by the producer to a consumer or small retailer (farm market or independent outlet) will logically reduce the amount of mainstream production purchased by local consumers from mainstream market channels. The questions are: whether the market needs for local product are served; whether the amounts produced locally are significant; and whether the product meets other legal requirements such as food safety. Clearly, if consumers prefer locally produced product, and it is not available, some part of the market has been underserved. Amounts produced would clearly be significant if producers in the region, having supplied local markets, were selling their products outside the region and thereby impacting producers in other regions.

Since provincial allocation is focused on the total supply, some will argue that any amount produced, no matter how small, should count toward the global production authorized in a province. In this context, the Egg case is interesting. The Canadian Egg Marketing Agency (CEMA) deducts from the global allocation to B.C. an amount estimated to be the unregulated production in the province as reported through the Canadian Census. Registering small producers, whether as “personal use” exempt or as small lot permittees, will in some cases merely capture production amounts already considered in the CEMA allocation process. Therefore, no additional deduction need be made by CEMA or the BCEMB, and exemptions and small flock permits will have little if any impact on the regular quota holders unless there is a proliferation of new personal use and small lot permittees. This seems unlikely given estimates that there are already thousands of small unregistered egg producers.

Nevertheless, any amounts produced are part of the total supply. It is critical that Government and FIRB, working with the Boards and specialty groups, press for changes in national allocation methodology that recognize provincial jurisdiction over exempt and small lot production amounts. In other words, these amounts should not count toward the national allocation system.

Taking “personal use” exemptions, small lot permit programs, new entrant programs and designated classes of quota together, it is apparent that the Boards are developing what could be viewed as a phased entry system. This suggests the small lot permit volumes fit somewhere between exemption levels and new entrant quota incentive levels. It seems reasonable that the small lot levels, once established with these system changes, be reviewed in the future to ensure they are operating as part of the phased entry system.

With respect to Exemptions, the following policy directions and principles are given:

1. There should be no exemptions from the agri-food regulations (including food safety and biosecurity). This supports the principle of registration.

2. Exemptions are to be very clear regarding which specific Orders from which an individual or group of individuals is being exempted.
3. The Boards' positions that existing "personal use" exemption levels are adequate are acceptable subject to the introduction of small lot permit programs by Boards.
4. Boards are directed to develop and introduce small lot permit programs which provide for, among other things, product/market innovation, local/regional small lot agriculture, heritage breeds, and farmer-direct marketing initiatives.
5. Small lot permit levels should be set higher than the "personal use" exemption levels and lower than the quota incentives proposed through new entrant programs.
6. Government, FIRB and industry should work together to press for changes in the National Allocation systems so that personal use exemption and small lot permit amounts are not counted as part of the provincial allocation.

5.11. New Entrant Programs

All Boards have proposed new entrant programs or amendments to existing new entrant programs.

In general, Boards are proposing to use the new entrant programs to satisfy, in part, unfilled specialty and/or regional market needs. This seems to be a reasonable approach. Mainstream markets are national markets and provincial shares are jealously protected. If a province is short in filling its provincial demand, the extra supply comes from another province. Specialty market needs may also be filled from other provinces or imports. In this case, how will it be determined that the market is short? It will be important to clarify how a market will be considered satisfied or not. This is a role that could be filled by the appropriate Advisory Committee.

Most Boards have moved away from the concept of requiring new entrants to purchase some amount of quota in order to receive an incentive amount. The exception is the BCMMB which provides a base incentive of 5,000 kg of quota and then matches purchases one to one (1:1) for another 2,000 kg.¹⁴ This is a good decision on the part of the Boards, given the difficulties accessing quota to purchase and the extra challenges new entrants might have raising capital to buy quota at the same time as they finance the fixed asset and working capital needs associated with establishing their operation.

There is a question concerning the size of the new entrant incentive to be provided. While each Board is different, comparing them is illustrative. The table below summarizes the new entrant incentives proposed. The BCBHEC has chosen a relatively large number of breeders based on

¹⁴ Graduated Entrant Program (GEP) entrants in milk receive 5,000 kg without having to purchase any quota. They then receive up to 2,000 additional kg providing they purchase 2,000 kg. This provides up to a 7,000 kg quota incentive.

production unit size and egg pick-up logistics for hatcheries. The BCTMB has retained an incentive amount equivalent to their Grower-Vendor program and based on seasonality of demand and low turnover in quota which will limit the amount available from assessments. The BCMMB has retained their existing Graduated Entry Program incentive levels. The BCCMB has established an incentive level based on the existing 4,000 unit permit level. And the BCEMB has selected an incentive level similar to the existing TRLQ and Special Permit volumes that it projects will be sustainable for providing two new entrant opportunities per annum based on allocation trends and assessment expectations.

	New Entrant Incentives	Average Quota Holding ¹⁵	Incentive as % of Average holding
Eggs	Up to 3,000 layers over 7 years	17,000 layers	17.5%
Chickens	Up to 4,000 units/cycle	47,000/cycle	8.5%
Hatching Eggs	10,000 breeders/quota cycle	30,000/cycle	33%
Turkeys	Up to 15,000 kg/year	548,000 kg/yr	<3%
Milk	5,000 kg plus 2,000 kg matched to 2,000 kg purchased quota	34,000 kg	20.5%

What is the right amount for a new entrant quota incentive? The challenge faced by Boards in determining the amount is finding a balance in providing for a number of new entrants, providing a meaningful incentive amount, ensuring the operation has a chance to be viable, and respecting the rights of established producers. The BCBHEC 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 BCBHEC is different than the other Marketing Boards in not presently having a designated specialty class of hatching eggs.

With respect to New Entrant Programs, the following policy directions are given:

¹⁵ Average quota holding may be different than average farm size. It is possible that several quota holdings are owned by the same individual or entity and are produced together on one site. However, data on average farm size is not readily available so average quota holding is a suitable proxy. Farms have generally increased in size over time. This is causing the industry structure to follow that of many agri-food sectors wherein a small percentage of the producers comprise an increasingly significant majority of the production. In terms of governance and management of these systems, this poses interesting challenges. Larger economic players can be shut out of the governance of the system, and management must continually balance between the needs of many small producers and those of a few large producers when these needs may not be similar.

1. The Boards' proposed new entrant programs are to provide for a defined minimum number of new entrants per year, or per quota cycle in the case of the BCBHEC.
2. The incentive quota amounts offered are sizable in most cases, and care should be exercised that there is integrity in the programs and that entrants remain actively engaged.
3. All incentive quota provided by the new entrant programs is to be subject to the declining transfer assessment schedule.

5.12. New Entrant Eligibility

The Boards' submissions have addressed eligibility for new entrant programs. In general, eligibility criteria include being a Canadian citizen or landed immigrant, a permanent resident of B.C., and over 19 years of age, not having previously held an interest in any supply management quota, and being prepared to be actively engaged in the operation of the farm. Variations exist regarding whether previous quota ownership was in B.C. or anywhere in Canada. An unanswered question is whether it is possible to restrict access to new entrant programs on the basis of having held quota in another province.

The BCEMB proposes that children of quota holders will be eligible, providing they operate independent of their family. This poses an interesting question in relation to the exceptions provided for family members in the area of transfer assessment. In any event, the eligibility criteria seem to be reasonable and focused on trying to ensure that new entrants are truly new entrants and not previous producers emerging in a new incarnation.

With respect to New Entrant Eligibility, the following policy direction is given:

1. Eligibility criteria for new entrant status should include, at a minimum, residency, not having been previously involved in supply management quota ownership, and a commitment by the applicant to be actively involved in the farming operation.

5.13. New Entrant Waiting Lists

Boards intend that the number of new entrants invited to enter the industry will be determined, for the most part, by the amount of quota raised from transfer assessments. Demand will likely exceed supply. Accordingly, the Boards intend to have procedures for putting applicants on waiting lists and priorities for offering invitations from the waiting list.

Some Boards are proposing to maintain existing lists with dozens of applicants, while others are proposing to have shorter lists and repopulate the lists using a lottery draw system. To provide invitations to waiting list applicants, Boards intend to rely on a combination of seniority (time on the list) and market needs. Market needs include those required to meet specialty market and regional demands. This leads to priorities in making invitations whereby the most senior person on the list may not be the first choice by virtue of the market needs priorities.

The important matter from an oversight perspective is whether there is integrity in the application, waiting list and invitation procedures. To provide objectivity, most Boards are proposing to let their auditors or an independent third party manage the waiting list process.

In the case of new entrant waiting lists, the following policy directions are given:

1. New entrant waiting lists are to be established where they do not currently exist.
2. Where Boards have existing waiting lists, they are to be reviewed and modified to reflect the new eligibility and invitation criteria developed by the Boards.
3. Boards are encouraged to provide priority to specialty and regional market needs in issuing new entrant opportunities.
4. The Specialty Markets Advisory Committees should be charged with assisting to develop criteria, research and reporting procedures regarding the unfilled specialty market needs that would give priority to specialty new entrants.

5.14. Levies

Levies are the basis on which Boards fund their operations, their share of National Agency operations, and any costs associated with product distribution programs such as pooling in milk or industrial product direction in eggs. Boards also have the authority to charge special levies.

The BCTMB and the BCCMB are proposing that permittees who wish to complete their current contracts and receive transferable primary quota at the end of the special levy period, in these cases 12 years, will continue to pay special levies. Permittees not wishing to receive transferable primary quota, may elect to have their levies reimbursed, and they would receive non-transferable quota rather than transferable quota as a result.

This is an interesting proposal. It puts the permittees in the position of having to decide whether they wish to have transferable or non-transferable quota. But if continuation of special levies in return for receiving transferable quota is sustained, while at the same time incentive quota is transferable at some point in time, why would anyone continue to pay special levies in return for transferable quota? To get an indication of the values involved, the BCCMB charges \$0.18/unit/cycle for 12 years, or \$14.04/quota unit. Present broiler quota values are reported to be in excess of \$60/unit. Interestingly, the permits are transferable after six years and accordingly it is possible that some permits could be transferable as early as 2006.

The BCEMB proposes that special levies will be terminated. The Board intends that amounts paid to date that were intended to be deposits for future quota purchases will remain "on deposit" with the Board for use by the permittee for the eventual purchase of quota. This means a permittee who does not wish to expand beyond the permit amount and has no intention of purchasing quota to expand, effectively forfeits the special levies while a permittee who purchases quota has the funds returned. This does not seem to be a practical solution.

Some permittees have been delinquent in paying their levies while others have made their payments as required. It seems reasonable that permit fees due and payable should be paid by all permittees on the basis that permittees had entered into a contractual agreement with the Board.

Another issue with levies is the disconnect, in some cases, between the levy and the product sold. For instance, the BCEMB assesses levies on the basis of hens housed while the producer sells eggs. There are differences in hen productivity among different classes of production, meaning those with lower productivity are incurring a higher per unit cost for levies. It is difficult to understand the logic for this unless some extra service is provided to those with lower productivity levels. It seems levies should be levied on the product sold.

There are also issues with levies concerning the benefit received by all producers from levies. For instance, CEMA has an industrial egg program whereby levies assessed on table eggs are used to bring the cost of eggs to processors to a lower price point. In essence, this is a two-price system funded by levies on the higher-priced product. However, specialty eggs may not receive the specialty egg price (i.e. table egg price) for eggs directed to the industrial market when there are "surplus" specialty eggs. Nevertheless, the levy on specialty eggs includes charges for operating the industrial product redistribution program. Similarly, the BCMMB is contemplating Board-operated pools for the marketing and distribution of organic milk. Costs are pooled, and all producers are charged equally, pro rata to volume, regardless of their individual costs within the pool.

Despite specific program levies, some argue that the levies help manage the overall system and provide price supports from which all producers benefit, including specialty producers. Since specialty producers can price above mainstream products, they enjoy the same returns as mainstream producers, providing they price in a manner to recover their direct, incremental costs incurred above mainstream production costs. If they do not price in this manner, that is a personal business decision and not a matter of adjusting levies.

It is likely that Boards will incur some costs that are solely and directly attributable to individual quota classes. It seems reasonable that direct costs associated with a class of quota should be incurred by holders of that quota. At the same time, there will be shared infrastructure and administration costs across all classes of quota. The Boards should examine their costs and determine how these are to be apportioned when they establish levies for each class of quota. It seems reasonable that each quota class should pay the costs incurred by the Board to deliver the services required to administer that class.

With respect to Levies, the following policy directions are given:

1. Levies and fees assessed specifically for permits or temporary quota use, not including regular administration and marketing fees charged by a Board on all regular quota production, are to be terminated from January 1, 2005 forward.
2. Subject to the discretion of the Boards, all levies and fees charged for permits or temporary quota up to December 31, 2004 should be due and payable.

3. Each permittee should be fully paid up for all levies owed to the Boards up to December 31, 2004 or the nearest applicable quota period ending after December 2004, prior to any permit conversion to quota of any class.
4. All levies established should be based on the cost of providing the service. Different levies should be considered for different quota classes based on class specific services and a pro rata share of infrastructure and administration costs.
5. Where practical, levies should be charged on the basis of product sold rather than quota units.

5.15. Representation

Board members are elected to Boards to establish regulations and to oversee the management of the Marketing Board as it administers the regulations. Electoral procedures provide for registered producers to select from among themselves those who will become directors. In certain cases, directors are appointed by Government; in all cases, the Chairs are appointed by Government.

Specialty producers have indicated a desire to have a dedicated seat on the Board of directors. It seems reasonable that all directors, regardless of class of product or market served in their personal businesses, should attempt to the best of their ability to represent all producers and the industry. Reserving seats for special or dedicated interests could easily be counter-productive to efficient and effective Board governance. Boards should be ensuring their policies and procedures serve specialty markets with products produced in B.C. This is a goal for all directors regardless of the type of product they produce and market or the size of their operation.

Boards propose that all registered producers who hold quota licenses should have the right to vote, and that personal use and small lot permits will not be quota licenses. This seems a reasonable approach by establishing a minimum size in cases where a one-producer, one-vote electoral procedure is used. Boards could, however, examine voting by production share or a double hurdle based on producer and production numbers. However, such changes might not be achievable by the Boards unilaterally, and might well require Scheme amendments in some cases.

Board governance is a matter that FIRB intends to carefully monitor, particularly given the potential frictions and tensions arising from the realities of producer elected members, the typical one-producer, one-vote electoral procedures, the trend to fewer, larger farm operations, and the larger number of small specialty producers.

With respect to Representation, the following policy directions and principles are given:

1. All Board directors should represent the entire industry, not special or dedicated interest groups within the industry.

2. All registered producers holding quota licenses should be eligible to vote on any matters requiring decision by all producers.

5.16. Specialty Markets Advisory Committees

Boards have indicated a willingness to establish Specialty Markets Advisory Committees where applicable due to numbers of specialty producers. However, the composition and roles for these Committees are not fully developed in the Boards' submissions.

Based on the need for development of policies and procedures focused on specialty production and marketing, Specialty Markets Advisory Committees have an important role to play. The Committees will need clear guidelines concerning composition, roles and responsibilities.

The BCCMB proposes that the Specialty Markets Advisory Committee be comprised of an independent Chair appointed by the Board plus three specialty producers and three specialty processors. While the BCCMB has provided for additional membership, the basic model seems reasonable and practical. Arguments may be made for additional representation from others such as input suppliers, distributors, and bankers. This should be avoided since the Committees are intended to have meaningful responsibilities and accountabilities around the management and administration of specialty production and marketing.

In an effort to build trust and understanding between specialty and mainstream producers, it would be useful to have mainstream producer representation on the Specialty Market Advisory Committee. Such mainstream representation should be a director from the Board. Reciprocally, there should be a specialty representative on any mainstream Advisory Committee.

Among the roles and responsibilities that could be established for Specialty Markets Advisory Committees are the following:

- To make policy recommendations to the Board of Directors concerning specialty markets and specialty production.
- To monitor market conditions, including supply, demand and price, and make recommendations to the Board to ensure the orderly marketing of specialty products.
- To provide recommendations to the Board concerning periodic allocation requirements that can be incorporated into the National Agency allocation setting process.
- To ensure policies and procedures are established and maintained for the distribution of allocation in a specialty pool among specialty quota holders and specialty permittees (where applicable).
- To recommend clear criteria for the designation of new specialty classes.
- To provide advice to the Board concerning when and where exemptions may be warranted.
- To monitor development and maintenance of specialty market information systems by the Board.

- To assist in development of on-farm food safety and biosecurity protocols appropriate for specialty producers that meet the objectives of providing safe food and a safe environment for livestock production.
- To recommend to the Board when minimum pricing needs to be established for specialty products.
- To participate with Management of the Board in specialty product price determination procedures, when applicable.
- To work with Management to ensure specialty product levies are service based and determined by the cost of providing the services required for the orderly marketing of specialty products.
- To monitor the effectiveness of the new entrant program in meeting specialty market needs and in providing access to the system, and to recommend policy or procedure changes to the Board as required.
- To monitor and provide advice to the Board concerning the need for enforcement action and the implementation of progressive penalties for non-compliance.

With respect to Advisory Committees, the following policy directions are given:

1. Specialty Markets Advisory Committees are to be established.
2. Specialty Markets Advisory Committees should be comprised of an equal number of specialty producers and specialty first receivers, a mainstream producer representative of the Board, and an arm's length, independent Chair appointed by the Board.
3. Boards, in consultation with the Specialty Markets Advisory Committees, are to develop terms of reference for the Committees.

5.17. Food Safety & Biosecurity

The Boards recognize that all producers, including small-scale specialty producers, must follow appropriate on-farm food safety and biosecurity protocols. Their preference is that all growers follow the guidelines developed by their National Agencies. They have also put forward that there is need for greater clarity regarding food safety and biosecurity matters including the authority to establish and enforce standards in these areas.

Some Boards have indicated a willingness to engage specialty producers to adapt the established on-farm food safety guidelines as appropriate for smaller operations that follow different production practices. Some Boards have also suggested that certifiers (e.g. organic Certifying Bodies' Verification Officers) could be trained by the Board to attest to compliance with on-farm food safety and biosecurity standards established by the Board.

The Boards feel strongly that all producers should be required to conform to food safety and biosecurity protocols as a condition of licensing. It seems reasonable that producers should follow appropriate production standards, including those established for food safety and

biosecurity, because the potential impact of the actions of a few on the results of many can be significant. The production protocols, however, must be reasonable and recognize that many specialty producers have production practices that are materially different than mainstream producers.

It is important that policy direction concerning on-farm food safety and biosecurity responsibilities and authorities be provided for the industry. Boards should engage specialty producers through the Specialty Market Advisory Committees to assess the applicability of existing programs to specialty production, and to make amendments so that the programs are appropriately adapted to specialty production.

With respect to Food Safety and Biosecurity, the following policy directions are given:

1. All classes of product and all producers are to be subject to government-approved food safety and biosecurity protocols appropriate to their farming operation as a condition of licensing, irrespective of type of license issued.
2. Government should provide clear policy direction concerning where food safety and biosecurity responsibilities reside. To the extent that Boards are delegated with the responsibility in these areas, appropriate authority should be delegated to the Boards.

5.18. Enforcement and Compliance

There are perceptions among some participants that Boards have inconsistently enforced their Orders. Determining whether this perception is based on fact or fiction was not part of this review.

The immediate concern for FIRB and the Boards is what happens going forward. Will the Boards be able to enforce and, at the extreme, seize flocks that are not properly licensed? If not, then there can be little integrity in the system. And if they do seize a flock, are all parties ready for the potential implications of enforcement action?

It seems reasonable that Advisory Committees could provide assistance to management and the Board concerning the enforcement actions to take in compliance situations. Progressive enforcement would seem to be a reasonable standard, and the steps would need to be set down and communicated in advance. Increasing financial penalties before moving to seize a flock or herd would be one way to implement progressive enforcement. Involvement of the Committee would ensure that staff has industry support for the enforcement action.

Enforcement and compliance are also issues for FIRB and Government. It is critical that all parties – the Boards, FIRB and Government – have a common understanding concerning compliance and enforcement. Notwithstanding how enforcement is coordinated within the Board, it is critical that there be consistency. Discretionary enforcement can lead to problems for the organization.

With respect to Enforcement and Compliance, the following policy directions and principles are given:

1. FIRB intends to monitor the Boards' enforcement of Orders, and, in the extreme, is prepared to take action in cases where enforcement is inconsistent or inadequate.
2. Advisory Committees should be provided a role in assisting to develop progressive enforcement policies for compliance situations.
3. Government and FIRB intend to provide meaningful support to the Boards when managing potential reactions from enforcement action.

5.19. Program Review

It is not possible to anticipate the full range of consequences arising from the adoption of specialty and new entrant programs. Some changes may result in unintended consequences, and others may take time to become established, particularly given the challenges in altering existing administrative frameworks.

It is important that there be active, ongoing monitoring of the specialty and new entrant programs. This is a role for the supervisory organization, FIRB. FIRB will need to establish clear performance measures for monitoring the effectiveness of programs designed to meet the needs of specialty markets.

It is also reasonable to anticipate that several quota periods will be required to determine if the programs are having a real impact, and if and where changes may be required. Boards and FIRB should not be inflexible to changing procedures as experience is gained, but they should be careful not to make changes every time an issue materializes. At the same time, there should be a formal review after a reasonable period of time to ensure that the intended results are being realized.

With respect to Program Review, the following policy principles are given:

1. FIRB intends to conduct a formal program performance review after three years.
2. FIRB needs to establish criteria and capacity for ongoing monitoring of specialty program performance.

6 Schedule 1. Regulated Marketing Economic Policy

Ministry of Agriculture, Food and Fisheries

Public Interest Statement

1. 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.

National Systems

2. The Government of British Columbia supports the participation of British Columbia producers in national supply management systems when the provisions of the national agreements are consistent with the growth and prosperity of the agri-food industry.

The British Columbia Farm Industry Review Board and the Government of British Columbia proactively support supply managed boards in national and regional negotiations, in order to secure agreements which will provide:

- ongoing opportunities for industry growth and new opportunities in primary and further processing; and
- sufficient allocations for the development of specialty markets, such as organic and other products differentiated at the farm level.

Maintaining and Gaining Markets, and Serving British Columbia Demand

3. The British Columbia regulated marketing system supports the development of new markets identified at the production, marketing, and processing level to facilitate industry growth and competitiveness.

The regulated system encourages regulated industries to serve the British Columbia demand for their product and to capture markets outside of British Columbia where these markets can add strength and stability to a regulated industry.

To the extent that British Columbia regulated industries serve the British Columbia demand for commodities, the regulated marketing system ensures that British Columbia industries serve the developing British Columbia demand for organic food and other products differentiated at the farm level.

Boards and Commissions ensure policies and practices pertaining to pricing, levying, marketing, and production requirements provide the producer with the ability to pursue new markets and to capture market premiums for products differentiated at the farm level.

Boards and Commissions accommodate financially viable, competent sales agencies and processors who wish to pursue new markets for existing products, as well as markets for new value-added processed products and for products differentiated at the farm level.

***Entry of
New Producers***

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

The Value Chain

5. The British Columbia regulated marketing system facilitates cooperation among producers, marketing agencies, input industries, processors, and retailers, with a view to achieving efficiencies throughout the entire system, and enhancing value in the marketplace.

Safety and Quality

6. The British Columbia regulated marketing system builds consumer preference for British Columbia product by encouraging the production of high quality, safe food.

***Recognition of
Standards***

7. Boards and Commissions recognize, and encourage producers to participate in, the voluntary standards programs sanctioned by the Province (under the *Agri-Food Choice and Quality Act*) and national standards sanctioned by the Federal Government (for example, those established under the Canadian General Standards Board) as standards for identifying and labeling specialty products.

Regional Industries

8. The British Columbia regulated marketing system contributes to economic activity and stability in all regions of British Columbia.

Boards and Commissions ensure their policies and decisions do not inhibit the economic viability of regional industries. Boards and Commissions consider the need for appropriate mechanisms to sustain regional industries.

Boards and Commissions strive to accommodate producers and processors who pursue innovative or specialized market opportunities that are available in a region because of the region's location or natural characteristics.

7 Schedule 2. FIRB Principles, dated August 25, 2004.

BRITISH COLUMBIA FARM INDUSTRY REVIEW BOARD

DRAFT

**Principles for Consideration in Support of
Specialty Production and Marketing
In the British Columbia Supply Managed System**

August 25, 2004

Definition of Specialty Production and Marketing

Each board should be responsible for determining the specific and objective criteria through which eligibility for a specialty program is established in its commodity. In defining such production, boards could look at such factors as: niche or regional demand not being met through conventional channels; product clearly defined at the farm level; or product which meets the requirements of nationally or provincially accepted certification programs.

National Systems

It must be recognized that the five supply managed commodities operate under federal-provincial agreements which place limits on the total amount of production available to British Columbia. To the extent that under national programs the regulated industries are to serve the overall demand for commodities, boards must also serve the growing British Columbia demand for differentiated products. Specialty production policies must recognize that production is accountable as part of the province's allocation for each commodity. In this context, the division of production within the province and the related issue of affordability are critical factors, as is the need for the boards to pursue and obtain additional allocations to meet all market demands.

Public Interest

Priority should be given in all specialty programs to producers who have not previously been issued quota by a board. Quota producers may, however, be eligible to participate in circumstances where market demand for specified specialty products is not being adequately met.

In those circumstances where a board determines it is appropriate to exempt producers of a specialty product from regulation applicable to conventional producers, exemption

criteria must be clearly set out and the board should provide for appropriate compliance, monitoring and risk management (such as bio security requirements) through the exercise of its licensing authority. Criteria should also be established to review whether the exemption of a class of producers or a class of the regulated product continues to be appropriate, or should be revoked.

Affordability

Quota and permits will remain the exclusive property of the board or commission, to which the board or commission should not attach any monetary value. As with conventional products, license, permit fees and levies should be based only on the costs to administer the specialty program, the costs to maintain the marketing scheme generally; and on the services provided to the permit holders.

Transferability

In general, permit issued under a specialty program should be non-transferable and revert to the board if it is not being used for the specified purposes of the program. Special circumstances may warrant allowing certain permits to be transferable or to acquire quota status, but this should only occur if a board has established clear policies that define the rules and limitations of such transfers.

Administration

The administration and governance of specialty production programs, including the receiving and approval of applications, must be designed to be fair, transparent, effective, and accountable, and must operate in a flexible and timely fashion.

Accountability

To maintain eligibility under a specialty program, a person must demonstrate, at any time required by the board and to the board's satisfaction that they are actively involved in the production and marketing of a specialty product that is distinct and separate from conventional production and that they are in compliance with the terms of the program.

Sustainability

In recognition that the availability of quota fluctuates, boards should ensure that their specialty production programs do not require the surrender of permit or the replacement of permit with quota while a producer is in compliance with the program and/or the demand for the product exists.

In order to sustain specialty programs, boards should allot to such programs appropriate portions of the provincial allocation and increases to the provincial allocation. The percentage of the allocation allotted to specialty production programs and to individuals

in that program may vary from time to time, subject to the need to ensure there is adequate production to meet existing demand and the need to promote the development of new markets for specialty products.

A percentage of quotas transferred between producers could be collected by each board, with a portion of this being dedicated back to specialty programs. A board could consider exemptions to this requirement if a province-wide quota exchange has been instituted and is operating effectively.

8 Appendices

Appendix 1 – Broiler Hatching Eggs

Appendix 2 – Chicken

Appendix 3 – Eggs

Appendix 4 – Milk

Appendix 5 – Turkey

Appendix 1. Response to BCBHEC Specialty and New Entrant Submission

This appendix provides an overview of the BCBHEC’s specialty and new entrant program submissions at Section 1. This is followed in Section 2 by FIRB’s understanding and analysis of the Commission’s submission. Finally, Section 3 provides FIRB’s response to the Commission’s Specialty and New Entrant Submission.

1 Synopsis of BCBHEC Submission

The Commission has determined that there is no demand for a specialty product plan on the basis that:¹

1. its products, hatching eggs, are sold to hatcheries;
2. hatcheries produce chicks for sale to producers; and,
3. producers of proposed designated specialty chicken do not require certified specialty breeders.

The Commission has proposed a new entrant program offering a 10,000 layer incentive quota to new entrants from quota made available from a 5% assessment on transfers of placement quota. The incentive quota, called Production Permits, will be the same as Placement Quota except it will be non-transferable.

This proposal funds new entrants from those exiting the industry, and distributes all changes in allocation pro rata to all registered producers.

2 Analysis of BCBHEC Submission

In this section the Board’s specialty and new entrant proposals are assessed by comparing them with FIRB’s policy principles for specialty and new entrant programs based on FIRB’s general understanding of the Commission’s submission or position.

BCBHEC Submission

FIRB Assessment

2.1 The Market

Hatching eggs are sold to hatcheries for production of broiler chicks that are sold to commercial chicken producers.

Increasing average broiler weights in commercial production have grown the meat/egg ratio by 5% over the past five years. Average breeder hen productivity has increased from 130 to 145 eggs/hen placed over the past five years resulting from genetic improvements and longer lay cycles. As a result, growth in chicken production does not directly translate into increased hatching egg demand.

The hatching egg market in B.C. is determined by the broiler chicken market and hatching egg imports. The three main hatcheries in the province are owned and controlled by the province’s three major chicken processors.

Changes in productivity and processor requirements have combined to yield little or no growth in hatching egg quota allocation.

¹ See Commission’s March 31, 2005 submission in which they suggest that a specialty program is not required in broiler hatching eggs at this time.

BCBHEC Submission	FIRB Assessment
2.2 The Specialty Market	
<p>The BCBHEC takes the position that a specialty program is not required for hatching egg production in B.C. The Commission bases this position on its understanding that producers do not require certified specialty chicks for their specialty chicken production.</p>	<p>The Commission's belief that a specialty production and marketing management program is not required seems reasonable since certified specialty chicks are not required to produce certified specialty broiler chickens (i.e. certified organic chicks are not required to produce certified organic chicken.)</p>
<p>The Commission does not enforce the Scheme in relation to Asian specialty breeders, and the Commission is not aware of a need to regulate Asian specialty hatching eggs and chicks at this time.</p>	<p>The Commission may wish to provide, if it has not already done so, a specific exemption for Asian specialty breeders. This exemption could take the form of an annually renewable license to produce Asian specialty breeders in any amount subject only to certain requirements such as humane production practices and marketing only for Asian specialty production.</p>
<p>The Commission will consider the need for a specialty program if, in the future, certified specialty chicken production in B.C. requires certified specialty hatching eggs.</p>	
2.3 Quota	
<p>The Commission issues Placement Quota as an authorized number of laying hens that may be placed in a breeder facility. There are presently 1,812,782 units of placement quota issued.</p>	<p>The Commission's approach of having Production Permits operate in all ways similar to placement quota is sound except that its position regarding non-transferability does not meet FIRB's policy principles.</p>
<p>The Commission intends that it will issue Production Permits for incentive quota provided to successful new entrants. Production Permits will operate exactly the same as Placement Quota except they will not be transferable.</p>	
<p>All registered producers may purchase Placement Quota to expand their operations.</p>	
2.4 Quota Transferability	
<p>The Commission authorizes the transfer of Placement Quota between producers. The Commission does not accept that quota price is an insurmountable barrier to entry to the hatching egg business in B.C.</p>	<p>The Commission has made a number of arguments opposing transferability of quota received as an incentive. However, FIRB has determined that all quota is to be transferable and that new quota issued by the Board to new entrants is to be subject to a declining transfer assessment schedule.</p>
<p>Production Permits, issued as new entrant incentive quota, will be non-transferable under any circumstances. The Commission is</p>	

BCBHEC Submission**FIRB Assessment**

opposed to any transferability of Production Permits issued under the proposed new entrant program on the basis that:

- It will provide a windfall bonanza for the recipient that is not, and was not, available to all other producers.
- It will create an inequity between existing producers and new entrants in that new entrants have a significant cost advantage since they need not purchase an amount of quota equal to the incentive provided.
- It would be tantamount to quota redistribution from those that purchased quota to those who were being offered an incentive to enter the industry.
- It would open the door for serious abuses by those not wishing to be farmers of hatching eggs, but merely opportunists farming quota.

New entrants having been issued Production Permit volumes must return all Production Permits to the Commission prior to being authorized to transfer any Placement Quota that the new entrant may have purchased subsequent to being a new entrant except in cases of demonstrated financial distress.

2.5 Allocation

B.C.'s hatching egg production levels are determined by the provincial allocation received from CBHEMA. This allocation is based on projected chicken production and hatching egg imports.

B.C. hatching egg producers have experienced a 12% reduction in allocation compared to the 2001/02 quota period and they are still operating at this reduced level in the current quota period.

Both Placement Quota and Production Permits will be eligible for changes in allocation based on the allotment received from CBHEMA.

The Commission need not make any changes in its allocation procedures since new entrants will be the same in all respects as existing quota holders with the exception that any incentive quota they receive will be subject to the declining transfer assessment schedule.

BCBHEC Submission**FIRB Assessment****2.6 New Entrants**

The Commission proposes a new entrant program with clear application, eligibility and invitation criteria.

The Commission intends to provide a Production Permit equivalent to a notional quota allotment of 10,000 units per quota period. This incentive amount was determined as being required to establish an economically viable farm unit and at the same time avoid problems associated with options that would require the purchase of Placement Quota or involve clawbacks in the future.

Production Permits will be annually renewable subject to the producer:

- Permitting facility audits by the Commission.
- Being in good standing with Commission Orders.
- Being actively engaged in the farm operation.

The Commission allows that holders of Production Permits:

- May purchase additional transferable Placement Quota.
- Will receive adjustments to quota allocation in the same pro rata manner as Placement Quota.
- Must return their Production Permits prior to selling any Placement Quota they might have purchased.

To sustain the incentive Production Permit provided, successful applicants must be actively engaged in the farm operation. Being actively engaged includes:

- Operating the farm for the benefit of the holder;
- Being involved in day to day farm operation, including animal husbandry;
- Being in control of the farm operation;
- Owning, renting or leasing the

The Commission has done a good job developing criteria that require a recipient of incentive quota to be active and engaged in the broiler hatching egg farming business. This is sound and reasonable.

The Commission's proposal is, however, challenged by the size of the incentive offered (10,000 units) and the time it will likely take to accrue sufficient volume in the transfer assessment account to provide an invitation. This has been proposed, in part, to avoid the problems associated with requiring the purchase of quota in order to receive incentive quota (i.e. matching incentive amounts to purchased amounts). Based on reasonably anticipated quota transfer amounts, net of exceptions for direct family, it is unlikely there will be more than one new entrant every three to four years based on transfer assessments making 10,000 units of quota available.

The Commission requires a minimum farm size of 12,000 units, and therefore an incentive of 10,000 units would require the new entrant to purchase 2,000 units of Placement Quota. However, since quota does not usually trade openly it can be difficult for new producers to find quota to purchase regardless of the price. Accordingly, the Commission is proposing to provide an exception in its Orders for new entrants by allowing them to have a minimum farm size of 10,000 quota units compared to the existing regulations of 12,000 units.

It seems reasonable that the 10,000 unit incentive should be revisited by the Commission. It could consider relaxing its minimum farm size for new entrants or re-examining ways quota could be made available for new entrants by transfer. While there is no easy answer, the size of the incentive and the time required to raise sufficient units to provide a new entrant invitation suggest that more thinking should be done concerning how smaller holdings might work in the industry

BCBHEC Submission	FIRB Assessment
facility; - Paying for feed and farm supplies; and, - Taking the risk and reward of the operation.	and how quota might be made available to new entrants.
2.7 New Entrant Eligibility	
Applicants must provide proof of:	The Commission's eligibility criteria are reasonable.
<ul style="list-style-type: none"> - Being 19 years of age; - A genuine intent to be actively engaged in broiler hatching egg production; - Canadian citizenship or permanent residency; - B.C. residency; and, - Not having ever held supply management quota in B.C. 	
Applicants must submit an application with a \$250 non-refundable fee.	
2.8 New Entrant Waiting Lists	
The Board has an established waiting list which will be eliminated.	The Commissions waiting list procedures seem reasonable, with the possible exception of the “economic access” requirement. Is there some reason that a producer cannot enter into a mutually agreeable pick-up of delivery arrangement with a hatchery?
The Board will establish a new Prospective Producer list. The list will be comprised of 10 eligible applicants. Initial population of the list will be provided by the top 10 eligible applicants on the existing waiting list.	
When the list drops below five applicants, the Commission will repopulate the list using a third party to conduct a lottery to choose among prospective applicants to increase the list back to 10 eligible applicants.	
Applicants on the waiting list will lose their position on the waiting list if:	
<ul style="list-style-type: none"> - They are in violation of Commission Orders; - Their personal situation changes such that they are no longer eligible; or, - Legislation changes adversely impact the new entrant program. 	

BCBHEC Submission	FIRB Assessment
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Positions on the waiting list will be required to be renewed annually by completion of a renewal form and a \$100 renewal fee.

Once the Commission has 10,000 units in the new entrant account, it will provide an invitation to the top applicant on the Prospective Producer list.

Within 60 days of being provided an invitation, a producer must demonstrate financial ability to establish a production unit, an economically viable business plan, ability to be in operation within 12 months, and that the proposed unit is within economic access of a licensed hatchery.

2.9 Transfer Assessment

The Commission intends to introduce a transfer assessment equal to 5% of the Placement Quota transferred, except for transfers to immediate family (spouse, child or child and child’s spouse) or transfers into a partnership where the partnership interest is proportionate to the Placement Quota contributed by the registered producer.

From a practical perspective, assessments will provide one new entrant for every 200,000 units of placement quota transferred to an arm’s length buyer. 200,000 units represent ~11% of the placement quota currently issued. Over the past five years the average annual transfer has been 108,870 units. On this basis, it seems reasonable to forecast that there will be one new entrant every two to three years.

The Commission’s 5% direct transfer assessment approach meets the policy principles. Exceptions to assessment should be limited to spouse, sons, and daughters; and for business reorganization where the ownership percentages do not change. From a practical perspective, transfer to a son or daughter, and the exception for transfer to spouses, automatically flows the exception through to a child’s spouse.

The Board will need to establish the declining transfer assessment schedule for all quota issued pursuant to the establishment of specialty quota and new entrant quota incentives.

3 Response Summary

FIRB is giving policy direction to the BCBHEC that its specialty and new entrant submission is acceptable subject to the following changes and/or clarifications being reflected in the Board's draft Orders which are to be prepared and submitted to FIRB on or before October 31, 2005:

1. The Commission's position that a specialty program is not required for broiler hatching eggs at this time is accepted subject to the condition that, should designated specialty chicken produced in accordance with the B.C. Chicken Marketing Board regulations require specialty chicks, the Commission should develop and introduce a specialty program.
2. The Commission should issue any new entrant incentive quota as transferable Placement Quota rather than as non-transferable Production Permits as proposed, and this quota should be subject to the declining transfer assessment schedule.
3. The Commission's proposed 10,000 unit incentive should be revisited as being too large.
4. The Commission's proposal to levy a 5% direct transfer assessment on all quota transfer except direct family and business reorganization transfers is acceptable, subject to affirming that exceptions to transfer assessment are limited to spouse, sons, and daughters; and for business reorganization where the ownership percentages do not change.

Appendix 2. Response to BCCMB Specialty & New Entrant Submission

This appendix provides an overview of the BCCMB’s specialty and new entrant program submissions at Section 1. This is followed in Section 2 by FIRB’s understanding and analysis of the Board’s submission. Finally, Section 3 provides FIRB’s response to the Board’s Specialty and New Entrant Submission.

1 Synopsis of BCCMB Submission

1. Specialty chicken, defined as Asian, organic and SPCA, represents approximately 3% of the B.C. chicken market. Asian chicken is the largest specialty segment. This production is managed through a permit system.
2. The Board proposes to offer existing permittees a menu of conversion options that have the potential to double the production of specialty chicken in B.C. over the next few years.
3. The Board has urged FIRB and the MAL to address on-farm food safety regulatory authority and administrative approaches.
4. The Board’s proposal protects the interests of existing quota producers and encourages specialty production through the permit conversion and new entrant plans.

2 Analysis of BCCMB Submission

In this section the Board’s specialty and new entrant proposals are assessed by comparing them with FIRB’s policy principles for specialty and new entrant programs based on FIRB’s general understanding of the Board’s submission or position.

BCCMB Submission	FIRB Assessment
<p>2.1. The Market</p> <p>B.C.’s chicken industry operates within a national chicken market. In 2004 approximately 148 million kg (eviscerated weight) of chicken was grown in B.C., representing about 14% of Canadian chicken production.</p> <p>97% of B.C. production is mainstream chicken. The balance, or 3%, is comprised of 80% Asian specialty and 20% other specialties such as organic and S.P.C.A.</p> <p>The market is growing at 2-3% per year, and the Board expects this rate of growth to continue for the foreseeable future.</p> <p>There are four mainstream processors and four specialty processors in B.C.</p>	<p>In 2004 the Board commissioned Serecon to study B.C.’s specialty chicken markets, and the report was released in the fall of 2004. The Board has worked to understand specialty markets and recognizes they are growing.</p> <p>The Board needs to develop tools for monitoring the development and growth of specialty markets moving forward.</p>

BCCMB Submission	FIRB Assessment
<p>B.C. producers and processors take full advantage of the Chicken Farmers of Canada's (CFC) export program, and the industry currently represents roughly 40% of Canadian chicken exports.</p>	
<p>2.2. Definitions</p>	
<p>Specialty chicken is defined as chicken that is differentiated from mainstream chicken by having unique farm-based attributes which are preserved and traceable to the consumer, and which are marketed, represented and certified as a defined specialty.</p>	<p>Certified organic and Asian chicken have developed as clear market segments and warrant being designated as specialty classes.</p>
<p>The Board intends initially to recognize certified organic, SPCA, Asian, and pure bred heritage breeds as designated specialty classes. The Board does not recognize dietary or medication changes alone as qualifying for specialty designation.</p>	<p>It is unclear from the documentation that SPCA certified chicken is a sustainable market segment enjoying market price premiums and repeat customer buying. It is also unclear whether SPCA production is substantively different than mainstream production. SPCA should be recognized as an innovation class of production until such time as it can demonstrate sustainable market demand. This can be accommodated through the small flock program until sustainable market demand can be better established.</p>
<p>2.3. Certification</p>	
<p>Designated specialty classes will require third party certification of specialty production and marketing. Certification status and production and marketing reports will be required to be submitted annually upon license renewal. Certification plans will be required to be operated in accordance with the <i>Agri-Food Choice and Quality Act (AFCQA)</i> standards, or generally recognized national or international accreditation organizations.</p>	<p>Certification requirements appear to be adequately considered. They are based on competent third party certification and provide that certifiers will also be third party accredited.</p>
<p>Loss of certification requires immediate Board notification and submission of a plan for re-establishing certification. Lack of certification for >6 months and/or an unacceptable action plan to re-establish certification may result in revocation of specialty production rights.</p>	<p>The Board does not thoroughly address certification of Asian specialty chicken. The Board should establish procedures with Asian specialty producers and processors to ensure that purported Asian specialty production is not simply a quota dodge.</p>
<p>2.4. Food Safety</p>	
<p>All production, regardless of class or type of license, will be required to meet OFFSAP guidelines as applicable. OFFSAP</p>	<p>The Board will need to work with specialty producers, and possibly the Specialty Markets Advisory Committee, to ensure that</p>

BCCMB Submission	FIRB Assessment
<p>guidelines for small lots are felt to need additional work to be practical for smaller operations.</p>	<p>the on-farm food safety programs developed for specialty classes are appropriate for those classes of production.</p>
<p>All chicken offered for sale to the public is required to be slaughtered in accordance with provincial and/or federal meat inspection regulations.</p>	<p>There is a need for government to clarify Board authority regarding the requirement that all producers follow OFFSAP as a condition of licensing.</p>
<p>2.5. Biosecurity</p>	
<p>All production, specialty and mainstream, will be subject to biosecurity audits as applicable.</p>	<p>The Board will need to work with the Specialty Markets Advisory Committee and specialty producers, perhaps through the certifying agencies, to develop biosecurity protocols appropriate to the different classes of production.</p>
<p>The Board intends to work with certifying agencies to achieve biosecurity compliance.</p>	
<p>2.6. Registration</p>	
<p>All persons producing chicken for sale are required to be registered with the Board and are subject to the Scheme and Orders. The Board registers all producers by way of an annually renewable license. License fees are currently \$20/year, and only one license will be issued per property.</p>	<p>The Board will have multiple license types covering different classes of production and size of operation. The Board recognizes there will be logistic difficulties achieving 100% registration, particularly of production at or below the personal exemption level of 200 chickens. From a practical perspective, it seems reasonable to establish a minimum production level below which registration is encouraged but voluntary.</p>
<p>Specialty producers will be required to provide confirmation of certification together with specialty production and marketing records for the prior year as part of annual license renewal.</p>	
<p>2.7. Quota</p>	
<p>The Board presently has several classes of quota, including primary, transitional, and faint hope (collectively called “regular” here), and permits. The Board limits the amount of quota that may be held by a registered producer to 250,000 units of quota, referred to as the maximum farm size.</p>	<p>The Board’s intent to create specialty quota classes to manage designated specialty production and marketing is appropriate.</p>
<p>The Board intends to create new quota classes for specialty chicken. Specialty quota will originate from the conversion of the existing permit program and through new entrant quota issuance.</p>	<p>The Board should develop rules for specialty quota that reflect similar principles to those underpinning primary quota while at the same time recognizing the unique characteristics of specialty production and marketing. For instance, different production cycles are recognized by providing for annualized production.</p>
<p>Regular quota will be eligible to produce any class of chicken, including specialty chicken upon approval of the Board.</p>	<p>The Board should apply the principle of reciprocity in establishing rules by which one class of quota is permitted to</p>

BCCMB Submission	FIRB Assessment
<p>Specialty quota will only be eligible to produce the designated class for which it is issued, and it may be annualized while regular quota must be produced within the standard eight week cycles.</p> <p>Quotas may be transferable or non-transferable. Non-transferable quotas may not be leased, may not be transferred, except within immediate families, and may be subject to regional prioritization through the new entrant program.</p>	<p>temporarily switch its production to another class.</p>
<p>2.8. Quota Transferability</p>	
<p>Quota will only be transferable, where applicable, within its class.</p> <p>The Board intends that all quota issued through the new entrant program or through conversion of the existing permit system, at no extra cost to the entrant, will be non-transferable except within immediate families. Immediate family is defined as spouse, son, daughter, grandson, or granddaughter.</p> <p>All non-transferable quota reverts to the Board upon not being used by the original holder, or their immediate family, and will be redistributed through the new entrant program.</p> <p>Section 42 of the Orders provides for quota to be transferred to a new premises owned by the quota holder.</p>	<p>FIRB's policy principles direct that all quota is to be transferable and subject to transfer assessment. Therefore, specialty quota and new entrant quota incentives need to be transferable just as regular quota is transferable.</p>
<p>2.9. Quota Transfer Assessments</p>	
<p>The Board is proposing to calculate a deemed transfer assessment based on 5% of the three year moving average of all quota transfers. All transfers, with no exceptions, will be included in the three year moving average. Each year the deemed assessment will be placed into a new entrant account for distribution to eligible new entrants on the waiting list.</p> <p>The deemed assessment amount will be deducted from the provincial allocation received from CFC, and will be made available regardless of the level of industry growth experienced in any year.</p>	<p>The Board's deemed assessment proposal is different from the direct transfer assessment in that all remaining producers share the cost of funding the assessment under a deemed assessment approach while only the departing producer incurs the assessment under a direct approach. FIRB understands the Board has general support from producers for the deemed assessment approach. Therefore, it will be acceptable to FIRB for all quota existing prior to the establishment of specialty and new entrant incentive quotas subject to it being put in place for a minimum of three years, that there be no</p>

BCCMB Submission	FIRB Assessment
	<p>transfers left out of the calculation, and that the amount assessed being made available regardless of changes in the provincial allocation.</p> <p>The Board will need to establish the declining transfer assessment schedule for all quota issued pursuant to the establishment of specialty quota and new entrant quota incentives. The only exception to the declining assessment schedule should be to direct family members, defined as spouse, sons, and daughters; and for business reorganization where the ownership percentages do not change.</p>
<p>2.10. Exemptions</p> <p>Personal use exemptions will be maintained at the current level of 200 birds/year. This amount is considered sufficient for personal use and is not intended to be production for sale to third parties.</p> <p>The Board proposes to issue Permits for up to 3,000 kg for small lot growers (See Section 2.14).</p> <p>Spent fowl is currently exempted from the Board's policies and procedures.</p>	<p>It is acceptable to retain the personal use exemption level on the basis that a small flock program is proposed (see Section 2.14).</p>
<p>2.11. Allocation</p> <p>The Board receives a provincial allocation from CFC for every eight week period. The Board intends to honour and meet its obligations as a signatory to the FPA for Chicken.</p> <p>All classes of quota, regular and specialty, transferable and non-transferable, will be eligible for pro rata growth within their class based on increases in the provincial allocation received from CFC, subject to the producer having adequate barn space. The Board recognizes there may be differential market demand for different classes of product. Allocations for specialty classes will be based, in part, on recommendations from the(Specialty Products Advisory Committee) SPAC.</p>	<p>The Board needs to work within the constraints of the National Allocation system. If there are shortfalls in provincial allocation available to meet continued growth of B.C.'s specialty markets, the Board should work with FIRB and provincial Government to seek change to the National Allocation procedures.</p> <p>Allocation received from CFC should be split among the different accounts for each designated class of quota based on the market growth experienced and projected in each class. Allocation of amounts in a quota account should be distributed pro rata among quota holders in the designated class.</p> <p>Since it is not possible to produce and</p>

BCCMB Submission	FIRB Assessment
<p>All classes of quota will be eligible for Market Development allocation in accordance with Part 28 of the Orders.</p>	<p>market precise weights, the Board should consider a production sleeve on a periodic or annual basis when reconciling specialty quota production.</p>
<p>The Board intends to provide for near term specialty market growth by encouraging existing permittees to choose receipt of specialty quota at a rate of 150% of permit volumes compared to primary quota at 100%, and by giving priority to specialty new entrants based on processor demand.</p>	<p>The Board should work to ensure that the export procedures under the Market Development program do not constrain export growth in Asian specialty production and marketing.</p>
<p>Quota issued pursuant to the 150% conversion incentive will be allocated at a percentage of the amount issued to manage growth in production in response to market demand.</p>	<p>The Board should work with the Specialty Markets Advisory Committee to ensure that growth in allocation to specialty quota pursuant to the 150% incentive provided upon program establishment is managed and does not, to the extent possible, result in short term surpluses and disorderly markets.</p>
2.12. Product Integrity	<p>The Board needs to work with the Specialty Markets Advisory Committee to establish procedures for estimating specialty market needs and ensuring these needs are appropriately considered in the national allocation process so that sustainable allocation can be provided to specialty production.</p>
<p>Specialty products will not be permitted to be shipped as another class of product except under exceptional circumstances and then only with the prior approval of the Board. If approved by the Board, chicken produced under specialty quota and shipped as mainstream product may be subject to penalties and costs.</p>	<p>The requirement to market specialty chicken as specialty requires consideration of marketing chicken cuts. It seems reasonable that cuts from specialty chicken could easily be marketed as mainstream chicken. The Board needs to consider how specialty marketing requirements apply to specialty cuts.</p>
<p>All production and marketing is subject to inspection and audit by the Board.</p>	<p>The Board should establish the penalties for shipping product outside a class, and the Board may wish to consider applying penalties progressively whereby repeat offences incur increasing levels of penalty.</p>
2.13. Production Switching	
<p>Holders of regular quota may apply to the Board to switch production to a designated specialty class by providing evidence of market demand.</p>	<p>Quota holders should be restricted from shifting their production between designated product classes except under exceptional circumstances. This means the rules by which regular quota may produce specialty chicken should be</p>
<p>Holders of specialty quota may only</p>	

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<p>produce the specialty product assigned to that quota.</p>	<p>applied reciprocally except as required to maintain product and market integrity.</p>
<p>2.14. Permits</p>	
<p>The Board is proposing to suspend its existing permit program, which was established in 2000, establish a new permit program for small lot growers, and will consider innovation permits as required for new product/market initiatives.</p>	<p>The Board’s small flock permit program is a reasonable approach for managing small lot production within the regulated system.</p>
<p><u>Small Lot Grower Permits (Permits)</u></p>	<p>The maximum level of 3,000 kg seems reasonable at this time. The Board will need to assess whether the 3,000 kg level is adequate upon review of program performance after three years.</p>
<p>The Board proposes to establish annually renewable Permits to grow up to 3,000 kg/yr of chicken, subject to the following terms and conditions:</p>	<p>Since the small lot program will also be used for innovation and heritage breed permits, the Board needs to reserve the ability to issue amounts greater than 3,000 kg for innovation and maintenance of heritage breeds based on the merits of each individual application.</p>
<ul style="list-style-type: none"> - Permittees must be licensed with the Board; - Permits will be issued and renewable annually; - Only one permit will be issued per property; - Placements and shipments must be reported to the Board; - Production must comply with applicable OFFSAP, biosecurity and meat inspection regulations and guidelines; - There will be no levies; - Permittees will not be listed on the Register of Growers and will not be eligible to vote; and, - Permits will be non-transferable. 	<p>Some specialty chicken has different processing yields compared to mainstream chicken. The Board may need to review permit levels for specialty breeds having lower yields. This is a matter that could be directed to the Specialty Markets Advisory Committee.</p>
<p>While the Board intends to issue Permits upon application, it reserves the right to limit the number of permits issued.</p>	
<p>Amounts produced under Permits will not count against the provincial allocation.</p>	
<p>2.15. Permit Conversion</p>	
<p>The Board currently has a Permit program which was established in 2000 to meet specialty market demand. This program was originally funded with a special allocation of 929,000 kg from CFC. At Jan 2005, approximately 518,187 kg was permitted for specialty chicken and 343,641 kg was permitted for non-specialty chicken.</p>	<p>FIRB’s policy principles require that all quota be transferable which will cause the Board’s permit conversion proposal to be changed.</p>
	<p>It is necessary that the Board reconsider its permit conversion proposal in light of this change.</p>

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The Board intends to provide permittees several options regarding the balance of their permit contracts. The Board does not intend to issue any further permits, and will replace this permit program with the specialty new entrant program.

Permit 2000

Permits issued in accordance with the 2000 permit program will be called Permit 2000 permittees.

For permittees producing regular broilers there will be two options:

- Continue on with the existing terms and conditions of the 12 year program, including paying monthly permit fees, and receive primary quota at the end of the program.
- Elect to receive non-transferable regular broiler quota, continue to meet all other terms and conditions of the agreement, and be reimbursed for all permit fees, less GST, marketing levies, license fees and over marketing levies paid to date.

For permittees producing specialty broilers there will be three options:

- Continue on with the existing terms and conditions of the 12 year program, including paying monthly permit fees and continuing to supply specialty product as contracted, and receive primary quota at the end of the program.
- Elect to be declared as a specialty producer, continue on with the existing terms and conditions of the 12 year program, including paying monthly permit fees, and receive permits for up to 150% of the original permit amount. At the end of the 12 year program, the permit amounts will be issued as transferable specialty quota.
- Elect to be declared as a specialty

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<p>producer and receive non-transferable specialty quota at 150% of the original permit amount, and be reimbursed for all permit fees, less GST, marketing levies, license fees and over marketing levies paid to date.</p>	
<p>The amount of specialty quota issued, both transferable and non-transferable, will depend upon the elections made by permittees. If none elect the 150% options the amount of specialty quota will be 518,187 kg/cycle and if all elect the 150% options the amount of specialty quota will be 777,280 kg/cycle.</p>	
<p>2.16. Pricing</p>	<p>The Board should charge the Specialty Markets Advisory Committee with monitoring market prices and recommending if, when and how specialty prices should be established in the future.</p>
<p>Board ordered minimum price(s) in effect at the time of shipment will apply to all classes of chicken. The Board will consider new minimum price categories for specialty product as recommended to the Board by the SPAC.</p>	
<p>2.17. Levies</p>	<p>The Board may wish to examine different levies for different quota classes to the extent that special or extra services are required by that quota class.</p> <p>FIRB's policy principles require that specialty permit levies be terminated. Subject to Board discretion, levies due and owing by permittees to the Board should be collected from each permittee prior to permit conversion.</p>
<p>Marketing levies and license fees will apply to all classes of quota and production.</p> <p>Over/under marketing sleeves, levies and penalties will apply to all classes of quota on the same basis.</p> <p>Permit fees will be retained in those cases where existing permittees choose to continue on the current program and obtain a transferable quota at the conclusion of the 12 year period (see Permit 2000 options).</p>	
<p>2.18. New Entrants</p>	<p>The Board's new entrant program provides a defined process for determining quota available for distribution to new entrants and establishes a quota incentive of 4,000 units (or 7,716 kg) per cycle. This should fill many specialty and regional market needs, and provide a significant incentive for mainstream new entrants.</p> <p>Quota amounts offered as a new entrant incentive will need to be transferable and</p>
<p>The Board proposes to establish a new entrant program. The new entrant program will be used to meet specialty market demand as identified by specialty processors and provide opportunities for producers wishing to enter the chicken industry.</p> <p>The new entrant program will provide successful applicants with incentive quota up to 7,716 kg/cycle, either as specialty or</p>	

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<p>regular quota depending upon market needs. All incentive amounts issued pursuant to the new entrant program will be non-transferable, except to immediate family. New entrants seeking to grow above 7,716 kg/cycle will require regular quota for the additional production volumes.</p> <p>Quota to fund the new entrant program will come from the provincial allocation received from CFC, and will be calculated based on the deemed assessment on transfers. For 2005, the pool will be 77,301 kg/period (~40,000 units). In future, amounts of non-transferable quota returned to the Board will also be added to the new entrant pool for redistribution to new entrants.</p> <p>The Board recognizes that it may need to offer more specialty than regular new entrant opportunities at the start to fill current demand.</p> <p>For specialty new entrants, the Board recognizes the need to provide the necessary time for a grower to achieve certification, and it will make the necessary accommodations.</p>	<p>subject to the declining transfer assessment schedule.</p> <p>The Board's proposal to provide new entrant opportunities based on specialty processor and regional market demand is reasonable.</p>
<p>2.19. New Entrant Eligibility</p>	<p>The Board's eligibility criteria are reasonable, with the possible exception that excluding individuals who have had interests in supply management in other regions of the country may not be enforceable. The Board should ensure it places reasonable requirements on new entrants to be actively engaged in the production and marketing of chicken.</p>
<p>2.20. New Entrant Waiting Lists</p>	<p>The Board's waiting list procedures seem reasonable for establishing the program. They should be reviewed after three years to ensure they are working as intended.</p> <p>The Board should consider, in advance, how it will balance the different priorities proposed.</p> <p>Successful applicants should, in addition to the criteria established by the Board, be</p>

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<p>Replenishing the waiting list will include advertisement, receipt of applications, and performing a lottery draw of the number of names required to bring the list back to 10. All applicants not selected in the lottery will have their applications returned and will be eligible to re-apply for the next draw.</p>	<p>required to enter into an undertaking to be actively engaged in the management and daily operation of the farm business</p>
<p>Waiting lists will be posted on the BCCMB website.</p>	
<p>Upon determining that sufficient quota is available to offer new entrant opportunities, the Board will establish the market needs based on specialty and regional market needs, new innovations, and small lot grower permittees converting to new entrants. The Board reserves the right to give priority in offering new entrant spots when they are available, and there will only be one successful applicant permitted per property and/or family.</p>	
<p>Successful applicants will be required to demonstrate commitment and intent by submitting a refundable \$5,000 application fee and viable business plan, providing proof of land ownership, undertaking to meet OFFSAP, biosecurity, meat inspection, and certification (if applicable) protocols, and demonstrating ability to be in operation within 12 months.</p>	
<p>All waiting list procedures will be overseen by the Board's auditors.</p>	
<p>2.21. Representation</p>	
<p>Only growers listed on the "Register of Growers" will be eligible to vote at BC Chicken Growers Association (BCCGA) meetings or for election as Board members. Small lot growers (Permit growers) will not be listed on the Register of Growers.</p>	<p>The Board's approach that all quota holders vote is reasonable. If, however, it is considered appropriate that all producers regardless of type of license be eligible to vote, the Board should consider establishing either a double hurdle or a one vote/quota unit voting system. A double hurdle would require a majority of both producers and production volume for a decision.</p>
<p>The Board will constitute a Specialty Products Advisory Committee. The Committee will initially be comprised of three specialty processors, three specialty producers, and an independent Chair, appointed by the Board, and others will be added as deemed appropriate by the SPAC.</p>	<p>The Board's proposed composition of a Specialty Markets Advisory Committee is reasonable except that it should add one Board member to the Committee. The Board should leave the composition of the</p>

BCCMB Submission	FIRB Assessment
2.22. Transparency	<p>Committee at eight for at least one year.</p> <p>The Board should charge the Committee with developing terms of reference for monitoring specialty markets and providing the Board with policy recommendations concerning specialty production and marketing.</p>
<p>The Board intends that new entrant application procedures be administered by the external auditor.</p> <p>Information is posted on the website.</p>	<p>The Board has committed to a number of procedures to ensure independence and transparency including an independent Chair on the Advisory Committee, utilizing a third party to manage the new entrant procedures and its willingness to work with specialty producers to adapt on-farm food safety and biosecurity protocols for specialty production.</p>

3 Response Summary

FIRB is giving policy direction to the BCCMB that its specialty and new entrant submission is acceptable subject to the following changes and/or clarifications being reflected in the Board's draft Orders which are to be prepared and submitted to FIRB on or before October 31, 2005:

1. The Board should continue to develop its understanding of B.C.'s specialty markets, and should rely on a Specialty Markets Advisory Committee (see pt. 18) to assist in this endeavour.
2. Certified Organic and Asian chicken should be designated as specialty classes at this time.
3. The criteria for designating new specialty classes in the future should be reviewed by the Specialty Markets Advisory Committee, and any changes considered appropriate should be recommended by the Committee to the Board.
4. The Board, working with the Specialty Markets Advisory Committee, needs to establish procedures to ensure the integrity of Asian specialty chicken production where a certification protocol is not currently available.
5. The Board should work with specialty producers to adapt on-farm food safety and biosecurity guidelines so that they are appropriate for the different classes of production.
6. Quota administration procedures should clearly indicate where policies are uniform across all classes of production, and where policies vary to respect the unique requirements of individual classes of production.
7. Quota holders should not be permitted to switch their production between designated classes. To the extent that switching is required for certain extraordinary circumstances, the same rules should be applied reciprocally to all classes of quota.
8. All quota should be transferable.

9. The Board's proposed deemed 5% assessment based on the three year moving average of all regular quota transfers should be implemented. This approach should be followed for a minimum of three years before any changes are contemplated.
10. Transfer assessment on all specialty and new entrant incentive quota issued by the Board to permittees and new entrants should be subject to the declining transfer assessment schedule. The start date for the assessment schedule should be the original permit date or the date of issuance of additional quota amounts. The only exception to direct assessment of quota received as an incentive should be for transfers among direct family members, defined as spouse, sons, and daughters; and for business reorganization where the ownership percentages do not change.
11. Allocation procedures should seek to meet specialty processor needs in the same manner as mainstream processor needs are currently established and put into the national allocation process.
12. Allocation received from CFC should be distributed among the different classes of quota recognizing differential growth between designated market segments.
13. Allocation to specialty quota holders should be pro rata to specialty quota holding.
14. Product should not be marketed outside its class without prior approval of the Board. The Board should develop progressive penalties whereby repeated requests to market outside a class for production reasons incur increasing penalties: authorizing switching to meet market needs should not normally be permitted as this should be covered through allocation procedures.
15. The Board's small lot program should be established and used to facilitate small flocks, heritage breeds and innovation requests. The amounts produced under the small flock program should not accrue against the provincial allocation. The Board should exercise discretion in providing for greater than 3,000 kg/yr in heritage breed and innovation situations based on the merit of each individual case.
16. Existing permits should be converted to either primary or specialty quota. Subject to Board discretion, all levies payable to the date of permit conversion should be paid by permittees. Special permit levies should be terminated upon conversion of the permit to quota.
17. The Board should charge the Specialty Markets Advisory Committee with monitoring market prices and advising the Board concerning the effectiveness of the single minimum regulated price.
18. All producers should be subject to the same levies at the present time. In the future, the Board may wish to examine the feasibility of differential levies for each class based on the costs of providing certain services to one class of production that are not required by another class.
19. The Board's new entrant program is acceptable subject to the Board ensuring that successful applicants are required to be actively engaged in both the management and operation of the farm. The Board should also carefully review how it will balance the priorities established for making new entry invitations.
20. The Board's proposed Specialty Markets Advisory Committee structure comprised of an equal number of specialty producers and specialty processors plus an independent Chair appointed by the Board is acceptable except that the Board should also delegate one Board member to sit on the Committee. The Board should establish clear terms of reference for the Committee.

Appendix 3. Response to BCEMB Specialty & New Entrant Submission

This appendix provides an overview of the BCEMB's specialty and new entrant program submissions at Section 1. This is followed in Section 2 by FIRB's understanding and analysis of the Board's submission. Finally, Section 3 provides FIRB's response to the Board's Specialty and New Entrant Submission.

1 Synopsis of BCEMB Submission

1. The table egg market in B.C. is segmented. The Board estimates 15% of the table egg market is comprised of specialty eggs which it has generally defined as eggs other than those produced by caged layers.
2. The Board will meet specialty market demand by converting existing permittees to a new specialty program, exercising priorities in the proposed new entrant program, levying transfer assessments on regular quota transfers, allocating incremental Canadian Egg Marketing Agency (CEMA) allocations based on market demand, and redistributing non-transferable quota returned to the Board in accordance with program rules.
3. The Board's proposal provides for growth of designated specialty egg production from 2.5% to 4.3% of total B.C. production. This growth will come from distribution of amounts available in the Market Response Allocation Pool (MRAP) to existing permittees.
4. The Board will designate quota as being either regular (unrestricted) or specialty (restricted).
5. The Board intends to convert all existing permittees to a new program that eliminates clawbacks and special levies.

2 Analysis of BCEMB Submission

In this section the Board's specialty and new entrant proposals are assessed by comparing them with FIRB's policy principles for specialty and new entrant programs based on FIRB's general understanding of the Board's submission or position.

BCEMB Submission	FIRB Assessment
<p>2.1. The Market</p> <p>BCEMB estimates the market for table eggs in B.C. to be 60 million dozen. This market is already well segmented with a number of product types including white cage, brown cage, certified organic, free range, free run, veggie diet, and diet enhanced eggs.</p> <p>The BCEMB felt the major market channels were reasonably in balance in early 2005, with the possible exception of need for an additional 5,000 organic layers.</p>	<p>Some specialty producers and the Board have said the market is currently oversupplied with specialty eggs while others have suggested the market is short. The Hart Report (October 2003) suggested up to 50,000 additional specialty layers were required to meet B.C. specialty market needs.</p> <p>Clearly the number of specialty layers required to meet B.C. specialty market needs has changed since October 2003, specialty production has been impacted by avian influenza depopulation and repopulation</p>

BCEMB Submission	FIRB Assessment
	<p>timing, and there is a lack of consensus among producers concerning market needs. It seems market needs vary based on differing market perspectives and time.</p> <p>The Board should find ways to improve its knowledge and understanding of specialty egg market needs, and it should also examine ways to better communicate market conditions to producers.</p>
<p>2.2. Definitions</p> <p>To be designated as a specialty egg, the product must have:</p> <ul style="list-style-type: none"> - An unfilled market demand; - Substantive farm based differentiation; - Farm-based attributes consumers seek; - Identify preservation of the attributes; - Extra on-farm effort and investment in production; - A significant price premium in the market; and, - An established third party certification plan. <p>The Board recognizes certified organic eggs as meeting the criteria to be designated as a specialty at this time. The Board may recognize additional products to be designated as specialty in the future subject to the above criteria and certification. The Board will not recognize as designated specialty eggs those produced by changing only feed or genetics.</p>	<p>The Board has included price premiums and unfilled market demand as criteria for designating a specialty class of eggs. This presumes the segment exists and is clearly identified and targeted by marketers and producers, which appears to be the case in the table egg market.</p> <p>The Board proposes to designate organic eggs as a specialty egg. The Board also intends to designate additional types of eggs as specialty eggs in the future, provided they can meet the designation criteria and certification.</p>
<p>2.3. Certification</p> <p>Certification of specialty attributes as per the definition of the designated specialty egg is to be provided by an accredited third party certifier. Certifiers must be established under the Agri-Food Choice and Quality Act (AFCQA), a nationally or internationally recognized agency, or other standards acceptable to the Board.</p> <p>BCEMB auditors will be expected to audit the certification status of individual specialty producers from time to time.</p>	<p>The Board should be very careful setting its own standards for approving a certifying agency rather than relying on provincial or national standards. In essence, the Board would be setting itself up as an accreditor of certifiers, an activity for which it is not likely skilled.</p> <p>Providing proof of certification should be part of annual licensing for all specialty producers, and the BCEMB needs to be able to verify the authenticity of certification as necessary.</p>

BCEMB Submission	FIRB Assessment
<p>The BCEMB will require that specialty producers losing certification immediately advise the Board and provide plans to correct the deficiencies and re-establish certification. Failure to re-establish certification within two flocks may result in retraction of non-transferable specialty quota.</p>	
<p>2.4. Food safety</p>	
<p>The Board recommends producers follow the CEMA food safety program as set down in the “<i>Start Clean Stay Clean HACCP-based On-farm Food Safety Program for Shell Egg Production and Spent Hens in Canada.</i>”</p> <p>The Board requires that all eggs sold to the public must comply with approved government food safety protocols.</p> <p>For <u>Certified Small Flock Program (CSFP)</u> flocks (see Section 2.14), the Board will consider permitting organic certifiers to attest to on-farm food safety standards provided the certifier meets the on-farm food safety training requirements of the Board.</p>	<p>The Board is proposing to work with specialty egg producers to ensure all producers do their part in contributing to food safety. To do this the Board should work with producers to adapt the on-farm food safety standards, which have been established primarily for larger production facilities, so they are appropriate for smaller scale production. This could be a task delegated to the Specialty Markets Advisory Committee by the Board.</p>
<p>2.5. Biosecurity</p>	
<p>The Board recommends all producers follow the “<i>B.C. Poultry Industry Biosecurity Initiative,</i>” and it requires that all producers meet any government approved biosecurity standards.</p> <p>For CSFP flocks, the Board will consider permitting organic certifiers to attest to biosecurity standards provided the certifier meets the training requirements of the Board.</p>	<p>The Board is proposing to work with specialty egg producers to ensure all producers do their part contributing to industry biosecurity. To do this, the Board may wish to consider tasking the Specialty Markets Advisory Committee to recommend biosecurity protocols appropriate for specialty egg production.</p>
<p>2.6. Registration</p>	
<p>The Board intends that all producers of eggs, regardless of size of operation, should be recorded with the Board.</p> <p>CSFP permittees will be required to confirm COABC status and flock size upon permit renewal.</p> <p>The Board believes establishing and maintaining a record of all producers is not possible without substantial assistance from BCMAL.</p>	<p>The Board makes a clear distinction between registration and recording whereby recording means the producer is known to the Board while registration is associated with production licenses, quota and voting protocols.</p> <p>The Board will have a challenge recording many small producers operating below the personal exemption level for both logistic and perceptual reasons. First, it will be difficult to identify or find all small egg producers, and</p>

BCEMB Submission	FIRB Assessment
	<p>second some small producers are strongly opposed to becoming subject to Board authorities simply to produce a few dozen eggs a week.</p> <p>The Board may wish to consider some web-based or electronic ways of delivering general production and market information to small producers in response for registration. This presumes that the Board sees value in registering and trying to mitigate risk by making production and market information broadly available on a low cost basis.</p> <p>In any event, the Board should work closely with government to find an acceptable and cost effective means to achieve full registration of all egg producers.</p>
<p>2.7. Quota</p> <p>The Board will have two quota designations: regular quota which is unrestricted and specialty quota which is restricted in terms of the eggs that can be produced. Regular quota may be used to produce any class of product, including designated specialty eggs. Specialty quota may only be used for the production of specialty eggs and will remain as specialty quota. Specialty quota will originate from the conversion of existing TRLQ and Specialty Permittees, and by the issuance of specialty quota to future new entrants.</p> <p>The Board recognizes one of the criticisms of the previous programs has been the inability of permittees to access quota in the event they seek to acquire regular quota. The Board is seeking approval from FIRB to sell quota to new entrants at a reduced market value to assist entrants increase their production above the incentive amounts proposed to be provided.</p> <p>The Board also intends to strengthen the existing quota exchange (QE) to provide for greater volumes of quota to be transferred through the exchange, and it intends to provide priority access to the QE to new entrants. Quota transfers will be required to be transacted through the QE except full farm transfers, in-family transfers, name changes, and merges and splits of quota. For practical</p>	<p>The Board intends to have only one class of specialty (restricted) quota for the management of all types of designated specialty eggs. The Board has taken a position against having different classes of specialty egg quota, preferring instead to issue a specialty quota having restrictions on, among other things, what types of eggs may be produced. This position appears to intend that different types of specialty eggs are freely interchangeable among themselves for the purposes of managing production and marketing.</p> <p>By declining to consider different specialty classes, the Board will need to develop policies and procedures for specialty quota recognizing that quota rights span a number of designated specialty eggs. The Board and the Specialty Markets Advisory Committee should carefully consider if, and how, this position may contribute to disorder in specialty egg markets.</p> <p>The Board intends to authorize regular quota holders to produce any class of egg, while specialty quota holders will only be authorized to produce certain classes of eggs. This position violates the principle of reciprocity.</p> <p>Providing for greater quota access through the QE is sound in principle. However, in practical terms it is likely that the only</p>

BCEMB Submission	FIRB Assessment
<p>purposes, only arm's length transfers of quota not tied to a facility will be through the QE.</p>	<p>transfers through the QE will likely be arm's length, partial quota transfers since full farm transfers may be excluded. Whether this will provide any meaningful volume for the QE is unknown. It is also unclear how the Board will manage first order priority being provided to new entrants, particularly if there is a bid process. Considerably more detail is required to determine if the QE has the potential to improve the availability of quota for specialty new entrants.</p> <p>The Board's request for approval to sell quota would appear to require that government change its view that quota has no value. The fact is that while producers exchange money upon the transfer of quota from one to another, the Board does not get involved in the financial parts of the transfer. Since there is no evidence that government is prepared to consider changing its view that quota has no value, FIRB is not prepared to approve the BCEMB selling quota.</p>
<p>2.8. Quota Transferability</p> <p>Specialty quota must be transferred as specialty quota, and regular quota must be transferred as regular quota.</p> <p>The Board intends all new entrant incentive quota will be non-transferable in perpetuity except for a one time transfer to the adult children of the non-transferable quota holder.</p> <p>A holder of non-transferable quota will have this quota retracted should they sell transferable quota they have previously purchased.</p>	<p>FIRB's policy principles require that all quota be transferable. The Board's proposal that quota issued by the Board to new entrants would be non-transferable does not conform to these principles. The Board will need to establish that specialty quota will be transferable.</p> <p>The Board intends that quota only be transferred within its class, not between classes. This conforms to FIRB's policy principles.</p>
<p>2.9. Transfer Assessments</p> <p>The BCEMB currently levies a 5% transfer assessment on quota transfers subject to exceptions for full farm, family, name change, merger and quota split transfers. The Board proposes to remove the exception for full farm transfers, and also to provide an exception for new entrants selling purchased transferable quota if their total quota holdings are less than 5,000 units. For practical purposes, only arm's length transfers will be subject to transfer assessment.</p>	<p>The Board's proposal is to continue with a 5% assessment while making changes to remove the exception for full farm transfers. This will conform to FIRB's policy principles.</p> <p>Exceptions to transfer assessment will need to be limited transfers among direct family members defined as spouse, sons, and daughters; and for business reorganization where the quota ownership percentages do not change.</p>

BCEMB Submission	FIRB Assessment
	<p>The Board will need to institute a declining transfer assessment schedule for all specialty quota issued and for any quota incentives provided through the new entrant program.</p>
<p>2.10. Exemptions</p>	
<p>The BCEMB proposes to retain the existing “personal use” 99 layer exemption level. The Board proposes that heritage breed producers may be provided an exemption for >99 layers if it can be shown that <100 is inadequate to sustain the heritage flock.</p>	<p>The Board’s current 99 layer exemption level can provide far more egg production than is required for “personal use”. Clearly, many producers operating at <100 layers must be marketing eggs in some fashion.</p>
<p>The Board intends to introduce a Certified Small Flock Program for COABC certified organic producers. This program will be capped at a total of 10,000 layers.</p>	<p>The CSFP is aimed at smaller producers of certified organic eggs. This will provide for licensing of these producers without them being required to hold quota for amounts less than a certain number. However, the Board’s proposal to limit eligibility to COABC producers is not reasonable. Any certified producers of a designated specialty egg should be eligible for the CSFP.</p>
<p>2.11. Allocation</p>	
<p>BCEMB is constrained in provincial allocation availability due to CEMA policies, including its practice of taking all unregistered layers identified in Census reports and deducting this volume from B.C.’s allocation. The Board intends to seek additional allocation from CEMA for specialty and new entrant programs.</p>	<p>The Board has endeavoured to work within the significant constraints of CEMA’s allocation policies and approaches. It is important for the ongoing operation of the specialty egg programs that the Board, FIRB and the Ministry work hard to get improved allocations to better meet B.C.’s specialty egg market needs.</p>
<p>The Board gives first priority to meeting market needs. The Board is required to balance the needs of market demand, new entrants, existing producers, graders and processors in allocating production volumes authorized by CEMA.</p>	<p>The Board intends to utilize the MRAP to convert all existing permittees to the quota system and to provide for new entrant opportunities in the future. This appears to almost fully utilize the amounts available in the MRAP.</p>
	<p>The unanswered question is how specialty</p>

BCEMB Submission	FIRB Assessment
<p><u>Market Responsive Allocation Pool (MRAP)</u></p> <p>The Board maintains a Market Responsive Allocation Pool (MRAP) of quota into which all increases in provincial allocation are placed. The Board intends to fund TRLQ and Special Permit conversion and the CSFP from the MRAP. Allocation for the new entrant program will be from balances remaining in the MRAP, quota transfer assessments, future CEMA allocations, and future recoveries of non-transferable quota returned to the MRAP in accordance with the terms and conditions of non-transferability.</p>	<p>producers can grow other than by purchasing specialty or regular quota. This is the situation in which regular quota holders already find themselves. However, the availability and cost of quota will provide significant hurdles for specialty producers wishing to grow.</p>
<p>2.12. Product Integrity</p> <p>Producers, processors and graders will be required to keep all specialty eggs separate from mainstream eggs, and to market them as certified specialty. The Board intends that the industry will need to consider traceback systems to ensure separation is managed and maintained.</p> <p>Certifiers will be required to attest that the product is produced and distributed in accordance with a certification plan. The Board will conduct audits of grading stations to verify separation.</p>	<p>The Board's proposal to ensure strong first receiver monitoring and reporting requirements through to market are necessary regulatory functions of the Board. The Board needs to be able to verify that specialty eggs are kept separate and distinct through to market, and it will need to establish audit procedures to reconcile specialty quota issued with volumes shipped and sold.</p>
<p>2.13. Production Switching</p> <p>The Board intends to develop procedures by which regular quota holders may switch to specialty production that may include grader requirements and binding contracts between the quota holder and a grader. The Board also intends to allow specialty producers to switch between different specialty products subject to shifts in the market for specialty eggs.</p> <p>The Board will require any specialty producer temporarily losing certification and having marketable eggs to apply to the Board for authority to market them as an alternate product, and any approval will be subject to, at a minimum, compliance with food safety regulations, biosecurity regulations, and Board General Orders.</p>	<p>The Board needs to do further work concerning the rules for switching between regular and specialty eggs and between one class of specialty egg and another. The Board appears to intend that specialty producers may switch freely between different types of specialty eggs, and that mainstream producers can readily switch into any class of specialty eggs. This will make coordination of supply and demand and management of supply difficult.</p> <p>The requirement that a regular quota holder have a binding contract with a grader before being considered for switching seems reasonable. It also seems reasonable, based on the principle of reciprocity, that specialty quota should have the same right. In this event, it seems that any authorized switching should only be for one flock to meet temporary changes in market demand.</p>

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<p>2.14. Permits</p>	
<p><u>TRLQ & Special Permits</u></p> <p>The Board intends to replace the existing TRLQ and Special Permit programs with a graduated new entrant program (see section 2.15).</p> <p><u>Certified Small Flock Program (CSFP)</u></p> <p>The Board intends to introduce a Certified Small Flock Program that provides for up to 399 layers in production, is restricted to COABC producers, has no requirement to hold quota, applies levies only on eggs sold through a registered grading station, and gives priority to CSFP permittees in accessing the new entrant program.</p> <p>CSFP producers will be required to comply with food safety and biosecurity regulations, report flock size and volumes produced annually, and submit to Board audits. The Board may consider allowing a third party certifier to perform certain audit functions.</p> <p>The BCEMB intends to provide a quota account within the MRAP of 10,000 layers to fund the quota required for this CSFP. The Board will review the 10,000 layer account after three years.</p>	<p>The CSFP is a good proposal for small lot production that is well above “personal use” exemption levels which recognizes and encourages small scale agricultural enterprise. While some have promoted levels higher than 399 layers, this amount seems as reasonable as any other put forward. For instance, assuming that someone manages the 399 layers well and is able to yield more than 20 dozen eggs/hen/year, which is substantially less than commercial flocks, this amounts to an average production of 150 dozen/week or 8,000 dozen per year.</p> <p>Limiting eligibility to designated specialty producers has merit in light of apparent specialty market needs and the CEMA allocation system. The Board should not, however, limit eligibility only to COABC certified producers since it has proposed that it will accept other certifying agencies.</p> <p>The more problematic part of the Board proposal is that the aggregate total of all permits will be capped at 10,000. Given the current constraints in the CEMA allocation system setting a cap on the total amount that can be issued under the CSFP program is unfortunate but seems necessary. Whether the number should be 10,000 or something else is unknown until program demand is better understood. Moreover, some amount of the production under the CSFP may already be accounted under the “unregistered production” as compiled through the Census and which is subsequently deducted from the provincial allocation by CEMA.</p> <p>The Board should work with the Specialty Markets Advisory Committee to seek recommendations concerning CSFP administration and program performance monitoring.</p> <p>The Board needs to be more explicit concerning how it will foster innovation at the farm level to test market potential for new types of eggs. The Board should establish protocols for innovation permits, and the CSFP may provide a vehicle for innovation.</p>

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2.15. Permit Conversion

TRLQ & Special Permit Conversion

The existing TRLQ and Special Permit systems will be terminated, and existing TRLQ and Special Permit permittees will be brought into the quota system. There are a total of 20 permittees presently allocated 62,000 layers. All existing permittees will be offered up to 5,000 units of non-transferable specialty quota upon conversion.

The amount of TRLQ and Special Permit production on January 1, 2005 will be issued as transferable specialty quota up to a maximum of 2,500 units. This specialty quota will be issued on the fourth anniversary of permit conversion to specialty quota.

Special lease levies will be discontinued. Monies currently on deposit with the Board under the lease levy program will be capped at the current level and held by the Board for use by the permittee for the future purchase of transferable regular or specialty quota.

The Board intends to issue specialty quota to all existing permittees, including some who are not certified organic and are therefore not producing a designated specialty product as presumably required by all holders of specialty quota. The Board's proposal to offer everyone up to the same level (5,000 layers) treats everyone equally but not necessarily equitably. In some cases the permittee is already at or above 5,000, while others are well below this level and have no real intention to increase to 5,000 layers.

The Board should consider distributing the 97,500 layers set aside in the MRAP for TRLQ and Special Permit conversion as follows:

- issue specialty quota in the amount of TRLQ and Special permit production for the 12 month period ending Dec. 31, 2004, or other reasonable 12 month period, to all permittees;
- take the balance remaining in the MRAP and provide each permittee not already at 5,000 layers the opportunity to increase up to that level within a defined time frame, for example, three years; and,
- place any remaining amounts in the small flock (CSFP) account.

For the purposes of the transfer assessment schedule, the start date for the schedule should be the original TRLQ or Special Permit date for the base amount, and the date of issuance for any additional amounts subsequently issued.

If the Board is going to issue Specialty Quota to free range and free run producers who are currently permittees, yet have no accredited certification plan, then it should consider clear timelines for establishment of a certification plan. Failing this, the quota issued would be fully retracted by the Board. Developing the terms of this agreement should be done mutually between the producers involved and the Board. Any quota so issued should be assessed at 100% for transfer purposes (i.e. it is non-transferable) until such time as an accredited certification plan is in place.

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<p>2.16. Pricing</p> <p>The Board has established pricing procedures that include setting and publishing minimum producer prices for specialty eggs. The Board intends that the Specialty Products Advisory Committee will provide advice on pricing matters.</p>	<p>The Board should be encouraged to direct the Specialty Markets Advisory Committee to provide recommendations and advice concerning specialty egg pricing.</p> <p>Since egg pricing is based, in large part, on cost of production methodology and prices in other provinces, the Board should work with the Specialty Markets Advisory Committee to develop processes for determining reasonable incremental costs of production for specialty compared to mainstream eggs to assist it in setting specialty egg pricing.</p>
<p>2.17. Levies</p> <p>The Board intends that the National and Provincial levies for all producers will be the same, whether specialty or non-specialty. All eggs, regardless of class, will be subject to Industrial Product levies on the basis that the industrial product program supports the price for all table eggs.</p> <p>The Board is terminating special levies related to the TRLQ program. The Board will retain the banked amounts to the account of the permittee for the producer’s eventual use in purchasing quota.</p>	<p>The Board assesses some levies on a “per hen housed” basis rather than on an eggs shipped basis. This disadvantages specialty producers who often have lower production levels on a per hen basis. As the Board develops different levy schedules for the different quota classes, this matter should be addressed.</p> <p>The Board has charged special levies on TRLQ and Special Permits, and it has required that permit producers place funds on deposit with the Board for use to purchase quota in the future. The Board should be entitled to reasonable permit administration fees and regular administration and marketing fees. These fees should be paid in full prior to permit conversion to Specialty Quota. However, amounts paid “on deposit” for eventual quota purchase should be reimbursed. There is no requirement to purchase quota, and the Board does not need to serve as a producer’s savings institution.</p> <p>The egg system provides for removal of eggs surplus to the table egg market to the breaker market. This program is funded by industrial product levies. If specialty egg producers are to pay industrial product levies it seems reasonable they should have access to the program. One of the arguments made in support of specialty producers paying industrial product levies even if they cannot access the program is that this program supports the table egg price and specialty eggs are priced above cage-produced table</p>

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	<p>eggs. However, if specialty eggs cannot have access to the program, then it seems unreasonable that they should pay these levies.</p> <p>Despite the Board’s attempts to manage production so that surpluses do not materialize, there will be times when the markets are not balanced. There are questions left unanswered concerning how these surplus eggs will be handled. For instance, will specialty producers or graders caught with a temporary surplus maintain pricing levels in the table egg market when they do not have access to an industrial product redistribution program, and if they do not how will a drop in prices impact other market segments? The matter of how to handle temporary surpluses of specialty eggs in the table markets should be addressed by the Specialty Markets Advisory Committee.</p>
<p>2.18. New Entrants</p> <p>The Board intends to establish a new entrant program. The program will be a graduated program involving three stages:</p> <ul style="list-style-type: none"> - 0-2 yrs – up to 1,000 layers, non-transferable - 3-5 yrs – up to 1,000 additional layers, non-transferable - 6-7 yrs – up to 1,000 additional layers, non-transferable <p>For clarity, the maximum amount of layers offered will be a total of 3,000 quota units, provided over a seven year period. There will be no requirement for a new entrant to grow beyond 3,000 layers, and amounts allocated will not be subject to clawback.</p> <p>The Board intends to provide two new entrant opportunities annually. Priority in issuing new entrant invitations will be provided to fill unmet specialty market demand.</p>	<p>The Board requires up to 16,000 layers in the next five years to start up to 10 new entrants, and will require an additional 6,000 layers per year after year five to sustain the program. The program will, by its design, appeal primarily to small lot and specialty producers seeking to get a little larger. It is reasonable that the Board provide priority to specialty producers based on specialty market demand. The Board may also wish to give a second order priority to meeting regional needs.</p> <p>The relatively small levels of production covered by new entrant incentive quota could be problematic for economic egg pick up and grading by mainstream graders, particularly if the recipients do not acquire additional quota units to increase the size of their operation. It seems reasonable that producers can reach individual, direct egg pick up arrangements with graders. These arrangements may include delivery to the grader or variable pick up fees to cover the higher per unit cost of picking up small volumes.</p> <p>The Board should consider a criterion that new entrants be required to remain actively engaged in the management and operation of the flock or be subject to receiving no further quota issuance on the graduated system and</p>

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	<p>be subject to retraction of any quota not having converted under the declining transfer assessment schedule.</p>
<p>2.19. New Entrant Eligibility</p> <p>The Board has established that new entrant applicants must be over 18 yrs of age, resident in B.C., that they may not have previously held supply management quota of any type, and that they meet the criteria for certification (in case of specialty new entrants).</p> <p>Children of existing mainstream producers may apply to be new entrant specialty producers, subject to the restriction that they must operate independently of their parents.</p>	<p>The Board's proposed eligibility criteria are reasonable. It will be difficult to determine "independence" among children of existing quota holders and the Board should develop some criteria for this in advance of having to make such a determination.</p>
<p>2.20. New Entrant Waiting Lists</p> <p>Applications to be a new entrant will require a \$250 non-refundable application fee. Eligible applicants will be placed on a waiting list, and they will be required to renew their applications annually upon payment of a \$100 renewal fee.</p> <p>The Board already has a waiting list for new entrants. The list will be revised to reflect the new eligibility criteria.</p> <p>Invitations to enter will be made on a seniority basis, subject to priority to meet unfilled specialty market demand and priorities provided to CSFP producers wishing to expand beyond 399 layers. Upon receiving an invitation, the new entrant must provide a business plan to the Board and be in operation within one year. Business plans must include the product intended to be produced, the market requirement as indicated by a grader agreement, and a demonstration of financial commitments.</p> <p>The waiting list will be managed by an independent third party.</p>	<p>The Board's approach to waiting lists seems reasonable.</p> <p>Objections have been raised concerning the application fees. The initial fee of \$250 may be high if there is also an annual renewal fee of \$100. It seems reasonable, however, to require annual renewal to ensure continued eligibility and interest. The Board should consider a more nominal annual renewal fee. Such fees could be determined in consultation with the Specialty Markets Advisory Committee.</p> <p>The Board's proposal to provide priority to CSFP producers seeking to grow above the 399 layer limit seems a reasonable approach subject to determining the demand for CSFPs. It is possible that the Board will need to develop waiting list procedures for the CSFP program if the demand exceeds 10,000 layers in aggregate, and until such time as a greater allocation can be provided to the CSFP account.</p> <p>The Board should ensure it is clear on the business plan requirements in advance.</p>
<p>2.21. Specialty Representation</p> <p>All registered producers holding quota are eligible to vote at BCEMB annual and special meetings. Holders of CSFPs will not be</p>	<p>The Board's approach to electoral rights seems consistent with other Boards. The right to vote is aligned with ownership of quota</p>

BCEMB Submission	FIRB Assessment
<p>eligible to vote as they are not considered to be quota holders. Election procedures are currently under review by the Board.</p> <p>The Board will establish a Specialty Egg Producers Advisory Committee (SPAC). To ensure broad representation on the SPAC, the Board will appoint all types of specialty producers as well as graders, breakers, bankers and hatcheries to serve on the Committee. The SPAC will provide advice to the Board concerning market conditions, allocations, pricing, research and promotion.</p>	<p>(voting shares) while CSFP permit amounts are non-voting shares. This approach seems reasonable. An alternative would be to establish voting on the basis of licensed production volumes whereby there would be one vote per unit of production rather than one vote per licensed producer.</p> <p>The Board's proposed Specialty Markets Advisory Committee should be comprised of an equal number of specialty producers and specialty graders, a member of the Board and an independent Chair appointed by the Board. The Board should develop, in conjunction with the Advisory Committee, terms of reference for the Committee.</p>

2.22. Transparency

The Board will provide for waiting lists to be managed by a third party and will make information available on the website.

There is a long history of contention between specialty egg producers and the Board. There are also significant constraints in the egg system's allocation and levy practices. All parties have work to do to build stronger relationships. Both specialty producers and the Board need to demonstrate a willingness to work with each other. Perhaps instead of focusing on each other they could focus on working together to change the allocation system to better serve B.C.'s specialty markets.

3 Response Summary

FIRB is giving policy direction to the BCEMB that its specialty and new entrant submission is acceptable subject to the following changes and/or clarifications being reflected in the Board's draft Orders which are to be prepared and submitted to FIRB on or before October 31, 2005:

1. The Board should ensure that there is clarity in its proposed specialty egg designation criteria.
2. The Board should rely on generally recognized third party accreditation of certification agencies.
3. The Board should ensure it has information collection and monitoring procedures and capabilities necessary so it can verify specialty certification through the supply chain.
4. The Board should work with specialty producers to adapt required food safety and biosecurity standards so they are appropriate for specialty and small scale production.
5. The Board should work with government to find cost effective means to achieve more complete registration of all egg producers.

6. The Board should be prepared to subdivide Specialty Quota into different classes in the future, if necessary.
7. The Board should ensure that the policies and procedures for Specialty Quota are similar to Regular Quota, except as specifically required to maintain specialty product/market integrity.
8. The Board should ensure its draft Orders clearly outline how the Quota Exchange will operate.
9. The Board's request to sell quota should be declined.
10. Both Regular and Specialty Quotas should be transferable within their class.
11. Rules for production switching between classes should be established in consultation with the Specialty Markets Advisory Committee, and should respect the principle of reciprocity between classes.
12. The Board should institute the declining transfer assessment schedule on all specialty and new entrant quota issued on, or after, the implementation of the specialty and new entrant programs.
13. The Board should implement the 5% transfer assessment program on all existing Regular Quota.
14. The only exceptions from transfer assessment should be for transfers among direct family members, defined as spouse, sons, and daughters; and for business reorganization where the ownership percentages do not change.
15. The Board's small flock program (CSFP) should be implemented subject to being available to all designated specialty producers regardless of certification agency. The Board should also consider using the CSFP for innovation and heritage breed permits.
16. The Board should use the MRAP as proposed by allocating 107,500 layers to Specialty Quota and the CSFP.
17. The Board should convert existing TRLQ and Special Permit permittees to Specialty Quota as proposed, except that permittees should be given adequate time to choose to grow to the 5,000 layer level and that those permittees having greater than 5,000 layers permitted should be issued their existing permit level as Specialty Quota.
18. Existing permittees who produce free range and free run eggs, for which an approved certification plan is not yet established, should be given three years to have a certification plan in place or be subject to retraction of all specialty quota issued.
19. Subject to Board discretion, the BCEMB should receive payment in full for reasonable permit service levies and regular marketing levies for all permit production up to Dec. 31, 2004.
20. Any quota purchase deposits on account with the Board for future quota purchase should be reimbursed to the permittees by the Board upon conversion.
21. The Board should consider establishing levies separately for each class of quota based on the cost of providing special services required by each class.
22. The Specialty Markets Advisory Committee and the Board should jointly determine the applicability of the industrial product program to specialty eggs.

23. The Board should review its levy practices to ensure that levies do not unfairly discriminate between different classes of production due to differences in laying hen productivity.
24. The Board's proposed graduated new entrant program should be implemented as proposed, except that the incentive quota offered should be transferable and subject to the assessment schedule, and that recipients should be required to be actively engaged in the farm business.
25. A Specialty Markets Advisory Committee should be established and comprised of an equal number of specialty producers and specialty graders, a member of the Board and an independent Chair appointed by the Board. The Board and the Committee should develop terms of reference for the Committee as a first order of business.
26. The Board should find ways to improve its communication of market trends and market needs to industry stakeholders, and it should find ways to improve its reporting of allocation accounting to growers.

Appendix 4. Response to BCMMB Specialty & New Entrant Submission

This appendix provides an overview of the BCMMB's specialty and new entrant program submissions in Section 1. This is followed in Section 2 by FIRB's understanding and analysis of the Board's submission. Finally, Section 3 provides FIRB's response to the Board's Specialty and New Entrant Submission.

1 Synopsis of BCMMB Submission

1. Milk marketing is managed through milk pools. The Board manages the pools and serves as the first receiver of all milk shipped in B.C.
2. The Board recognizes that organic milk has developed into a distinct market segment in B.C., and is designating organic milk as a separate class of milk and establishing an organic milk pool.
3. The BCMMB has provided and managed innovation (DDPIP), cottage industry (CIP), and new entrant (GEP) programs for some years.
4. The Board recognizes a current opportunity and need to grow B.C. organic milk production to meet market demands.
5. To meet this demand the Board intends to offer short term incentives to established organic producers, conversion incentives to established mainstream producers, and utilize the new entrant program to invite new producers willing to produce organic milk to enter the industry.

2 Analysis of BCMMB Submission

In this section the Board's specialty and new entrant proposals are assessed by comparing them with FIRB's policy principles for specialty and new entrant programs based on FIRB's general understanding of the Board's submission or position.

BCMMB Submission	FIRB Assessment
<p>2.1. Market</p> <p>Milk production in Canada is determined by the Canadian Dairy Commission (CDC), is shared among provinces and producers through quota systems, and is marketed by the Boards through interprovincial pooling agreements.</p> <p>The BCMMB serves as the first receiver of all milk shipped in B.C., and as such it arranges milk pick-up, delivery, revenue collection, expense pooling, and payment to producers.</p> <p>There are 33 licensed processors in B.C.</p>	<p>The Board has a good understanding of the market for milk, including organic milk. The Board has polled processors and focused its attention to finding ways to ensure the required amounts of organic milk projected are provided by B.C. producers.</p> <p>Some organic producers believe the Board does not understand the market for organic milk. The opposing positions of certain organic producers and the Board concerning the market may be related to the perspective from which the market is viewed. The Board relies primarily on</p>

BCMMB Submission	FIRB Assessment
<p>Seven fluid processors and five industrial processors account for the vast majority of milk demand in the province.</p>	<p>processors to advise of their market needs, while some organic milk producers take their market understanding from direct marketing to consumers.</p>
<p>Total Provincial Quota (TPQ) was 22.94 million kg for the year-ending Aug 2004. TPQ has grown by 8% over the past five years.</p>	
<p>TPQ is presently comprised of provincial fluid milk (56%) and industrial milk (44%) used to produce non-fluid dairy products. Provincial fluid demand has declined 7% in the past five years, while industrial milk production in B.C. has increased by 37% in the last five years due in large part to a change in the national Market Sharing Formula (MSQ).</p>	
<p>Organic milk production is currently provided by four producers using TPQ and Domestic Dairy Product Innovation Program (DDPIP) quota. Organic milk currently comprises 162,000 kg of quota, or ~0.7% of current supply.</p>	
<p>Organic milk demand is projected to grow at 6% p.a. (10,000 kg) for the foreseeable future. The Board is seeking to fill current and future organic milk demand by:</p>	
<ul style="list-style-type: none"> - encouraging existing producers to convert to organic production; - giving priority to new entrants agreeing to produce certified organic milk; and, - providing quota incentives to existing DDPIP and Cottage Industry Program (CIP) permittees already producing organic milk. 	
<p>2.2. Definitions</p>	
<p>The Board is designating organic milk as a Specialty Product on the basis that it is substantively different than mainstream milk and that it is not a variant of an existing product. The Board is not recognizing any other Specialty Products at this time. The Board proposes that all producers may be SPCA certifiable, and therefore SPCA does not represent substantive differentiation.</p>	<p>The Board's approach that organic milk is to be designated as a specialty product class seems reasonable. The Board has not examined other specialty classes on the basis that there does not appear to be demand for another class of milk.</p>
<p>Future specialty milk designations will</p>	<p>Recognizing SPCA milk as a designated specialty class of milk has been declined by the Board on the basis that humane treatment is a production standard all</p>

BCMMB Submission	FIRB Assessment
<p>require an Advisory Committee (SMPAC) recommendation to the Board.</p>	<p>producers are required to meet, that many existing producers could likely be SPCA certified at present, and that processors are not requesting SPCA certified milk for their marketing programs.</p>
<p>2.3. Certification</p>	
<p>Any producer of a designated Specialty Product will be required to produce and market in accordance with a certification plan. Certifiers must have third party accreditation. The Board intends to work with certifying organizations to bring equality to the certification process, thereby ensuring equitable and acceptable compliance criteria.</p>	<p>The Board requirement that certification be a licensing condition for producers of designated specialty milk is reasonable.</p>
<p>The Board intends that a producer losing certification will cause a review of the situation by the SMPAC resulting in recommendations to the Board.</p>	<p>The Board's approach of seeking to have any accredited certification agencies proposed to be used in B.C. meet an equivalent standard of inspection and integrity is sound.</p>
<p>2.4. Food Safety</p>	
<p>All milk producers are required to be licensed under the <i>Milk Industry Act</i> which prohibits the sale of non-pasteurized, raw milk to consumers. The Board does not directly police all safety of milk issues.</p>	<p>FIRB supports that all milk sold to consumers must be produced and processed in accordance with applicable food safety regulations.</p>
<p>2.5. Biosecurity</p>	
<p>Not Addressed.</p>	
<p>2.6. Registration</p>	
<p>All producers who ship milk in B.C. are obligated to hold a Producer License issued by the Board and a Dairy Farm License issued under the <i>Milk Industry Act</i>.</p>	<p>Registration does not appear to have been raised as a concern in the milk system. FIRB expects that the Board has or will register all milk producers shipping fluid milk or processing milk on-farm to produce manufactured dairy products for sale to consumers.</p>
<p>2.7. Quota</p>	
<p>Quota is referred to as Total Production Quota (TPQ). It is determined by the Canadian Dairy Commission (CDC), and is comprised of industrial milk (MSQ) and provincial fluid milk. There are two classes of TPQ held by producers – transferable (TTPQ) and non-transferable (NTPQ) –</p>	<p>The Board's approach of transferable and non-transferable quota does not comply with FIRB's policy principles.</p> <p>The Board needs to establish different quota licenses and quota accounts for each designated product class. These are</p>

BCMMB Submission	FIRB Assessment
<p>based on the origin of the quota. Any quota provided as an incentive, whether as a new entrant or a product/market incentive, will be non-transferable except to exempt persons (i.e. family) in certain circumstances.</p>	<p>administrative and management tools within the province and are not intended to cause challenges for the Board with its National Agency.</p>
<p>Since all milk is pooled, the Board distributes quota allotted by CDC pro rata among all producers holding transferable TPQ. Holders of NTPQ are allocated a fixed amount of production and this amount does not adjust with changes in the TPQ allotment received from CDC.</p>	
<p>The Board proposes to issue NTPQ to specialty product producers, and these licenses will be restricted to the producing of the designated specialty product. The Board also allows that TTPQ may be used to produce any class of milk, including specialty milk, upon approval of the Board.</p>	
<p>2.8. Quota Transferability</p>	
<p>The Board operates a Quota Exchange (QE) to facilitate transfer of quota between producers.¹</p>	<p>FIRB's policy principles provide that all quota should be transferable within its class, and that it will carry with it any production or marketing terms and conditions associated with the class of product licensed. Accordingly, all incentive quota provided, whether through the new entrant, DDPIP or CIP conversion, or other Board incentive programs, should be transferable.</p>
<p>TTPQ is transferable between producers, with approval of the Board, either directly or through a Quota Exchange. NTPQ is non-transferable, except to exempt persons defined as family members including spouse, child, child and child's spouse, grandchild, grandchild and grandchild's spouse, or if none of these are available, nephew, niece, nephew and nephew's spouse, niece and niece's spouse, or if none of these are available, such other person as the Board may determine.</p>	
<p>The Board is opposed to making quota incentives transferable when they were provided to producers at no cost as this would confer a windfall gain on any recipients.</p>	

¹ Quota traded – In 2003/04, 563,529 kg was through the exchange, 234,464 kg was transferred as full farm (going concern) or partial transfers, and 720,794 kg was transferred within families, by name change and as a merger or split of an existing holding.

BCMMB Submission	FIRB Assessment
<p>2.9. Transfer Assessments</p> <p>The Board has an established transfer assessment policy in place. The Board requires a seller of TPQ to surrender 5% of all quota transferred, except for family transfers, name changes, corporate or partnership mergers or splits, or sales transacted through the exchange. For practical purposes, only sales that are arm's length, third party, full farm (going concern) or partial transfers transacted outside the QE are assessed.</p> <p>In the past six years, the Board has assessed 85,800 kg of quota and has distributed 172,000 kg through the new entrant program.</p>	<p>The Board's existing transfer assessment is in place and applies a 5% assessment on certain quota transfers.</p> <p>The Board will need to limit transfer assessment exceptions to direct family members, defined as spouse, sons, and daughters; and for business reorganization where the ownership percentages do not change.</p>
<p>2.10. Exemptions</p> <p>All shippers of milk in the province must obtain both a Milk Board Producer License and a Dairy Farm License, and no one may sell unpasteurized raw fluid milk to consumers.</p> <p>The Board requires licensed producers to have a minimum of 1,500 kg of quota (~five cows).</p> <p>The Board is opposed to any exemption from the requirement to be licensed on the basis of food safety regulations and economic viability.</p>	<p>FIRB's policy principles support registration of all producers by the Board together with licensing in accordance with applicable government regulation. FIRB also encourages that the Board be very clear to state which parts of the Orders are excluded from which licenses.</p> <p>The Board's requirement that anyone shipping milk into the pool must have a minimum of five cows seems reasonable on the basis of the economics of managing pooled milk pick-up and delivery. However, this does not address situations where someone keeps a couple of milking cows for personal use.</p> <p>Presuming there are people who keep a small number of milk cows for personal use, the Board needs to determine if and how it will register or record these producers. It seems reasonable that such "personal use" producers would be exempt from the requirement to hold quota.</p> <p>The Board has previously introduced the CIP. FIRB's policy principles require that the Board have an annually renewable small herd permit program. It seems reasonable that the Board could adapt its CIP to provide a small herd permit program limited to non-fluid dairy products manufactured from milk produced on-site.</p>

BCMMB Submission	FIRB Assessment
<p>2.11. Allocation</p> <p>The Board’s total authorized production, or TPQ, is received from CDC comprised of provincial fluid and market sharing (industrial) amounts. The Board allocates this provincial allocation pro rata to each producer’s TTPQ holdings. NTPQ is issued in fixed amounts, and is not adjusted up or down with changes in allocation.</p> <p>All milk is pooled. The Board manages milk supply to meet processor requirements, first by giving priority to fluid market demands and secondly by distributing the remainder available among industrial markets. This is done in conjunction with the Western Milk Pool.</p> <p>Organic milk production will be provided from the TPQ received from CDC. The Board proposes that it will meet regularly with processors to determine their organic milk requirements in advance so that it can take steps to fill the demand through both existing producers and new entrants.</p>	<p>FIRB recognizes that the Board must operate within the CDC provincial allocation and the Western Milk Pool.</p> <p>The Board needs to be clear concerning how volumes will be allocated from the TPQ to an organic milk quota account, and from there how it will be distributed among organic milk producers on the basis of licenses and quota holdings. In doing so, the Board needs to develop allocation procedures for distributing the TPQ allotted by the CDC to the province between the different classes of production, mainstream and organic milk.</p> <p>The Board is presently earning TPQ through the DDP contracts that are requiring organic milk. It seems reasonable that these volumes should be reserved for organic milk production rather than being distributed as quota among all holders of TPQ, providing there is unfilled market demand for organic milk.</p>
<p>2.12. Product Integrity</p> <p>Certified organic milk will be required to operate within separate transportation and processing pools.</p> <p>The Board provides that skim milk resulting as a by-product from organic milk processing may be sold as mainstream skim milk.</p>	<p>The Board clearly requires product integrity, which is appropriate.</p> <p>Whether this product integrity needs to be provided by a common pool or by direct contracts between producers and processors is a different issue.</p>
<p>2.13. Production Switching</p> <p>Holders of TTPQ may apply to the Board to produce organic milk while holders of NTPQ are restricted to producing organic milk. NTPQ may not be used to produce mainstream milk.</p>	<p>The Board needs to apply the principle of reciprocity. If mainstream quota can be used to produce organic milk, then organic quota should be able to be used to produce mainstream milk. Clearly, this could lead to a breakdown of any distinction between the classes of quota.</p> <p>It seems reasonable that a quota holder should be able to apply to convert their production unit from one class to another under certain circumstances which may include, at a minimum, market requirements and benefit to the industry.</p>

BCMMB Submission	FIRB Assessment
<p>2.14. Permits</p> <p>The Board relies on the Domestic Dairy Product Innovation Program (DDPIP) and the Cottage Industry Program (CIP) to meet specialty market demands.</p> <p><u>DDPIP</u></p> <p>The DDPIP is a national program administered by CDC that commits the province to supply milk to an approved processor licensed to manufacture innovative dairy products. Typically, milk to supply DDPIP contract requirements are provided by the Board from the pool and the production is therefore shared pro rata by all producers.</p> <p>DDPIP contracts are currently helping grow organic milk production in B.C., and the Board is anxious to maximize the production within these contracts so that it can expand B.C.'s production. There presently four organic milk producers shipping milk for DDPIP contracts – two are direct shipping to licensed dairies and two are processing on-farm as CIP participants. These direct marketing relationships were established due to the state of certified organic milk market development and the requirement that CIP participants process only milk produced on farm. Accordingly, producers serving these particular DDPIP contracts entered into an Undertaking and Declaration with the Board outlining, among other things, the terms and conditions upon which the producer would return temporary production allocations to the Board.</p> <p>These organic milk DDPIP contracts provide quota for up to five years to a processor and by extension to a producer. At the end of five years, the Board retracts that quota 20% per year for the next five years. Producers must buy quota if they wish to maintain volumes under the DDPIP contracts.</p>	<p>Once converted, the producer should not be permitted to switch back for some amount of time and then only subject to the criteria determined for switching between classes.</p> <p>The Board's ability to access the DDPIP provides an established program for future innovation. Unless it can be shown that the DDPIP is insufficient for encouraging innovation, there seems little need for additional program enhancements for innovation.</p> <p>The Board has established the Cottage Industry Program. This program could be adapted to meet FIRB's requirement for a small lot program which provides for product/market innovation, local/regional small lot agriculture, and farmer-direct marketing initiatives. The restrictions, including that the milk stay out of the fluid market, that it be produced and processed on the farm, and that only industrial milk products be produced and sold, all seem reasonable given the fluid milk safety regulations and the milk pool. The CIP is, however, constrained by having a quota clawback condition. CIP producers are required to purchase quota or reduce the size of their operations following start-up. At the same time, they are restricted from buying milk from the pool.</p> <p>The Board could consider establishing the CIP as its small lot program. The Board could provide up to 10,000 kg of annually renewable CIP permit, which would be, in essence, a form of quota.</p> <p>It seems reasonable that the Board may need to consider CIP applications in a manner similar to a new entrant program (eligibility, waiting lists). The Board needs to revisit the CIP account and find a mechanism for funding CIP initiatives that do not rely on clawbacks from the existing CIP participants.</p> <p>The Board has proposed conversion numbers of 10,000 kg of quota for organic producers using DDPIP contracts and operating as CIP producers. This is a</p>

BCMMB Submission	FIRB Assessment
<p><u>CIP</u></p> <p>The CIP is a Board program introduced to assist start-up producer-processors who wish to produce milk and process it into a manufactured milk product, excluding fluid milk, on the farm. The Board issues up to 10,000 kg of temporary quota, and then retracts 20% per year for five years. To maintain and grow production, participants are expected to acquire TTPQ.</p> <p>The Board has set aside 30,000 kg of quota to fund the CIP.</p>	<p>DDPIP-organic conversion, not a CIP conversion.</p>
<p>2.15. Permit Conversion</p>	
<p><u>Organic Milk Incentives for DDPIP participants</u> - The Board intends to provide DDPIP producers of organic milk up to 10,000 kg of NTPQ-S. For these producers, all production above the 10,000 kg level will be retracted over five years beginning upon termination of the existing DDPIP contract.</p>	<p>The Board's intent to expand organic milk production to meet market demand and to decrease risk by having organic milk production spread over a greater number of producers than at present is sound risk management. However, this does not mean that existing organic milk producers should be cut-back so other existing milk producers can be incented.</p>
<p><u>Encouraging More Organic Milk from TTPQ holders already producing organic milk</u> - The Board intends to provide an incentive to holders of TTPQ that are currently recognized to be producing certified organic milk using TTPQ. The incentive will be 5,000 kg NTPQ-S, plus up to an additional 2,000 kg of NTPQ-S matching the purchase of 2,000 kg of TTPQ (called the 5/2/2 program herein).</p>	<p>The Board will receive TPQ from the CDC equal to the production of qualifying milk (organic) in the fifth year of each five-year DDPIP contract. The provision of 10,000 kg of quota to each DDPIP contractors will be less than the amount of quota received by the Board from the CDC. The Board appears to intend that the remaining quota will be distributed pro rata among all other quota holders after providing for incentives to existing organic milk producers and existing mainstream milk producers who are authorized by the Board to switch to organic milk production. It seems reasonable that quota earned from organic milk programs should remain available for organic milk programs.</p>
<p><u>Encouraging conversion by existing mainstream milk producers to organic milk production</u> - The Board believes it is essential to increase the number of organic milk producers so that supply to processors is less vulnerable to a small number of producers. The Board intends to offer incentives, including offering the 5/2/2 program plus funding the organic milk price premiums as payments to the producer during the transition time to becoming certified organic.</p>	<p>The Board needs to revisit its organic milk DDPIP conversion plans. It needs to consider the amounts in production under each contract in the 12 months ending Dec. 31, 2004, the issuance of organic milk quota to these producers, and the terms and conditions by which growth in volume after January 1, 2005 is used by the producer and subsequently returned to the</p>
<p><u>Pooling of Organic Milk Premiums</u> - The Board will also establish a pool for organic milk premiums and expenses (i.e. transportation) with the proceeds and costs shared among the pool participants.</p>	

BCMMB Submission	FIRB Assessment
	<p data-bbox="889 254 1403 583">Board. The Board should consider issuing organic quota equal to the production in the 12 months ending December 2004, allowing the producer to produce the additional amounts by which the DDPIP contract grows after December 2004 until the contract terminates. At contract termination, it seems reasonable that the amount in excess of the amount granted as organic quota at January 1, 2005 would be retracted over a reasonable period of time.</p> <p data-bbox="889 621 1403 1161">The reasoning behind the proposed 5/2/2 quota issuance to existing organic milk producers using TPQ is unclear. It may be based on a principle of fairness and equity, or it may simply be a way to increase organic milk production rapidly to meet demand and maximize quota earned under the DDPIP program since these farms are already certified. The 2/2 matching proposal is inconsistent in this case since the Board appears to intend to allow holders of transferable quota to apply existing quota already owned by the farm to receive the matching amount. In other words, no quota purchase is required in this instance. Any quota issued under this existing organic producer growth incentive should be organic milk quota.</p> <p data-bbox="889 1199 1403 1528">The Board's offer of 5/2/2 for existing mainstream milk producers is also intended to increase organic milk production by providing additional organic quota (7,000 kg) together with the volumes from conversion from mainstream to organic milk production for the balance of the recipient's production. Like TPQ organic producers, mainstream converters will be able to assign 2,000 kg of existing quota to receive the additional 2,000 kg incentive.</p> <p data-bbox="889 1566 1403 1896">In either case where the 5/2/2 incentive is being offered to existing quota holders to stimulate a quick increase in organic milk production, the Board should apply restrictions to the sale of quota by recipients. It seems reasonable that such recipients should be required to transfer all of the 5/2/2 incentive quota received before any other quota held by the producer would be authorized for transfer. This is to avoid situations where the producer receives the</p>

BCMMB Submission	FIRB Assessment
	<p>5/2/2 incentive and then sells an equivalent amount of other quota held thereby realizing an immediate gain and limiting the expected amount of organic milk production.</p> <p>The Board needs to be careful in the product switching implications of this proposal. If a mainstream producer is offered this opportunity and converts they should not be permitted to switch back to mainstream production with their mainstream quota for a significant period of time. If they do switch back, they should be required to dispose of their organic quota.</p> <p>The Board is proposing to pay a substantial portion of the organic milk premium during transition from mainstream to organic milk production for mainstream producers authorized to convert. The intent appears to be to further encourage conversion. There is apparently a precedent for this as the Board provided premium assistance to some organic milk producers in the late '90s. However, organic milk is now an established product class and it seems unnecessary that premium assistance be provided to either mainstream converters or organic milk new entrants.</p> <p>Additionally, the Board has not addressed how it will determine which mainstream producers will be offered the conversion opportunities if there are more applicants than need. This is a potential point of contention and dispute.</p> <p>The Board needs to rework its DDPIP conversion plan and its proposed programs to stimulate additional organic milk production among existing mainstream and organic producers.</p>
<p>2.16. Pricing</p> <p>The Board is the first receiver of all milk shipped in the province, and it pools revenues and expenses. Milk pricing is regulated and prices are established by the CDC.</p> <p>The Board has not to date established an organic milk pool. Organic milk producers</p>	<p>The Board has not demonstrated that pooling of organic premiums is required or has the support of organic milk producers. Therefore, pooling should not be pursued until organic milk producers and processors seek pooling.</p> <p>FIRB is not aware of any representations</p>

BCMMB Submission	FIRB Assessment
<p>are paid the pool price by the Board plus an organic milk premium by the processor. The Board established an organic milk price premium of \$0.30/litre in 1998. This premium remains in force today.</p> <p>The Board intends to establish an organic milk pool. The Board views this as a natural maturing of the market having evolved beyond direct relationships between individual processors and producers to one requiring coordination of all producers of organic milk in a common pool. All revenues received from processors for organic milk will be pooled, and net proceeds will be distributed on the basis of organic quotas. Any costs associated with an overflow of milk into the mainstream will be shared pro rata by all producers.</p> <p>The Board intends to seek advice from the Specialty Milk Product Advisory Committee (SMPAC) on price premium matters.</p>	<p>that the \$0.30/litre organic milk premium is insufficient. It is larger than that paid in other provinces, and is apparently quite lucrative for some producers. It seems reasonable to charge the Specialty Markets Advisory Committee with a responsibility to monitor the premium and recommend amendments to the Board as appropriate.</p>
<p>2.17. Levies</p>	
<p>The Board will continue to levy the same administrative levies on all production. There are no special levies in place currently, and none are proposed.</p>	<p>The Board may wish to look at administration and marketing levies from the perspective of cost of service. As organic milk production grows and is managed by the Board, there may be services unique to either mainstream or organic milk production and marketing that are not required or used by the other class[es]. Therefore, the Board should work with the Specialty Markets Advisory Committee to examine assessing levies separately for the different quota classes to the extent that different services are provided.</p>
<p><u>Transportation</u></p>	
<p>The Board intends to establish an organic milk transportation pool. Incremental transportation costs will be to the account of the organic milk pool. The Board envisions the organic transport pool will operate in the Lower Fraser Valley, while costs associated with the transportation of organic milk produced outside this region and needing to be shipped to processors in the Lower Fraser Valley would be to the account of the individual producers outside the transportation pool region.</p>	<p>Pooling of organic milk premiums and transportation needs further justification and explanation by the Board. Organic milk premiums are presently paid directly from the processor to the producer and it is not clear why these premiums need to be pooled. Some existing organic producers have established independent transportation and may have little need for pooled transportation. There are also complaints from existing producers that the current transport pooling costs placed</p>

BCMMB Submission	FIRB Assessment
<p>2.18. New Entrants</p>	<p>against organic milk producers, which are in addition to direct transport costs paid by the processor, are overcharging for transportation.</p>
<p>The Board has had a new entrant program in place for twenty years. This program is called the Graduated Entry Program (GEP). Details of the program are provided at Schedule 1 of the Orders.</p>	<p>The Board should work with the Specialty Markets Advisory Committee to determine if and how pooling should be established in the management of organic milk programs.</p>
<p>FIRB approved amendments to the GEP in May 2004, including establishment of the 5/2/2 program, providing for a minimum of three new entrants per year, and providing for preference to be given to specialty new entrants. The 5/2/2 program provides a 5,000 kg incentive as NTPQ, plus a matching 2,000 kg NTPQ incentive upon the purchase by the new entrant of 2,000 kg of TTPQ. Quota for the GEP is provided, in part, from transfer assessments, with the additional amount required provided from the total TPQ allotted by CDC before distribution among other programs and holders of TTPQ.</p>	<p>The Board's GEP program was last modified in May 2004 and approved by FIRB at that time. FIRB accepts that the program amendments need time to be applied before determining if further changes are required. Therefore it should be left largely unchanged, except that incentive quota provided should be transferable and subject to the declining transfer assessment schedule.</p>
<p>If additional organic milk production beyond that provided by the DDPIP conversion, existing organic producer incentives and mainstream conversion incentives is required, the Board will consider one additional GEP entrant for organic milk production, above the three mainstream new entrants each year. If a GEP organic new entrant opportunity is provided, the successful applicant will have the organic milk price premium paid to them by the Board during transition to certified organic.</p>	<p>Incentive quota issued previously under the GEP, which is currently non-transferable, should also be transferable and subject to the declining transfer assessment schedule. The start date for determining the level of transfer assessment should be either the original quota issuance date or August 1, 2000, whichever is the more recent. August 1, 2000 is chosen as the five-year point meaning any retroactive adjustment in the incentive quota rules would be limited to going back five years. For any entrants prior to this time that still hold non-transferable quota, their position on the declining transfer assessment schedule would be established at the five-year point.</p>
	<p>The Board intends that organic milk production be increased through DDPIP and mainstream conversion, with organic new entrants being considered only if these programs fail to provide sufficient organic milk volume to meet demand. The Board should consider giving priority to organic milk new entrants if there is unfilled organic milk demand. This priority should be ahead of providing quota incentives to existing mainstream quota holders to convert their existing herds to organic milk production. The Board should also reconsider whether it is fair and reasonable to pay the organic milk premium during transition.</p>

BCMMB Submission	FIRB Assessment
2.19. New Entrant Eligibility	
<p>Eligibility criteria are established in Schedule 1 of the Consolidated Orders and include the intent to be actively engaged in the farm operation, being a Canadian citizen or permanent resident of Canada, being a permanent resident of B.C., being over 19 years of age, and not having previously held supply management quota.</p>	<p>The eligibility criteria proposed by the Board are consistent with those of other Boards and seek to recruit truly new participants to the system.</p> <p>The Board does, however, need to consider eligibility criteria for the mainstream conversion incentive program.</p>
2.20. New Entrant Waiting Lists	
<p>Waiting list criteria are established in Schedule 1 of the Consolidated Orders. The Board's existing waiting list has 77 applicants. The list is a public document. The Board intends to update and maintain the existing waiting list.</p>	<p>The waiting list seems long given the Board intends to offer only three or four new entrant opportunities each year.</p> <p>The Board needs to consider priorities in making new entrant invitations. If market demand for organic milk is to be met, it seems reasonable that applicants prepared to produce the certified organic milk should be given priority.</p> <p>While the Board asserts there have been no complaints regarding administration of the waiting list, it might be prudent for the Board to have the list and invitation process managed by an independent third party.</p>
2.21. Representation	
<p>All licensed producers, including specialty producers, are registered producers and are therefore entitled to vote.</p> <p>The Board proposes to establish a Specialty Milk Product Advisory Committee (SMPAC) comprised of producers, processors and distributors. A director of the Board will Chair the SMPAC. The SMPAC's responsibilities will be to provide advice concerning specialty market requirements, designation of new classes of specialty milk, and pricing, production, quota allocation, transportation and levy policies for specialty products.</p>	<p>A Specialty Markets Advisory Committee will be established by the Board. The Committee should be comprised of an equal number of organic milk producers and processors, one member of the Board, and an independent Chair appointed by the Board.</p> <p>The Committee needs to have clear terms of reference, and the Board should ensure these are developed when the Committee is formed or as the first order of business for the Committee.</p>
2.22. Transparency	
<p>Not explicitly addressed.</p> <p>The BCMMB already has established innovation and new entrant programs, and</p>	<p>The Board does have established programs for new entrants and innovation and should be commended for this. However, there are feelings among some organic milk</p>

BCMMB Submission	FIRB Assessment
<p>appears satisfied that existing decision making and administrative procedures are adequate.</p>	<p>producers that the Board does not listen to or care for dissenting opinions.</p> <p>The Board needs to do some work to improve its relationship with organic milk producers. It is unlikely all demands of organic milk producers, or mainstream producers for that matter, can be met within the terms and conditions of the various regulations and allocation agreements. However, the Board needs to continue to work to understand and communicate with organic milk producers.</p>

3 Response Summary

FIRB is giving policy direction to the BCMMB that its specialty and new entrant submission is acceptable subject to the following changes and/or clarifications being reflected in the Board's draft Orders which are to be prepared and submitted to FIRB on or before October 31, 2005:

1. Organic milk should be a designated specialty class of milk.
2. Approved certification agencies for organic milk should be in accordance with reasonable provincial or national standards.
3. Organic milk quota should be established as a specialty class of quota.
4. All quota should be transferable within its class.
5. For all specialty and new entrant quota issued on or after the implementation of the specialty and new entrant programs, the Board should institute the declining transfer assessment schedule.
6. The 5% direct transfer assessment program should be continued as proposed for all TPQ issued prior to establishment of the declining transfer assessment schedule subject to limitations on the exceptions from transfer assessment.
7. Family related exceptions to transfer assessments should be limited to direct family members, defined as spouse, sons, and daughters; and for business reorganization where the ownership percentages do not change.
8. The Cottage Industry Program should be amended to meet the requirements of a small herd program to manage on-farm, value-added manufactured milk production or heritage breed needs.
9. The Board should develop allocation procedures to ensure the TPQ received from CDC is distributed among the mainstream and organic quota accounts based on differential growth in each market segment.
10. The Board should allocate the quota earned from the CDC pursuant to organic milk DDPIP initiatives to the organic quota account.

11. The Board should develop clear guidelines for authorizing the switching of production between quota classes, and should apply the principle of reciprocity between the different classes of quota.
12. DDPIP organic milk producers should receive organic specialty quota equal to their 12 month production ending December 31, 2004.
13. Quota amounts above the December 31, 2004 amount that are produced and earned through the DDPIP program between January 1, 2005 and the end of each DDPIP contract should be produced, if possible, by the existing contractors up to the end of the DDPIP contract. At the conclusion of each contract, the amounts above that issued as quota based on production up to December 2004 should be retracted over a reasonable period of time.
14. The proposal to issue up to 7,000 kg of organic quota to existing organic milk producers using mainstream quota for organic milk production is acceptable on a one-time basis to assist increased organic milk production quickly to meet current demand projections.
15. The Board should only provide incentives to get mainstream quota holders to convert to organic milk production if organic milk demand cannot be met by the other programs, including the GEP. The incentives offered to mainstream producers to convert to organic milk production should be limited to the 5/2/2 organic quota incentive and should not include payment of the organic milk price premium during transition.
16. The Board should not proceed with organic milk premium pooling until it can be shown that the organic milk producers are in favour of changing from direct processor contracts to a pooling system.
17. Transport pooling should be considered only if organic milk producers are in favour of such pooling.
18. The Board's Graduated Entry Program (GEP) program should continue unchanged except that organic milk entrants should be given priority when there is an unfilled organic milk demand, and incentive quota issued should be transferable. The Board should not subsidize the organic milk premium during transition.
19. The Board should consider having an independent third party administer the new entrant waiting list, subject to the recommendation of the Specialty Markets Advisory Committee.
20. A Specialty Markets Advisory Committee should be established and comprised of an equal number of organic milk producers and processors, a member of the Board, and an independent Chair appointed by the Board. Clear terms of reference for the Committee should be established.
21. The Board should take steps to build trust with specialty producers.

Appendix 5. Response to BCTMB Specialty and New Entrant Submission

This appendix provides an overview of the BCTMB’s specialty and new entrant program submissions at Section 1. This is followed in Section 2 by FIRB’s understanding and analysis of the Board’s submission. Finally, Section 3 provides FIRB’s response to the Board’s Specialty and New Entrant Submission.

1 Synopsis of BCTMB Submission

1. The Board has had a new entrant program since 2002. It is called the Grower-Vendor Program (GVP), and is designed to provide opportunities for producers wishing to enter the turkey industry and direct market turkey products to consumers.
2. The Board has allocated up to 0.8% of its base allocation to the new entrant program, and is proposing to increase this to 1.5% over the next four years.
3. The Board is proposing to designate certified organic turkey production as a specialty class, and to manage this production through a specialty class of quota.
4. The Board intends to expand its new entrant program to provide for both new certified organic and grower-vendor producers, and to fund a new entrant account through a transfer assessment levy on primary quota holders selling their quota on an arm’s length basis.

2 Analysis of BCTMB Submission

In this section the Board’s specialty and new entrant proposals are assessed by comparing them with FIRB’s policy principles for specialty and new entrant programs based on FIRB’s general understanding of the Board’s submission or position.

BCTMB Submission	FIRB Assessment
<p>2.1. The Market</p> <p>The turkey market exhibits distinct seasonality, with peaks in demand at Easter, Thanksgiving and Christmas. In recent years, whole bird sales have been declining while further processed and fresh cut-up turkey meat sales have been increasing.</p> <p>The Board surveyed retailers and did not hear a strong retail demand for specialty turkey due to high price points. At the present time, most specialty turkey in B.C. is either direct marketed, certified organic, or other specialty not meeting the criteria proposed by the Board for specialty designation.</p>	<p>The Board recognizes there are farm direct and organic market segments, and that these segments are quite small presently.</p> <p>The distinct festive market demand spikes around Easter, Thanksgiving and Christmas are important to all turkey producers, and the returns realized from these markets are important to all turkey producers and marketers.</p> <p>The Board is justifiably concerned for the shortfalls in provincial allocation received from the CTMA.</p>

BCTMB Submission	FIRB Assessment
<p>There are five known processors: one processor slaughters >80% of the B.C. production.</p>	
<p>B.C. turkey producers are estimated to supply 67% of the provincial market. The BCTMB receives a provincial allocation equal to approximately 11.7% of the National Allocation as determined by the Canadian Turkey Marketing Agency (CTMA).</p>	
<p>2.2. Specialty Definitions</p>	
<p>Mainstream turkey is any turkey not designated as specialty by the Board. The Board proposes to designate specialty classes of turkey if they are certified as meeting all of the following criteria:</p>	<p>The Board proposes to recognize both certified organic and farmer direct marketing as specialty production. Certified organic would be a designated specialty product while farmer direct marketing would be based on the market channel.</p>
<ul style="list-style-type: none"> - Unique farm-based attributes; - Preservation of attributes to the consumer; - Consumer marketing and labeling of the attributes; - Require significant extra on-farm effort and specialized attention; and, - Receive a price premium in the market. 	<p>The Board should further define the farmer direct marketing category. The Board should consider that farmer direct marketing is where the individual producer personally sells the vast majority or all of his or her production directly to consumers or through local consumer outlets. In most cases this will require the producer to have the turkey custom slaughtered and processed at a registered poultry processing facility.</p>
<p>Certified organic turkey is the only recognized specialty class at this time. The Board will consider additional classes in the future in accordance with the criteria. Turkey produced under protocols of differing diet, genetics and/or production density alone will not qualify as specialty.</p>	
<p>The Board recognizes that farmers marketing direct to consumers are, in many cases, serving a specialty market channel.</p>	
<p>2.3. Certification</p>	
<p>All specialty producers must have accredited 3rd party certification that their turkeys are produced and marketed under the terms and conditions of designated specialty quota. Certification must be enabled under the Agri-Food Choice and Quality Act or other nationally or internationally recognized certification standards.</p>	<p>It is reasonable for the Board to rely on government recognized 3rd party accreditation of certification agencies.</p>

BCTMB Submission	FIRB Assessment
<p>The responsibility to sustain certification is on the producer. Should a producer temporarily lose certified status, they must immediately notify the Board and submit a plan for marketing the current flock and re-establishing certification. Should the producer be unable or unwilling to re-establish certification within 12 months, the Board may revoke the quota.</p>	
<p>2.4. Food Safety</p>	<p>It is reasonable for the Board to rely on government approved processing for all licensed production.</p>
<p>The Board requires that all turkey products offered for sale to the general public must be either slaughtered in a government inspected poultry processing facility or have verification from a local health authority that the product is in compliance with the meat regulations.</p> <p>The Board proposes that all licensed growers will be subject to OFFSAP audits and certification.</p>	<p>The Board will need to work with organic and small lot growers to adapt, if necessary, the OFFSAP standards to be appropriate to small scale and specialized production.</p> <p>Requiring OFFSAP certification as a condition of licensing will be subject to government direction concerning authorities in regards to food safety.</p>
<p>2.5. Biosecurity</p>	<p>It is reasonable for the Board to be concerned for disease outbreaks causing economic damage to the industry. The Board will, however, need to work with organic and small lot growers to adapt, if necessary, the biosecurity protocols so they are appropriate for different production methods.</p>
<p>All turkey farms will be subject to biosecurity protocols endorsed by industry as stipulated in the B.C. Poultry Industry Biosecurity Manual.</p>	<p>Requiring compliance to the protocols as a condition of licensing will be subject to government direction concerning authority to enforce such protocols.</p>
<p>2.6. Registration</p>	<p>The Board's registration and licensing requirements seem reasonable. The Board recognizes there are some producers that may not presently be registered or licensed. The Board will need to develop ways to encourage registration of small producers.</p>
<p>All persons producing turkey are required to be registered in accordance with the Scheme and General Orders, and are subject to the Act, Scheme and Orders.</p> <p>All sellers of turkey must obtain an annual license from the BCTMB. All licensed growers are subject to production and marketing audits by the Board.</p>	

BCTMB Submission	FIRB Assessment
<p>Certified specialty producers must file records demonstrating certification status as part of annual license renewal.</p>	
<p>2.7. Quota</p>	
<p>The Board already manages two categories of quota – Primary Quota and Secondary Quota.</p>	<p>The Board already has established systems for managing different classes of quota.</p>
<p>Primary quota is used to produce mainstream turkey. Primary quota may be transferred and/or leased, and may produce any class of turkey, including designated specialty turkey, upon application and approval of the Board.</p>	<p>FIRB's policy principles require that designated specialty products be managed by a specialty quota, in this case certified organic quota. The Board intends to issue certified organic quota as a secondary quota which means it will have restricted rights compared to primary quota.</p>
<p>Secondary quota is used to produce a specific class of turkey determined by the Board to be different and unique from the mainstream domestic market. Secondary quotas include multiplier breeder, breeder by-product, export re-grow, incentive and grower-vendor quotas. Secondary quota may not be transferred or leased, and may produce only the designated specialty class for which it is issued.</p>	<p>The policy principles require that designated specialty quota be transferable subject to the declining transfer assessment schedule and a minimum transfer assessment of 10%. The Board's proposal to make organic quota transferable with a facility after five years is not sufficient in terms of quota transfer conditions.</p>
<p>The Board has established a maximum farm size of 1,375,000 kg of primary quota, with exceptions for larger holdings that were in place prior to the maximum limit being established.</p>	<p>The Board's existing Grower-Vendor Program is designed such that permit volumes convert to primary quota after 12 years. The Board may wish to establish its small flock program along the principles of the Grower-Vendor Program (see Section 2.14), except that special levies would not be applicable (see Section 2.17).</p>
<p>Certified Organic Quota will be a secondary quota. It will have the following terms and conditions:</p>	
<ul style="list-style-type: none"> - Certified organic quota may only be used to produce certified organic turkey. It may not produce mainstream product. - The producer must be certified annually, and certification reports must be filed with the Board for license renewal. - Certified organic turkeys must be slaughtered in a government inspected poultry processing facility. - Leasing of certified organic quota is not permitted. - After a defined period of time, certified organic quota will be transferable as part of the transfer or sale of the holder's facility. 	

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<p>2.8. Quota Transferability</p> <p>The Board intends that quota incentives provided to mainstream new entrants will be non-transferable in perpetuity.</p> <p>The Board intends that new entrants seeking to produce a designated specialty class of turkey would have their specialty quota become transferable, with the production facility, after five years in operation.</p> <p>Grower-vendor quota is non-transferable, and is intended to convert to primary quota after 12 years depending upon the conversion option chosen by the GV quota holder (see Section 2.15).</p>	<p>FIRB's policy principles require that specialty and new entrant incentive quota be transferable within its class. This requires changes to the Board's proposed certified organic quota and GVP permit conversion plans.</p>
<p>2.9. Quota Transfer Assessments</p> <p>The Board intends to establish an assessment of 5% on all primary quota transfers, subject to the following exceptions:</p> <ul style="list-style-type: none"> - transfers to immediate family; - mergers of quota held in common; and, - splits of quota where the subdivided holdings have common ownership. <p>If this assessment had been in place over the past three years, 27,000 kg/yr of quota would have been assessed and added to the new entrant pool.</p>	<p>The Board's proposed 5% direct transfer assessment reflects FIRB's policy principles, with exceptions for direct family members, defined as spouse, sons, and daughters; and for business reorganization where the ownership percentages do not change</p> <p>The Board will need to establish the declining transfer assessment schedule for transfers of certified organic quota and any quota provided as a new entrant incentive.</p>
<p>2.10. Exemptions</p> <p>Individuals placing <50 turkeys per year for personal consumption are exempt from levies and the requirement to hold quota.</p> <p>The Board has, to date, accommodated producers seeking to direct market through the GVP.</p> <p>The Board is not aware of needs for higher exemptions or a small flock program that are not currently being met by the GVP.</p>	<p>FIRB's guidelines require that a small flock program be established authorizing production amounts greater than the "personal use" exemption and less than the new entrant incentive.</p> <p>It is not known how the new entrant program will perform in the future. The Board's existing Grower-Vendor Program has accommodated more than 20 small lot producers with varying amounts of production up to a maximum of 15,000 kg authorized in accordance with the producers' individual needs. The Board's proposed new entrant program will also</p>

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<p>2.11. Allocation</p>	<p>provide each successful applicant with up to 15,000 kg of quota. Based on the transfer assessment pool that can be reasonably projected, the number of new entrants will be one or two a year. This may not meet the demands for small lot production.</p>
<p>The BCTMB receives its provincial allocation from the CTMA in accordance with Agency allocation policies. B.C. produces only 67% of B.C.'s estimated market demand for turkey products under allocation received from the CTMA.</p>	<p>A small flock permit program would provide interested producers an annually renewable license authorizing the placement of a certain number of turkeys. It seems 300 turkeys would be a reasonable placement number, and this could result in up to 3,000 +/- kg of production. Such a permit program may well accommodate many direct marketers and heritage breed producers.</p>
<p>CTMA does not recognize specialty production, and does not provide an allocation, base or conditional, for specialty production.</p>	<p>The Board should also consider the potential needs of producers of heritage breeds. If a heritage flock cannot be sustained on the basis of 300 turkeys placed/year, then the Board should be prepared to increase the authorized production level for these producers to a level demonstrated to be required to sustain the heritage flock.</p>
<p>The base allocation, excluding conditional allotments, dropped from 16.4 million kg in 2001/02 to 15.1 million kg in 2004/05, a drop of 8.3%. The Board believes primary quota holders have a reasonable expectation to grow back to the base allocation volumes they produced in 2001/02 as soon as CTMA allocation increases are made available to the BCTMB.</p>	<p>The Board's proposal is to increase the allocation for Grower Vendors and to establish an allocation for certified organic growers. The amounts are based on increasing each Grower Vendor to 15,000 kg and to issue 15,000 kg to the one known organic producer.</p>
	<p>The proposal to provide each Grower Vendor the opportunity to grow to 15,000 kg treats each permittee equally. Some are already at 15,000 while others may have no desire to grow to that level. The Board intends to set aside up to 270,000 kg to allow each existing Grower-Vendor licensee to grow to the maximum level within four years. This is a conservative approach.</p>
	<p>The one known certified organic grower is proposed to receive 15,000 kg of organic quota. However, it is apparent this grower is already producing above this level. The</p>

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<p>The Board initially established an allocation account of 150,000 kg for the GVP in 2002. The Board intends to increase this account up to 285,000 kg over the next four years to provide for growth and to meet existing and known commitments to permittees and the one certified organic producer known to the Board.</p> <p>Growth allocations for certified organic quota will come from the provincial allocation and will be provided pro-rata in same manner as primary quota. The Board recognizes there may be differential market demand requirements between mainstream and specialty production.</p> <p>BCTMB intends to honour and uphold its obligations under the FPA for turkey. Due to concerns for the existing CTMA allocation policies, the Board, working with MAL and FIRB launched a complaint with the National Farm Products Council. The parties are currently working to realize improvements in CTMA’s allocation policies.</p>	<p>Board will need to determine the producer’s production level in the 2004/05 quota period and issue organic quota accordingly.</p> <p>The Board’s proposal to allocate pro-rata to quota holding across mainstream and specialty quota accounts will not provide for differential growth based on different rates of growth in each product/market segment. The Board needs to establish allocation policies and procedures for managing differential growth in at least two distinct classes of quota – primary and organic.</p> <p>Small flock licensee volumes should be recorded, but they should not accrue against the provincial production for the purposes of managing the provincial allocation with CTMA.</p>
<p>2.12. Product Integrity</p>	
<p>The Board requires that turkey produced as certified specialty be marketed in accordance with the criteria established for being a designated specialty class.</p> <p>The Board may approve marketing of a specialty flock as a mainstream product in the event that it fails to achieve certification but meets all OFFSAP and generally accepted production standards, subject to prior approval and possible over-production penalties and costs.</p>	<p>The Board will need to monitor and audit the records of organic producers and processors to ensure that all marketings are in accordance with the class of quota held by the producer.</p> <p>The Board should discuss the penalties for marketing outside a class with its Advisory Committee and specialty producers before establishing these regulations.</p>
<p>2.13. Production Switching</p>	
<p>Growers holding primary quota will be permitted to grow any class of turkey, including certified organic, upon approval of the Board.</p> <p>Holders of certified organic quota, or any future specialty quota, will only be permitted to produce the designated specialty class related to the quota.</p> <p>Product that cannot be shipped as specialty</p>	<p>The policy principles for specialty quota management require the principle of reciprocity to be honoured. Therefore, allowing primary quota to produce designated specialty products but not allowing specialty quota to produce mainstream turkey is not acceptable.</p> <p>The Board needs to develop rules by which a holder of one class of quota could receive authorization to produce product managed</p>

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<p>may not be disposed of on the regular market without prior approval of the Board and may be subject to penalties and costs.</p>	<p>by another class of quota. It seems reasonable that allowing an organic producer to market as a mainstream product in the event that organic certification is temporarily suspended should provide that a mainstream producer could produce organic turkeys under certain circumstances. In either case, approval of the Board should be required. The Board should develop criteria by which it will allow marketing of product managed by a quota class other than the one held by a producer. This should be developed with the Advisory Committee and specialty producers.</p>
<p>2.14. Specialty Permits</p>	
<p><u>The Grower–Vendor Program</u></p>	
<p>The Board established the GVP in 2002 as a new entrant program targeted to farm direct marketers, and created a secondary class of grower-vendor quota. The GVP was originally intended as a new entrant program to expand turkey consumption and provide an opportunity for producers wishing to direct market. The original GVP provided the opportunity for up to 15,000 kg (live) of G-V quota, incurred a special levy of \$0.1925/kg, and included a right to convert the G-V quota to primary quota after 12 consecutive years in the program.</p>	<p>The Board's Grower-Vendor Program appears to have been successful for licensing a number of small producers who direct market. The permittees are paying a "special quota lease" fee of \$0.1925/kg as part of a \$0.23/kg levy assessed on all secondary quota, which includes grower-vendor quota.</p>
<p>Presently there are 18 licensees in the GVP. These licensees will be allocated approximately 137,000 kg in 2005/06. The amount of grower-vendor production has increased since the program was established.</p>	<p>The Board will need to develop a small flock permit program. Small flock permits should be annually renewable upon application and reporting of the prior year's production and marketing records. Permittees should be licensed by the Board, permits should be issued upon request, permittees should be subject to government approved food safety and biosecurity regulations, and permittees should be required to direct market their production.</p>
<p>The Board has suspended bringing new producers into the program pending the outcome of the specialty review.</p>	<p>The production authorized under a small flock permit should be limited to placement of 300 turkeys each year. Some unregistered producers may argue this level is too low. However, with a new entrant program and conversion of all existing grower vendors to new entrants licensed for up to the 15,000 kg level, it seems reasonable to work with the 300 placement limit until program demand and performance can be assessed. The amount produced under the small flock permit program should not accrue against the provincial allocation, should not be</p>

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<p data-bbox="228 373 573 405">2.15. Permit Conversion</p> <p data-bbox="337 436 537 468"><u>Grower Vendors</u></p> <p data-bbox="337 495 849 709">The Board has entered into agreements with 18 producers under the GVP, and the Board believes it is right and reasonable to honour these agreements. To the Board's knowledge, all existing GVP permittees are producing mainstream and non-certified specialty turkeys.</p> <p data-bbox="337 737 862 1014">The Board intends to provide each GVP licensee who wishes to do so the opportunity to increase their production from existing levels to the maximum allowed under the program of 15,000 kg over four years beginning with the 2006/07 quota year. Licensees will have the option to cap the amount of G-V quota required at less than 15,000 kg.</p> <p data-bbox="337 1041 849 1224">To meet these obligations to existing licensees, the Board must make available up to 270,000 kg of allocation by the end of the four year period. This represents an increase of almost 100% from 2005/06 levels.</p> <p data-bbox="337 1251 849 1497">The Board also intends to provide GVP licensees two options. Option A involves continuing with the special levy and receiving primary quota after 12 years. Option B involves having any special levies paid to date reimbursed and receiving non-transferable secondary quota (G-V quota) having no conversion rights after 12 years.</p> <p data-bbox="337 1524 670 1556"><u>Certified Organic Producers</u></p> <p data-bbox="337 1583 849 1894">The Board knows of only one certified organic producer in B.C. at this time. This producer is not registered with the Board. The Board intends to issue certified organic quota up to 15,000 kg to this producer based on a plan to be submitted to the Board by the producer. The Board is not aware of the established production of this producer, but estimates it to be 8,000–10,000 kg based on discussions with the</p>	<p data-bbox="889 254 1336 348">deducted from provincial allocation by CTMA and should not be subject to overproduction penalties.</p> <p data-bbox="889 436 1382 558">The Board's proposed conversion plans include an option of non-transferability of quota, which does not meet FIRB's policy principles.</p> <p data-bbox="889 590 1084 621"><u>Grower Vendors</u></p> <p data-bbox="889 653 1406 1199">To convert the Grower-Vendor Program to quota in accordance with the policy principles, the Board will need to consider issuing quota to each permittee in an amount equal to their production, up to a maximum of 15,000 kg, based on the most recently completed quota year ending April 2005. Additionally, for those grower vendors not already at the 15,000 kg level, the Board will need to develop a plan with each such producer by which they will grow up to this level within a defined period of time. Any quota issued pursuant to permit conversion will need to be subject to the declining transfer assessment schedule. All levies owing to April 2005 will, subject to Board discretion, be due and payable prior to the issuance of quota.</p> <p data-bbox="889 1230 1092 1262"><u>Certified Organic</u></p> <p data-bbox="889 1293 1406 1650">The Board also needs to issue organic quota to the one known certified organic producer who has come forward and been recognized during the specialty review process. Since this grower's production level is already above the 15,000 kg level proposed by the Board, it will be necessary for the Board to determine the amount produced in the quota year ended April 2005. The Board will need to issue organic quota in the amount produced in the 2004/05 quota year.</p>

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<p>producer during the consultation phase of the specialty review.</p>	
<p>Certified organic quota issued will be non-transferable for the first five years, after which it will be transferable with the production facility.</p>	
2.16. Pricing	
<p>Certified organic live turkey prices must be in accordance with Board ordered minimum prices.</p>	<p>The Board should monitor prices of grower-vendor and organic producers to ensure that their prices conform to the Board ordered minimum prices. The Board may also be able to assist some grower vendors with pricing, although most direct marketers likely sell well above wholesale prices.</p>
<p>The Board believes no minimum price is required specifically for certified organic turkeys at this time since the only known specialty producer is a direct marketer.</p>	
2.17. Levies	
<p>The same marketing levies and license fees will be applied to all classes of quota.</p>	<p>The Board will not be able to maintain the \$0.1925 special lease levy on grower-vendor or organic quota going forward.</p>
<p>All classes of quota will be subject to over/under marketing sleeves, levies and penalties.</p>	<p>All levies due and payable to the end of the 2004/05 quota period should, subject to Board discretion, be collected by the Board prior to permit conversion or license renewal.</p>
<p>The Board intends to maintain the \$0.1925/kg levy on GVP permits that are contracted to convert to primary quota after 12 years.</p>	<p>The Board may wish to examine assessing levies on a fee for service based on the cost of providing the different services required by each class of quota. This means that primary quota and specialty quotas may be assessed different levies. This matter should be considered by the Advisory Committee and any differential levies determined should be based on actual costs and activity costing.</p>
<p>The Board is eliminating the special administrative levy for GVP permittees who choose the option of having their special levies reimbursed and thereby elect to forego their rights to receive primary quota after 12 years.</p>	
2.18. New Entrants	
<p>The Board proposes to enhance its existing new entrant program to accommodate certified organic (specialty), grower vendor and mainstream new entrants. Priority will be given to certified organic and grower-vendor new entrants over mainstream new entrants.</p>	<p>The introduction of a small flock program will accommodate some current and future grower vendors. This permit program could be viewed by the Board as an entry point for producers, and it may merit consideration that small flock permittees be provided a priority ranking on the new entrant waiting list.</p>
<p>New entrants will each be provided up to a maximum of 15,000 kg of secondary quota.</p>	<p>The Board has established that specialty</p>

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<p>To grow above 15,000 kg, producers, regardless of class of quota held, will be required to acquire primary quota.</p>	<p>and grower-vendor new entrants will be provided priority over mainstream new entrants. This is reasonable in promoting production to serve B.C.'s specialty markets.</p>
<p>The new entrant quota account will be funded, above the 285,000 kg estimated to be required to convert and accommodate existing grower vendors and known certified organic producers, by transfer assessments and redistribution of retracted and/or uncommitted non-transferable quota.</p>	<p>The incentive amount provided (15,000 kg) is relatively small in relation to average quota holdings and commercial farm sizes. However, the Board has reasonably taken the position that its new entrant program is directed first to developing specialty markets in B.C. Most producers for these markets are quite small and the 15,000 kg should accommodate them. For individuals wishing to become commercial operators 15,000 kg will provide some assistance but will not go very far in establishing a commercial operation. The numbers should be monitored annually and the program performance reviewed in three years.</p>
<p>The number of new entrants invited to enter the industry each year will depend on the amounts available in the new entrant pool.</p>	

2.19. New Entrant Eligibility

Eligibility for application to the new entrant program will include:

- B.C. resident over 19 yrs of age;
- Canadian resident or landed immigrant;
- A non-refundable application fee of \$100;
- Completion of a Board application form;
- Not previously a holder of supply managed quota; and,
- An applicant and their spouse/partner is considered one applicant.

Eligibility for issuance of quota under the new entrant program will include:

- Provision of a business plan within sixty (60) days of invitation from the Board;
- Demonstrated intent to use a licensed hatchery and processor;
- Proof of land ownership;
- OFFSAP certification, when available to the industry and as appropriate to the class of production;
- Maximum of one new entrant quota

The Board's eligibility criteria seem reasonable, and they are similar to those of all other Boards in requiring residency and excluding anyone who has previously held an interest in supply management quota.

The Board should ensure that all applicants fully understand they must be actively engaged in the farm operation or be subject to having their quota retracted. In this case, if the Board were to determine that a recipient of incentive quota was no longer actively engaged, the Board would have the right to retract the quota at that time and the quota holder would forfeit the opportunity for lower future assessment levels in accordance with the declining assessment schedule.

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<p>per property; and,</p> <ul style="list-style-type: none"> - In the case of certified organic, the successful applicant will need to demonstrate certified status or a plan to achieve certification. 	
<p>2.20. New Entrant Waiting Lists</p>	
<p>The Board proposes to:</p> <ul style="list-style-type: none"> - Maintain one waiting list for new entrants; - Limit the number of persons on the list to six; - Advertise and update the list when it has been drawn down to three in the queue; and, - Place people on the list in the order their names are drawn randomly from a pool of applicants. 	<p>The Board's approach to the new entrant waiting list seems reasonable.</p> <p>The Board does not explicitly require that applications be renewed periodically. To ensure that applicants on the list have sustained interest and continue to meet the eligibility criteria, the Board should require annual renewal by applicants on the waiting list.</p> <p>The Board will need to be clear in terms of priorities in offering invitations when sufficient quota is available from the transfer assessment account. For instance, if grower vendors and certified organic producers are to be given priority, in a situation where there is only one spot available and both grower-vendors and certified organic producers are on the list, how will the Board determine which one gets the invitation?</p> <p>If the Board determines that small flock permittees will also have a priority on the new entrant waiting list, it would be advisable for the Board to consider the hierarchy of priorities it will apply when making invitations.</p>
<p>2.21. Representation</p>	
<p>All growers licensed by the Board are members of the B.C. Turkey Association and have voting rights at the Association. Eligibility to vote at the BCTMB level requires a licensed grower to hold a minimum of 0.25% of the quota issued in the province.</p> <p>The Board presently receives advice from two organizations – the B.C. Turkey Association and the B.C. Turkey Advisory Committee. All growers licensed by the Board are eligible for representation through the Advisory Committee. The Board intends to appoint a specialty grower to the B.C.</p>	<p>Some grower vendors are seeking a forum to share information and ideas about their operations. In light of this, the Board may wish to revisit establishing a Specialty Markets Advisory Committee. In the event the Board determines to establish a Specialty Markets Advisory Committee, it should ensure that clear terms of reference are established from the outset.</p> <p>As an alternative to voting on the basis of a minimum quota holding, the Board may wish to consider establishing voting rights, either completely or in part, on the basis of quota held. For instance, the Board could</p>

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<p>Turkey Advisory Committee.</p> <p>The Board intends to consider establishing a Specialty Product Advisory Committee in the future when there are sufficient specialty producers to justify a committee.</p>	<p>establish a double hurdle for voting whereby decisions require both a majority of producers and a majority of production.</p>
2.22. Transparency	
<p>The Board intends that new entrant program waiting lists will be managed by the Board's auditor and that waiting lists will be published on the BCTMB website.</p>	<p>The Board will have several programs to operate – the small flock program, the new entrant program and several classes of quota. Administration can be made efficient by the use of data management systems and web-enabled communication and registration. However, the effectiveness of the programs will depend upon how well the Board and producers work together. The Board is regulatory and is required to enforce its regulations. It will be useful for the Board to develop some means for communicating and working with specialty and smaller producers, perhaps through an Advisory Committee focused on their interests.</p>

3 Response Summary

FIRB is giving policy direction to the BCTMB that its specialty and new entrant submission is acceptable subject to the following changes and/or clarifications being reflected in the Board's draft Orders which are to be prepared and submitted to FIRB on or before October 31, 2005:

1. The Board should develop clear criteria for what constitutes direct marketing by producers.
2. The Board should plan to work with small scale and certified organic producers to adapt and develop OFFSAP and biosecurity guidelines to be appropriate to these types of operation.
3. The Board should create a specialty quota class for managing certified organic turkey production and marketing. This quota should be transferable as specialty quota and subject to the declining transfer assessment schedule.
4. The Board should institute the declining transfer assessment schedule for all specialty and new entrant quota issued on or after the implementation of the specialty and new entrant programs.
5. Direct transfer assessments on existing primary quota should be 5%
6. The only exceptions from transfer assessment should be limited to direct family transfer to spouse, sons or daughters; and for corporate reorganization where the percentage quota ownership does not change.
7. The Board should introduce a small flock program authorizing up to 300 turkeys to be placed annually. Permits should be annually renewable upon application and should be intended for

direct marketers. Amounts produced under the new small flock program should not accrue against the provincial allocation.

8. The Board should develop procedures to distribute the provincial allocation received from CTMA among primary quota and specialty quota accounts based on different market growth in each segment. Allocation to producers within a class should be pro-rata to quota ownership within the class.
9. Allowing production of a product other than that managed by the class of quota held should be a temporary measure (i.e. 1 year) approved by the Board based on demonstrated production or market needs.
10. Special lease levies (\$0.1925/kg) on grower-vendor quota should be terminated effective the end of the 2004/05 quota year (April 2005). Subject to Board discretion, all levies due and payable to April 2005 should be paid by the permittees prior to permit conversion to quota.
11. All existing Grower Vendors should be issued quota in the amount of their 2004/05 production for the 2005/06 year. The start date for the transfer assessment on this newly issued quota should be the year in which the permittee entered the Grower-Vendor Program, providing they have produced continuously since that time, otherwise the start date should be the 2004/05 quota period.
12. Existing Grower Vendors not presently at the 15,000 kg limit should be provided the opportunity to grow to this level within a defined period of time (i.e. four years). There should be no obligation to grow to this 15,000 kg level.
13. The Board should issue the one known certified organic producer an amount of organic quota equal to the 2004/05 production.
14. For producers to grow beyond volumes initially issued, the Board will need to develop allocation procedures for the different quota accounts. This could be done in consultation with specialty producers or through an Advisory Committee.
15. The Board's new entrant program should build on a small flock program and give priority to specialty market and grower-vendor requirements.
16. The Board should ensure its new entrant and grower-vendor policies and procedures require licensees to be actively engaged in the farming operation.
17. The Board should determine if the existing Advisory Committee approach will work for grower vendors and specialty producers; if not, it should set up a Specialty Markets Advisory Committee comprised of an equal number of specialty producers, specialty processors, a Board member and an independent Chair.