

**BC Egg Marketing Board's Response to Thirteen  
Questions Posed by FIRB in Regard to the Proposed  
BC Egg Specialty Plan**

**May 18, 2005**

## **REVIEW OF SPECIALTY PRODUCTION AND NEW ENTRANT PROGRAMS- IMPROVING ACCESS TO THE SUPPLY MANAGEMENT SYSTEM – BC EGG INDUSTRY**

**The following are answers to questions posed to BC Egg Producers by FIRB following the March 31, 2005 BC Specialty Egg Plan submission**

### **Question #1**

Describe the size, structure, composition and trends of the BC egg Market, including the sources of supply and the market segments for eggs marketed in BC. Also provide some analysis concerning why the specialty market is not more fully supplied already by quota producers.

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#### **Current BC Egg Market**

##### **Size**

The five major graders in BC sold 3.5 million boxes of eggs in 2004. Approximately another 500,000 boxes of eggs are sold at farmgate or through small graders for a total market of four million boxes of eggs. (1 box = 15 dozen eggs)

##### **Structure**

2,472,985 registered layers and special permit birds.  
Approximately 170,000 unregistered layers [Canada Census Year 2001]

##### **Trends**

Currently all markets for eggs in BC appear to be fully supplied by BC egg producers other than white cage layer.

Free run has leveled out since 2003. There are some regional variations but as a province the market is fully supplied.

Free range market has declined a bit but the market is fully supplied as well.

Organic has been fully supplied since March 2005. BCEP is currently not importing any eggs from the US to supply this market. Imports were to offset BC loss of production as a result of avian influenza. As BC registered organic producers come on stream, the need to import these eggs falls off.

As already mentioned, the markets for all types of specialty products appear to be fully supplied at this time. There has been some uncertainty during the 2003-2005 Specialty Review period that has resulted in delays in issuing TRLQ to supply changing specialty markets, so organic eggs were short for a period of time. All markets other than organic were fully supplied. There has recently been some instability in the organic market. This is likely because of a dramatic increase in the organic egg supply, originating outside of the supply managed system that may negatively impact the orderly repopulation of organic flocks (following the Avian Influenza outbreak).

Once all registered organic producers are back in production and the market is stabilized, it is estimated that another 5000 birds will be required to meet organic market demand.

### **Source of Supply**

Approximately 5% of BC's white caged layer market is supplied by Alberta. In addition approximately 6% of BC's white caged layer market is sourced from graders on the Prairies as BC's allocation is traditionally short of the BC consumer demand. These eggs are white cage layer production. All other markets are supplied by BC registered egg producers as well as BC egg producers outside of the supply managed system.

### **Why has the specialty market not been more fully supplied already by quota producers?**

The cost of switching to free run, free range and especially organic production is substantial i.e. larger barns, land requirements, certification etc. In addition the labour requirement increases for organic production.

As a result, there has been reluctance on the part of mainstream producers to switch from white caged layer to organic production without assurance of a contract, which graders have been reluctant to offer.

## Question #2

What is the amount of growth allocation that has been issued to quota holders as transferable quota units over the past fifteen (15) years?

Issued quota January 1, 1990	2,303,936
Issued quota March 8, 2005	<u>2,369,417</u>
Net increase	65,481 (including 55,746 purchased by producers on the National Quota Exchange - NQE)

The Board's issuance records extend back to 1978. Between 1978 and 1995 BC's allocation was reduced by 285,227 birds. Producers who had purchased quota lost up to 11.4% of their quota. By 2000 (the last year there was a prorata increase) 163,387 had still not been returned to BC producers.

### Question #3

Explain the form and function of specialty quota. What are the proposed specialty quota policies and procedures and how do these compare and contrast with transferable quota in eggs? Where the policies and procedures differ, explain the rationale for the difference.

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#### **Form and Function**

The Board proposes to establish two designations for quota:

- Regular quota (unrestricted) - this quota can be transferred freely between specialty and nonspecialty production
- Specialty quota (restricted) - must remain as specialty quota for specialty production and may only be transferred as specialty.

Specialty nontransferable incentive quota is quota issued to new entrant producers for the production and marketing of specialty product.

Specialty quota may not be used to produce nonspecialty product. This will ensure quota designated for specialty products will remain specialty quota.

The Board intends that specialty quota be used by specialty new entrants to produce specialty products only. Specialty new entrant products are specifically those that meet a two hurdle test. First, there must be an unfilled market requirement for a defined or identified product wherein the farm based attributes are sufficiently different and in demand that consumers seek these attributes and are prepared to pay a significant price premium. Second, the specialty producers seeking differentiable status within the regulated system for the specialty product must operate under a certification plan accredited by a 3<sup>rd</sup> party.

At this time the Board recognizes certified organic as a meeting the requirements for specialty quota designation and therefore is eligible for purposes of the New Entrant Specialty program:

- They are 3<sup>rd</sup> party certified i.e. - through the Agri-food Choice and Quality Act (AFCQA) and /or nationally or internationally recognized standards.
- There is market demand for that product
- Identity preservation to the consumer through product labeling and marking of the unique farm-based attributes
- Extra farm-based effort and investment to produce unique product attributes
- They command a premium in the marketplace

In the future other products, such as free range and any other future new innovative product may be considered for specialty quota designation providing they fulfill specialty quota requirements. The Board will not recognize eggs produced with solely a change in feed or genetics as eligible for specialty quota designation.

Pricing and premiums will be determined in consultation with all specialty producers and the SPAC.

BCEP will consider implementing systems which track the egg from the producer to the consumer such as a Bar Code identification system, in order to enhance identity preservation.

### **Rationale:**

The Board does not intend to have designated classes of quota. Having “classes” of quota restricts the ability of the Board to react to fluctuations in the specialty markets and could restrict the Board from its ability to supply changes in market demand.

If all unused quota was designated as certified organic there would be no ability to accept new entrants wishing to produce new and innovative specialty products. Should the market for organic be long in the future, the Board must have the ability to supply a new market with that quota. The quota would remain specialty but not necessarily organic, should the organic market become long in the future.

In addition, organic producers may have to medicate their flock from time to time and the Board would allow the sale of eggs as free range or free run.

New innovations may require transitional time periods prior to full certification and there must be flexibility within the specialty designation.

In a short province, it makes sense for the Board to allow some controlled flexibility in responding to market requirements. It is inefficient and not market responsive to ship eggs to the pool or be forced to destroy them because they are designated in a “class of quota.” when the market for different specialty products is unfilled.

The Board determines market needs through discussions with graders about grader requirements. The Board strongly believes its first priority is to meet the requirements of graders who have direct contact with the market and market requirements.

The Board will consult with graders in determining markets. The Board will utilize this information in determining quota designations i.e. – regular and specialty.

## **Policies and Procedures**

1. Any quota provided to specialty producers as an incentive through the new entrant program will be restricted as specialty non-transferable, with the exception of a one time ability to transfer to adult children of the new entrant.
2. Incentive quota provided under the New Entrant Specialty (NES) program will remain specialty quota.
3. New entrant specialty quota initially will be “certified organic”. While priority over mainstream will initially be given to certified organic, other specialty products may be considered for specialty quota designation and new entrant eligibility in the future if required by the marketplace.
4. At the end of year seven, quota equaling the number of birds held by each TRLQ & Specialty Permit Holder at January 1, 2005 will be granted as transferable specialty quota up to a maximum of 2500 birds.
5. Quota granted to Special Permit and TRLQ holders after year 7 of the New Entrant Specialty Program is transferable but must remain specialty quota.
6. Nontransferable incentive quota held by children of new entrants through the one time exception rule must continue to be used for specialty production.
7. Producers may hold both specialty (restricted) and regular (unrestricted) quota.
8. If a producer loses certification for two (2) successive flocks, the Board may, at its sole discretion, revoke that producer’s nontransferable incentive specialty quota.
9. Regular quota may be used to produce either specialty or non specialty product. A specialty producer may purchase regular quota for use in specialty production.

## **Rationale for specialty (restricted) quota**

Non-transferable specialty incentive quota is designed to help a new producer by reducing the cost of getting started in the business. It is not intended to have value or become part of the assets of the business.

Specialty transferable quota should remain specialty in order to eventually become available for purchase by specialty producers.

## Question #4

What are the implications of requiring specialty producers to obtain transferable egg quota to grow specialty production to meet market demand?

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1. There are no mandatory requirements for specialty producers to obtain transferable quota.
2. Market demand will determine the amount of specialty production required.
3. Should a producer wish to grow his market, purchase of quota indicates a willingness to invest in the business and stay in the business for the long term.
4. The Board intends to facilitate the purchase of transferable quota through the 3<sup>rd</sup> party operated (currently KPMG) provincial quota exchange. The quota exchange has been in place for some time, but there has been no requirement that quota transfers be processed through the exchange. Most transfers are farmer to farmer without passage through the exchange.
5. All quota transfers will be required to be processed through the provincial quota exchange, with the exception of full farm transfers, name changes, family transfers and splitting/mergers.
6. Other than the above exemptions, farmer to farmer transfers will no longer be allowed. The current shortage of available quota will therefore be alleviated.
7. The total amount of quota offered for exchange must first be offered to new entrant specialty producers. This will ensure they have access to quota for purchase.



## Question #5

What are the rules for switching from caged layer production to specialty production?

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Grader requests indicate changes in market demand and provide a mechanism for the Board to manage switching mainstream production between specialty and non-specialty production.

If market demand requires additional specialty production, caged layer producers will be encouraged by their graders to switch to ensure the market is supplied.

Mainstream producers are not inclined to switch to specialty production (i.e. certified organic and once 3<sup>rd</sup> party certified, possibly free range, free run, new innovations etc.), without a contract with the grader, which ensures there is a market. The cost incurred in terms of capitol investment to convert from caged layer to organic is significant (larger barns, more land, special feed, certification, etc.). Conversion would not take place without careful consideration and without a guaranteed market. To date there has been a hesitance on the part of producers to convert because:

- Graders are reluctant to contract
- Organic production is much more costly in terms of feed and labour requirements than caged layer.

As mainstream producers are not likely to switch to organic without due consideration and a proven market, the only requirement for switching would be to prove that there is a market for this production.

## Question #6

Provide an accounting and analysis of the sources and uses of all production allocated to BC by the Canadian Egg Marketing Agency in the current quota year, and projected forward 3 years based on your proposed permittee conversion, transfer assessment, and new entrant programs.

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The answer to question #1 details the sources and uses of all production allocated to BC.

Over the next three years the BCEP approximates 7,500 birds to be available from transfer assessments with the 5% assessment on full farm transfers in place.

No CEMA allocation increases are expected however, there is an assumption a small (.01%) allocation will be received in year 4. However, there are no guarantees there will be any allocation at all in the future.

Two new entrants a year will require 8,000 layers [yr 1 - 2,000, yr 2 - 2,000, yr 3 - 4,000] in the first three years.

The current MRAP pool is sufficient to provide up to 35,500 layers to enable the current TRLQ and Special Permit holders to top up to 5,000 layers each should the market require that number of birds.

**Question #7**

How does the Egg Board envision managing allocation to distinct classes of quota?

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1. The Board does not envision having distinct classes of quota. The Board will designate quota as either specialty (restricted) or regular (unrestricted). The form, function and policies in regard to these quotas are detailed in the answer to question #3)
2. The Board intends to have two new entrants a year. In the first years, the Board envisions there will only be specialty new entrants requiring specialty quota.
3. Market demand will determine the need for new entrants and the requirement for specialty quota.
4. Any CEMA quota allocation will help supply the pool for the new entrant program.
5. Should there be a CEMA allocation, the Board will determine how much is necessary to meet the needs of New Entrant Specialty and will allocate to the pool accordingly. If there is any allocation remaining, the Board will allocate for New Entrant Mainstream. If that is also satisfied, there may be a prorata allocation to existing producers.

## Question #8

Explain the rationale and proposed mechanics for the quota auction/sales program envisioned by the Egg Board.

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British Columbia Egg Producers would like FIRB to consider allowing the Board to sell quota at a reduced market value. The availability and price of quota have been cited as reasons why current TRLQ and Special Permit holders have not purchased quota. In addition, the price of quota has been criticized as being prohibitive for New Entrants. Giving BCEP the authority to sell allocated quota could overcome this obstacle.

Allowing the Board to sell quota would:

- Enable new entrants to purchase quota at a reasonable price
- Make quota available at a reasonable price allowing new entrants to demonstrate their commitment to the business of egg production by making a financial commitment. (Registered producers have made the criticism that the Board's Specialty Egg Plan of March 31, 2005 does not ensure New Entrants make an adequate financial commitment to the business.)

Reduced price quota purchased would be prohibited from sale to another producer for 7-10 years. It could be sold back to the Board in the first 7 years.

Funds from the sale of quota may be used for research and development purposes in such areas as new uses for eggs, prevention of spread of avian diseases, enhanced biosecurity, etc.

This is not an entirely new notion, as both Saskatchewan and Alberta have variations on sale of quota through the Boards. Similarly, the existing BC provincial quota exchange recognizes quota as having value.

Any quota sales program is expected to run through the 3<sup>rd</sup> party operated (currently KPMG) provincial quota exchange with the Board being the seller. This would ensure a transparent and fair process.

**Question # 9**

Explain the policies and procedures envisioned by the Egg Board for the transfer of quota between producers through the quota exchange, including discussion of transfers not required to be transacted through the exchange.

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The Board has an established Quota Exchange. Current rules do not require quota transfers to be transacted through the exchange, thus most transfers are farmer to farmer. BCEP's specialty egg proposal requires all quota transfers to be processed through the exchange, with some exceptions such as full farm transfers. The Quota Exchange is administered by a 3<sup>rd</sup> party – currently KPMG – in order to ensure a transparent and fair process.

**The following information outlines the current rules for the provincial quota exchange:**

**BRITISH COLUMBIA PROVINCIAL QUOTA EXCHANGE****INTRODUCTION**

A Quota Exchange is a program by which persons will be able to buy and sell quota only, not including an egg production unit. It operates on the premise that each buyer who wishes to buy quota has a maximum price that he is willing to pay for it and each seller has a minimum price that he is willing to accept. Similarly, a buyer will not pay more than his maximum price although he would choose to pay less if afforded the opportunity. A seller would not sell for less than his price but would accept more than his minimum price. At the point where the volumes of quota and prices offered for sale equals or comes closest to the amount of quota bid for, the quota is exchanged.

All producers who wish to sell quota will submit offers to the exchange indicating that they have a certain volume of quota for sale and that they would like to sell it at a certain price per hen. Once they have been notified there is an offer to sell buyers who wish to buy quota will follow a similar procedure. They will submit bids to the exchange indicating that they would like to buy a certain volume of quota and that they are willing to pay so much per hen for it.

All of the offers to sell quota, and all of the bids to buy quota will be submitted to:

B.C. Egg Producers  
#150 – 32160 South Fraser Way  
Abbotsford BC V2T 1W5  
Phone :604-556-3348  
Fax : 604-556-3410

**BRITISH COLUMBIA PROVINCIAL EGG QUOTA EXCHANGE  
POLICIES AND PROCEDURES (CURRENT)**

- 1 The Exchange will only run when there is a vendor. It will take place on the first Wednesday of the month following 30 days notice. This information will be posted on the BCEP web site. All stakeholders, as well as TRLQ holders and applicants, will be notified by mail. TRLQ applicants will have the first opportunity within the exchange. If no match is found within TRLQ applicants, the exchange will then be run using all other applicants.
- 2 Bids or offers must be in an acceptable form and be received by the office prior to 4:00 pm of the last working day before the day in which the exchange is to be held.
- 3 Any bids or offers received incomplete or after the deadline will be rejected.
- 4 Offers or bids may be amended or withdrawn prior to 4:00 p.m. on the day before the exchange.
- 5 Bids to buy will only be accepted on the notification of the exchange and must include the following information:
  - A) maximum amount of quota expressed in laying hens to be purchased;
  - B) the price to the nearest cent at which the buyer is willing to buy the quota;
  - C) the month to which the bid applies;
  - D) the name, address, and signature of the bidder.
- 6 In order for the bid to be eligible, a bank draft, certified cheque or an irrevocable letter of credit payable to B.C. Egg Producers must be submitted to the B.C. Egg Producers office no later than 4:00 p.m. on the day before the Exchange. The bank draft, certified cheque, or irrevocable letter of credit must represent ten percent (10%) of the full amount of the bid. Personal cheques will not be accepted. If the successful bidder(s) do not proceed with the transfer after the exchange is run, the 10% deposit is forfeit.
- 7 To be eligible for transfer to another region in the province, quota must have been offered for sale on at least two Provincial Quota Exchanges where all or a portion of the quota did not trade.
8. Each offer to sell must include the following information:
  - A) maximum amount of quota offered for sale;
  - B) the price to the nearest cent at which the seller is willing to sell;
  - C) the months to which the offer applies;
  - D) The name, address, and signature of the seller.
9. Following the Exchange, each participant will be advised, in writing, whether his bid or offer was successful. Those successful will be required to provide additional

information to the BCEP to complete the Exchange. At its monthly meeting, the Board will receive the results of the Exchange for that month, and, subject to BCEMB Standing Order it will pass and give conditional approval. At the following Board meeting and upon payment it will pass a final approval resolution to allot quotas to the successful bidders and cancel the quotas of the successful sellers.

Regulations as per section 9 BCEMB Standing Order apply.

Note: as an incentive, for parties to participate in the provincial quota exchange, the 5% assessment will not apply. All funds submitted by unsuccessful bidders will be refunded immediately following the Exchange.

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## **PROPOSED RULES**

1. The Board intends to utilize the established BC Provincial Egg Quota Exchange to assist in making quota available for purchase by new entrants and specialty producers wishing to grow. Quota transfers will be required to be transacted through the exchange, with some exceptions.
2. It is proposed that specialty producers will get first opportunity to purchase from the quota exchange.
3. All quota transfers must be processed through the provincial quota exchange with the following exemptions:
  - Full Farm sale (required to be registered at land title office)
  - Family Transfers
  - Name Change
  - Splitting quota that is commonly owned into different entities with separate control or merging (the opposite of splitting). Note: for a split to be exempt the percentage of ownership must be maintained. e.g. a person who holds 50% of the combined quota is only exempt up to the number of birds of quota that equals 50%

These transfers will come directly to a Board meeting for approval. All transfers need conditional and final approval by the BCEP Board of Directors.

4. The 5% assessment will apply to quota exchange transfers.

## Question #10

Discuss the implications of restricting the small flock program to Certified Organic Associations of BC certified producers only? What are the mechanics of managing access to this program?

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The Board proposes to maintain the existing exemption level of 99 birds, but will provide a higher exemption for small, certified COABC organic producers.

For smaller, lifestyle certified organic COABC specialty egg producers, the Board is proposing to establish a reserve of 10,000 layers to provide for a higher exemption level - Certified Small Flock Program (CSFP). At 399 birds this will accommodate 25 or more current lifestyle producers. This higher exemption level would only apply to certified COABC certified organic specialty producers. The conditions that apply to this program are:

- Until certified, the 99 bird limit applies. Producers wishing to move above the 99 bird exemption would first need to be certified and use the 99 bird limit to take themselves through the COABC transitional period at the end of which time they must be certified.
- Once certified by COABC, a producer may grow without the necessity of acquiring quota or paying levies until they reach 399 layers.
- Should a producer decide to market eggs as Canada Grade “A” certified organic the producer must pay regular levies on product marketed through a registered grading station
- Should the producer decide to grow past the 399 bird limit the producer must prepare a business plan and apply to enter the new entrant program.
- In order to address future growth, these producers will be given priority as new entrants.
- All producers must comply with all applicable provincial and federal food safety regulations and biosecurity protocol of the BCEP for BCEP protocol)
- The Board will review the reserved amount in 3 years.

### **IMPLICATIONS**

The 399 exemption proposal is aimed at a very small sector of the market with the intention of allowing COABC producers to grow past the 99 bird limit before they must apply to enter the New Entrant Specialty program.

This program has to be restricted so as not to impact on CEMA allocations to BC.

The Board will consider an increased exemption level for individual heritage breed flocks, should the exemption level of 99 be demonstrated by the applicant to be too low for the maintenance of a viable heritage flock.



## **MECHANICS**

1. These producers would not be required to hold quota and would be exempt from paying levy on eggs sold at the door to the consumer.
2. The requirement to be recorded and adherence to the biosecurity/ health and safety regulations etc would apply.
3. The Board will need to know the location of farms and flock size in order to determine whether the total number of birds is within the 10,000 bird limit.
4. There will be a requirement to confirm flock size to the Board. This may include field staff visits and counts or alternatively the Board may consider the declaration of a 3<sup>rd</sup> party such as an organic certifier as proof of flock size.
5. The Board will consider organic permit certifiers to attest to the on-farm food safety standards provided the certifiers meet the training requirements of the Board.
6. The Board will request a business plan should an exempted producer apply to be added to the wait list as a new entrant specialty producer. (For producers wishing to grow beyond 399 birds.)
7. CSFP producers will have priority over other applicants on the wait list.
8. Exempted producers are not eligible to vote or sit as a member of the Board.

## Question #11

Provide an analysis and discussion of the proposed transfer assessment, including a listing of exceptions to transfer assessment and calculation of the amount of quota that would have been realized by the Egg Board had the proposed amended assessment been in effect over the past five (5) years.

The intent of a 5% transfer assessment is to provide a levy on producers exiting the industry and provide a levy on partial sales of quota.

Currently full farm transfers are exempt from the 5% assessment requirement. The Board proposes that full farm transfers would no longer be exempt.

### TRANSFERS EXEMPT FROM THE 5% ASSESSMENT

It is proposed that all transfers are subject to the 5% assessment with the following exemptions:

- Family Transfers
- Name Change
- Splitting quota that is commonly owned into different entities with separate control or merging which is the opposite of splitting. Note: for a split to be exempt the percentage of ownership must be maintained. e.g. a person who hold 50% of the combined quota is only exempt up to the number of birds of quota that equals 50%
- The 5% assessment does not apply to transferable quota sold by new entrants until their total holdings including incentive and purchased quota exceed 5000 birds. However, the sale of any portion of purchased quota triggers the immediate return of all incentive quota to the MRAP.

### ASSESSMENTS THAT WOULD HAVE BEEN REALISED HAD THE PROPOSED AMENDED ASSESSMENT BEEN IN EFFECT OVER THE PAST FIVE YEARS

Egg Marketing Quota Transferred 2000 - 2004

Year	# layers	5% assessment
2004	25,530	1,277
2003	35,092	1,755

2002	89,713	4,486
2001	59,647	2,982
2000	<u>47,286</u>	<u>2,364</u>
	257,268	12,864

Had the proposed amended assessment been in effect over the past five years, 12864 birds of quota would have been realized.

**Question #12**

Expand on your discussion concerning transition of existing Temporary Restricted License Quota (“TRLQ”) and Special Permittees to the proposed specialty and new entrant programs. Specifically, provide an accounting of the current permit programs, describe how the Egg Board’s proposal envisions conversion of these programs will meet specialty market requirements and discuss the responses of existing permittees to the Egg Board’s conversion proposal.

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**CURRENT SPECIAL PERMIT & TRLQ HOLDERS**

There are currently twenty Special Permit and TRLQ holders with 62,000 birds of quota. To top up all of these producers to 5000 birds would require an additional 35,500 birds of quota.

1. All TRLQ and Special Permit producers will be treated in the same manner. Some current TRLQ and Special Permit holders have free run and free range birds. These holdings will be designated as specialty.
2. Current TRLQ and Special Permit holders will be allowed to grow to 5000 birds of nontransferable quota.
3. At the end of year 7, up to 2500 of the 5000 units will convert to transferable quota depending on the amount held as of January 1, 2005. For example, those producers with 800 birds as of January 1 will be granted 800. A further 4200 will remain nontransferable. Those with 5000 birds as of January 1, 2005 will be granted 2500 birds. The remaining 2500 will be nontransferable.
4. Under the new program there will no longer be a requirement to purchase quota in order to retain incentive quota.
5. The current market for Organic Eggs appears to be fully supplied. (Please see “Trends” in the answer to Question #1 for discussion about recent organic market instability). As the market stabilizes and grows the next 35,500 birds of growth are expected to be supplied by the above producers being allowed to grow to a maximum of 5,000 birds. Issuance of this top-up quota will depend on business plans and SPAC recommendations.

## **RESPONSES OF EXISTING PERMITEES TO EGG BOARD'S PROPOSAL**

### **The following is a summary of responses from those producers who responded to queries of the BCEP**

1. One producer thought all birds held as of January 1, 2005 should be granted as transferable quota. The BCEP is offering "up to 2500 birds of quota" depending on the number held as of January 1, 2005. If the producer held 800 birds as of January 1, the amount granted will be 800 transferable and 4200 nontransferable. If a producer held 5000 birds the amount granted will be 2500 transferable and 2500 nontransferable.
2. Other producers said that the amounts of quota proposed by the Board as both transferable and nontransferable are fair and reasonable. The feeling is that without this offer from the BCEP these farms would not have grown in quota.
3. Some producers expressed concerns about giving all permittees 5000 birds and flooding the market with organic product. BCEP will ensure there is a business plan which indicates a viable market prior to issuance.
4. Some producers expressed concerns about raising the exemption level to 399 birds, fearing the organic market would become destabilized.
5. A few producers said that the BCEP had evolved the furthest of all of the commodity Boards in what BCEP is offering.
6. One producer said that the sale of quota should not impact nontransferable quota. BCEP has said the sale of quota triggers the return of nontransferable quota to the pool.
7. Some producers feel that permittees' money held by the Board for purchase of quota should be returned to producers. Others feel the Board can continue to hold the levy money until the producer is ready to purchase quota or utilize the money to pay future levies for the producer.
8. Only one producer expressed an objection to be deemed to be entering year 3 of a seven year New Entrant program. (BCEP's March 31 proposal indicated permittees would enter the New Entrant program at the beginning of year 3. The revised proposal indicates permittees would enter the program at the beginning of year 4.)
9. One producer thought that specialty production should have no value or limited value and should be run separately from the mainstream quota system. It was suggested that specialty quota be put to auction and specialty producers would determine the value through a bidding process.
10. Most producers expressed a concern with the current value of quota and were happy the Board was offering up to 5000 birds of transferable and nontransferable quota.
11. Two producers felt that all quota should be transferable.

12. One producer said that the BCEP has made sure that there is stability in the organic market.

13. Many producers suggested that BCEP be cautious in managing the growth of the market into its maturity. Most were concerned about an oversupply in the market place.

14. Two producers had concerns about managing specialty production along side of regular production.

15. One producer indicated that the notion that nontransferable quota can be passed one time to adult children constitutes discrimination against farmers without children or who have children that are not interested in continuing the operation.

16. One producer suggested the Board address the issue of who is going to do the certification.

17. One producer suggested the Board should be the first receiver of eggs.

## Question #13

Expand the description and analysis of the new entrant program. For instance, what are the Egg Board's objectives for the program and how does the Egg Board envision the program working?

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The BCEP proposes to provide a graduated new entrant program which provides new entrants with nontransferable incentive quota over a period of seven years.

All quota including incentive quota required for the new entrant program will be provided by a combination of the existing Market Responsive Allocation Program (MRAP), transfer assessments, and a portion of allocations from Canadian Egg Marketing Agency (CEMA).

Producers intending to serve defined specialty organic market needs will be given priority entry to the new entrant program over nonspecialty producers so long as there is defined market demand that is unfilled for the specialty product. While priority will be given to certified organic initially, other specialty products may be considered in the future if required by the marketplace.

The Board proposes two designations of quota: specialty (restricted) and regular (unrestricted). Any quota provided to specialty producers as an incentive through the new entrant program will be restricted as specialty non-transferable, with the exception of a one time ability to transfer to adult children of the new entrant. This incentive quota will return to the MRAP upon the producer selling their transferable quota and/or exiting the industry. Any quota transferred under the one time exception rule will return to the MRAP upon that producer exiting the industry. Any regular quota purchased by producers will be unrestricted and may transfer between specialty and regular quota designations.

The Board intends to transition existing Special Permit and TRLQ holders into the proposed New Entrant Specialty program. Because these producers have been specialty for some time they will be entered into the program at the beginning of year 4 of the 7 year program. There will no longer be a requirement to purchase quota in order to retain incentive quota for new entrant's use.

At this time the Board recognizes certified organic as fitting the specialty definition for the purposes of the New Entrant Specialty program. In future, the Board may consider additional products for specialty designation providing they meet certain standards:

- They are 3<sup>rd</sup> party certified i.e. - through the Agri-food Choice and Quality Act (AFCQA) and /or nationally or internationally recognized standards or other standard acceptable to the Board.
- There is market demand for that product

- Identity preservation to the consumer through product labeling and marking of the unique farm-based attributes
- Extra farm-based effort and investment to produce unique product attributes.

For clarity, the Board does not recognize for new entrant program eligibility as specialty, eggs that are produced with simply a change in feed or genetics where all other aspects of production remain unchanged.

### **New Entrant Program**

New entrants will enter the specialty egg industry through the New Entrant Specialty (NES) program.

It is intended that priority access to the new entrant program will be provided to producers planning to meet defined specialty market demand that is demonstrably unfilled. Once all specialty market needs are filled, New Entrant Mainstream (NEM) applicants will be eligible.

All new entrant approvals will be based on market requirements.

After addressing quota requirements for existing Temporary Restricted License Quota (TRLQ) and Specialty Permit holders, the Board intends to provide two new entrant opportunities annually, provided there is quota available.

### **New Entrant Specialty Program**

The goal of this graduated entry program is to respond to market needs through a range of entry levels. Producers will enter this program according to the stage of development of their product.

As new entrants will be producing products that are at various stages of development, new entry producers will include: innovation product new entrants (phase I), new entrants with products in the market development stage (phase II), new entrants with products in the market expansion stage (phase III).

All New Entrants with the exception of existing TRLQ and Special Permit holders will enter the 7 year graduated program at year 1.

Applicants will be required to meet certain eligibility criteria and submit a preliminary business plan in order to be placed on a wait list. All applicants will be placed on the wait list in the order applications are received.

The graduated entry program provides the following:

- In the first two years of the program, producers will be provided with up to a 1000 bird new entrant permit



- Between years 3 and 5, the producer is provided with an additional 1000 birds
- Between years 6 and 7, the producer is provided an additional 1000 birds for a total of 3000 birds
- At any time, producers are free to source additional quota outside of the program.

A producer may stop at any level short of the 3,000 bird level provided by this program. The producer must indicate in their business plan the size to which they intend to grow so that the Board may set aside the appropriate amount of new entrant quota.

Producers must avail themselves of the full amount offered within the time periods indicated or the unutilized portion is forfeited.

Any quota provided to specialty producers as an incentive through the new entrant program will be classed as specialty and non-transferable, with the exception of a one time transfer to adult children of the new entrant. It will return to the Market Responsive Allocation Program (MRAP) upon the producer exiting the industry. Any quota transferred under the one time exception rule will return to the MRAP upon that producer exiting the industry. Any regular quota purchased by producers, may transfer between specialty and regular quota designations.

The sale of any portion of purchased quota triggers the immediate return of all incentive quota to the MRAP.

Incentive quota must remain specialty.

### **The graduated program is summarized below.**

Phased in 7 Year Program:

1-2 years

years 3- 5

1000 Birds  
allotted to producer

Up to 1000 Birds allotted to the producer

Years 6-7 Up to 1000 birds allotted to the producer for a total of 3000 nontransferable incentive quota.

### **HOW THE EGG BOARD ENVISIONS THE NEW ENTRANT PROGRAM WORKING**

It is expected the following steps will be followed:

1. The New Entrant program will be market driven.

2. The Board plan is to offer quota to two New Entrants each year provided there is a market for the new product. Based on their business plan these producers can market their own product by being their own grader or shipping to a grading station.
3. Alternatively, a grader may anticipate an increase in a specialty market and canvass his shippers to determine if any of them are willing to convert their operations to provide for the expected new or expanded market. If none of their existing shippers are willing to invest in the changes required to supply the new market the grader will approach the BCEP with his proposal.
4. The BCEP will write to the first applicants on the waiting list for the particular specialty product required and give them the opportunity to reach an agreement with the grader.
5. The applicants have one year to get into production, including completing the application process, submitting their business plan and acquiring required conditional and final approvals from the Board.