

Recommendations
for
Managing Specialty Agri-Food Products
in
B.C.'s Supply Managed System

Prepared for
Minister of Agriculture Food and Fisheries

Prepared by
George Leroux
Dec. 20th, 2004.

Table of Contents

1	Executive Summary	3
2	Background	4
2.1.	This Specialty Product Review.....	4
2.2.	Qualifiers & Assumptions.....	5
2.3.	Definitions	7
3	Discussion & Analysis	12
3.1.	The Specialty Opportunity.....	12
3.2.	Meeting the Requirements of Changing Markets.....	13
3.3.	Government Policy.....	16
3.4.	Supply Management.....	19
3.5.	Regulating all Classes of Product	22
3.6.	Organizing, Administering & Governing.....	29
4	Recommended Specialty Product Policy Framework	34
4.1.	Definitions	34
4.2.	Quota & Permits.....	34
4.3.	Exemptions	38
4.4.	Marketing Requirements.....	38
4.5.	Production Requirements – All Classes.....	40
4.6.	Production Allocation	40
4.7.	Levies & Fees	42
4.8.	Eligibility	42
4.9.	Organization & Supervision	44
4.10.	Transitional Matters	45
5	New Entrants - Mainstream	47
6	Exhibits	50
6.1.	Contacts.....	50
6.2.	BCMAFF Regulated Marketing Economic Policy.....	51
6.3.	Letter from FIRB to Boards – September 2003.....	52
6.4.	FIRB Principles for Specialty Production	53

1 Executive Summary

The Ministry of Agriculture Food and Fisheries (Ministry) commissioned this study to develop recommendations to better integrate specialty production in the supply managed sectors in B.C. The recommendations put forward herein were developed in accordance with the Ministry's Regulated Marketing Economic Policy and the Farm Industry Review Board's (FIRB) draft principles for specialty production and marketing, and are intended to provide a framework to help the parties communicate and focus on growing the supply managed industries in B.C.

The recommended framework includes the following:

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 the 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.

It is further recommended that Boards be required to submit for approval detailed specialty product plans to the FIRB by March 31st, 2005, and to plan for full implementation by June 30th, 2005.

2 Background

2.1. This Specialty Product Review

2.1.1 *History*

Specialty producers and the Marketing Boards and Commissions (Boards) have been at odds with one another for several years. Their disputes have become increasingly legalistic and costly.

In September 2003, the Farm Industry Review Board (FIRB) directed all five (5) supply managed Boards to review their programs for specialty production (see Exhibit at Section 6.3).

The Boards undertook to review their specialty programs, including new entrant programs, and submitted reports in the 1st Quarter of 2004. The avian influenza crisis re-directed the FIRB's and the Boards' attention to more urgent and immediately important matters, and assessment of the Reviews submitted was set aside until the 3rd Quarter.

In July 2004 the Ministry released its "*Regulated Marketing Economic Policy*" Statement (see Exhibit at Section 6.2). This policy provided a framework by which regulated marketing was intended to function. It clearly envisioned specialty products being managed within the regulated system.

In August 2004 the FIRB suspended its Review in favour of working together with the B.C. Ministry of Agriculture Food and Fisheries (Ministry) to address the issues. The FIRB provided a draft set of "*Principles for Consideration in Support of Specialty Production and Marketing in the British Columbia Supply Managed System*" to assist move the matter forward. A copy of these draft principles is included at Exhibit 6.4.

2.1.2 *Commissioning this Review*

In October 2004, the Ministry commissioned a review of the specialty program submissions made by the Boards to:

*"...have clear recommendations for the inclusion of specialty products in the regulated systems for supply managed products so as to give clear direction to the FIRB and the Boards that is in accordance with the Regulated Marketing Economic Policy statement - Principles for B.C.'s Regulated Marketing System."*¹

The review and analysis were intended to:

1. Understand the trends in, and position of, supply managed specialty production and marketing in B.C.;

¹ Source – Request for Proposals (RFP) – Setting Policy Direction for the Management of Specialty Agri-food Products in the Supply Managed Commodities of British Columbia, September 7th, 2004.

-
2. Incorporate the principles enunciated in the Economic Policy Statement and the FIRB's draft principles;
 3. Understand and assess the existing and proposed specialty programs offered by the Boards; and,
 4. Develop and "*recommend workable solutions for the management of specialty production within the supply managed sectors.*"²

The question is how, not if, specialty products should be regulated in the supply managed sectors. Accordingly, this analysis examines ways to develop and grow specialty production within the regulated systems.

2.1.3 Review Process

This Review of specialty production and marketing included the following:

- Review of Submissions from the Boards and COABC to the FIRB;
- Review of Appeal, Hearing and Court decisions concerning specialty production;
- Discussions with Board Managers and the COABC lead concerning both how the existing systems work and how their proposals were intended to work;
- Discussions with several specialty producers;
- Discussions with Ministry and FIRB staff;
- Analysis of information obtained in the preceding; and,
- Development of a framework for managing production and marketing of specialty products in B.C.

2.2. Qualifiers & Assumptions

This section states certain assumptions made by the author. It is intended to assist the reader understand the perspective from which the specialty product question has been viewed.

2.2.1 Specialty Products within the Supply Managed System

This review examines ways in which specialty products can be better accommodated within the supply managed systems: it does not examine whether they should be regulated within the supply managed systems.

2.2.2 Price

This review takes the perspective that competing on price alone is a recipe for commoditization and low margins, and will lead to missed opportunities when certain less price sensitive segments of the market are ignored. It can also lead to higher earnings volatility, offset in supply management by the regulatory framework and tariff protection.

² Source – RFP.

Consumers have a vast array of needs and demands. Sometimes they seek the lowest price, while other times price is not a leading purchase criteria. For instance, a consumer may drive across town to shop at a large discount food retailer for the bulk of their groceries: they purchase volume. They then go out of their way to stop at a small high-end specialty shop to purchase certain goods which are much higher priced for the same class of product compared to the large retailer. Consumers are prepared to pay more for higher perceived service, quality and performance.

The Label Rouge chicken system in France is an example of how differentiation at the farm level is kept intact and certified to the end consumer, and where the product commands higher prices. This specialty production program, which involves cooperation of parties at all stages of the value chain, produces chicken that retails for twice the price of regular chicken and commands a significant market share³. Consumers obviously perceive higher value for Label Rouge chicken, and are prepared to consistently pay higher prices than for “industrially” produced chicken⁴.

2.2.3 Board Authority

This review takes the position that Boards, by virtue of their authorities and accountability, are instruments of government.

The Supply Management System provides certain rights to producers to manage the production (supply) and marketing (ultimately price) of the regulated product. These authorities are accompanied by a responsibility to operate in accordance with the rules, including their spirit and intent, and a responsibility to service and supply all segments of the market.

The System's regulatory framework includes Federal and Provincial Regulation. The provincial Acts of principal importance to supply management today are:

- The Natural Products Marketing Act (NPMA), and the Schemes established for each sector under this Act;
- The Agri-food Choice and Quality Act (AFCQA), and regulations which provide for certification; and,
- The Food Safety Act, and meat inspection regulations being introduced pursuant to this Act.

In simple terms:

- The public elects the Legislature which passes Acts such as the NPMA and the AFCQA.
- The NPMA provides for Schemes, or regulations, for the production and marketing of each regulated commodity.

³ Market share is estimated to be 36% of the total market, and 64% of the whole bird market.

⁴ The term industrially produced chicken is taken from the Label Rouge nomenclature.

- Schemes are approved by Cabinet under authority from the Legislature (i.e. the public).
- Schemes provide, among other things, for the election or appointment of boards of directors to govern implementation of the Schemes in each sector.
- Boards are authorized to develop Orders which are the operating rules by which the regulated products must be produced and marketed.
- Boards establish management organizations to which they delegate authority to develop and implement procedures to manage the industry in accordance with the Orders.
- The FIRB supervises the Boards, including approving the Orders developed by the Boards and hearing appeals of Board decisions.

2.2.4 Merits of Supply Management

The review takes the position that supply management is the law today.

This review takes no position regarding the merits of supply management. There are many arguments put forward both for and against the supply management system. It is not the purpose of this review to assess the merits of the supply management system.

2.2.5 Regulations are Subject to Change

Notwithstanding that Supply Management is the law, Acts, Schemes, and Orders are subject to change by the Legislature, Cabinet and the Boards.

This review takes the position that regulation should be reviewed and amended as required from time to time.

2.2.6 Business Review

This review takes a business perspective: it is not intended to be a legal review. It examines the management of specialty production and marketing as business activities which are subject to regulation.

The supply managed sectors are accepted as being legally constituted. This review does not attempt a detailed review of the many cases argued before the FIRB and the courts.

2.3. Definitions

In this section definitions are developed to provide understanding concerning how different terms are used in this Review.

2.3.1 Commodity

A commodity is a product with broadly recognized and accepted standards where the supplier or brand is irrelevant to the buyer.

2.3.2 Differentiation

Differentiation is the creation of sufficiently meaningful product or service differences such that the unique product or service attributes are distinguishable and valued by others. Differentiation can be achieved by price, image, service support, quality (eg - reliability, durability, performance), and/or design.

In terms of specialty products, design is the primary dimension of differentiation whereby the producer and marketer seek to separate their products from the mainstream by utilizing some combination of unique genetics, nutrition, facilities and management on the farm.

2.3.3 Directors

In this report the term directors is synonymous with Board members.

2.3.4 Lifestyle Farming

Lifestyle farms are defined herein as small farms managed by families who either earn the majority of their family income from off-farm sources or who would be classified as low income families.

A significant percentage of specialty producers are presumed to fall into the Lifestyle category, with a smaller percentage of specialty product farms either currently or intending to become self-sustaining agri-business enterprises.

Some might legitimately argue that farming is a lifestyle regardless of size of operation. The purpose of distinguishing lifestyle farmers from agri-business enterprises is simply to provide an analytic tool to understand the demographic composition of specialty producers.

2.3.5 Mainstream Products

In this review, products that are mature and undifferentiated on the basis of on-farm production practices are referred to as mainstream products. The mainstream product market is typified by relatively slow growth, generally reflecting population growth and/or temporal changes in demand caused by consumers switching between proteins.

Mainstream products may well be differentiated on the basis of processing or distribution, but the source of the raw material is irrelevant to the processor so long as it meets certain minimum standards. Presently, mainstream products comprise the majority of production of regulated products, and they are controlled by well established supply setting and market coordinating mechanisms.

2.3.6 New Entrant

A new entrant is a person or entity that is not presently involved through direct investment in the production of a regulated product.

New entrants can fall on a continuum from never having been involved in primary production agriculture to a new firm under common ownership as outlined below:

- New to the agricultural sector – have never operated a farming business;
- New to supply management system – have been involved in farming, but have never produced supply managed products;
- New to a specific supply managed sector – have produced supply managed products in past, but not the product in consideration; and,
- New production entity – have produced the regulated commodity in the past, either on their own account or through affiliated business and / or family interests, but have been disinvested for some period of time.

Specialty or mainstream production can fall into each category depending on individual circumstances.

2.3.7 Niche

The concept of a niche focuses on serving the needs of a particular group or category of customers. Marketers segment a population of consumers into groups with similar defined purchase criteria. They design their product and service offerings to target and penetrate specific segments.

When a firm or group of firms targets a single, clearly defined segment, they are pursuing a niche strategy. Accordingly, a niche strategy may target consumers of standardized products through non-standard or regional market channels, or it may distribute specialized products through mainstream retail and foodservice channels.

2.3.8 Organic

Use of the word organic is subject to interpretation. Various standards and certification practices have been established. From a consumer perspective, the most distinguishing attribute of organic products is production absent synthetic inputs. Other attributes such as facility and management practices may or may not be considered part of the “organic” nature of the product.

Organic is defined by the COABC as:

“Organic” describes a process of food production that avoids the use of synthetic inputs such as chemical fertilizers, chemical pesticides, chemical growth regulators/hormones and antibiotics. Organic production is based on a system of farming that uses production

methods which minimize the impact on the environment. The primary focus is to maintain a healthy soil and develop a balanced farm ecosystem that is environmentally sustainable. By its very nature, organic agriculture promotes scale-appropriate mixed farming operations⁵.

In B.C., there is one organic certification standard recognized by Regulation and that is the B.C. Certified Organic symbol or phrase which provides certification to the consumer that the product has met the standards set down in the *British Columbia Certified Organic Production Operation Policies and Management Standards*.⁶

At the same time, there are other certified organic products offered in the market where certification is provided by agencies other than those certified by the COABC.

2.3.9 Quota Rights

Quota is the right to produce and market, and the obligation to responsibly service the market for, a regulated farm product. It is issued by a Board to registered producers.

Boards determine from time to time the amount of the regulated product that can be produced, and they distribute this planned volume of production amongst registered producers, primarily pro-rata to quota holdings.⁷

Registered producers, through their Boards and under powers provided to them by the NPMA and the Schemes, have rights to license participants, determine production volumes, determine marketing practices, set or negotiate prices collectively, and set levies.

Notwithstanding the distribution of certain rights to producers, quota is the property of the Board and therefore of government.

2.3.10 Specialty Products

For the purposes of this report, specialty products are defined as follows:

Specialty products have unique farm-based attributes which are identity preserved through processing, marketing and distribution to the final consumer. Differentiating attributes may include some or all of unique genetics, specialized nutritional programs, and unique facility and management requirements. The differentiating attributes are 3rd party certified to the final consumer.

⁵ Source – COABC Organic Chicken Draft, June 21st, 2004.

⁶ See Section 3.5.1 of the Organic Agricultural Products Certification Regulation of the Agri-Food Choice and Quality Act.

⁷ Quota – there may be various technical interpretations concerning the definition of quota. For the purposes of this review, quota is simply a right to produce a certain volume of a regulated product howsoever licensed, permitted or authorized.

One of the difficulties with the phrase “specialty products” is its diverse and temporal nature, which gives rise to a wide range of interpretations concerning what is “specialty.”

Specialty products are conferred a range of definitions and interpretations by the Boards. With the exception of “certified” products (eg. certified organic, SPCA, CFIA approved) or branded products, the consumer has little guarantee that they are getting a truly specialty product due to the looseness of definition and the lack of appropriate certification bodies (eg free range, free run, grain fed).

3 Discussion & Analysis

This section first overviews the specialty marketing opportunity and the product life cycle. Secondly, it examines government policy and some underpinnings of the Supply Management System. And thirdly, it discusses certain aspects of regulating and administering specialty production and marketing.

3.1. The Specialty Opportunity

Two divergent trends are observed in the agri-food system today. On the one hand, there is greater market segmentation driven by growing consumer awareness of the food attributes they buy and a corresponding demand for specific assurances. On the other hand, to most effectively leverage the increasing consolidation of buying power in the hands of large mega-retailers and processors, there is a trend towards more standardization with less brand diversity.

These trends provide an opportunity for the B.C. producers and processors. It is likely that B.C. supply managed industries are higher cost producers compared to other regions producing equivalent standardized, commoditized dairy and poultry products for national and international retailers and distributors. However, B.C. industries can likely compete very well in the market segments looking for specialty food products.

Specialty products are targeted to defined market niches. The niches may be emerging, well established, growing or shrinking. They may be premium priced, regional (local), or outside the mainstream distribution channels (farm markets, roadside sales, high end specialty stores). Nevertheless, specialty products are clearly differentiated from mainstream products.

Specialty producers seek to differentiate themselves from the mainstream either for lifestyle or economic reasons. In doing so, they may need to establish supply chain relationships independently and outside the mainstream market access channels. Boards are oriented to managing the mainstream supply chain relationships and have well established rules for the farm gate transaction. Many specialty producers, on the other hand, have developed individual relationships with processors, distributors and consumers.

Specialty producers span a spectrum from those not wishing to be part of the regulated production and marketing framework to those producers who may be attempting to use specialty production as an entry into the quota system at a lower cost than buying quota.

Specialty products often require additional costs to produce and market compared to conventional, mainstream products. When the specialty product selling price is regulated by a Board, the price established may or may not appropriately compensate the producers. To the extent that the regulated price for a specialty product does not cover the increased costs of production, a lower margin is realized. This would have the impact of making quota purchase less attractive for a specialty grower than a mainstream grower.

The opportunity facing Government and the Boards is how to better accommodate specialty production in the regulated systems. Accommodation needs to be in a manner that meets emerging, developing and developed specialty product market demands, recognizes established participants' interests, and promotes increased economic activity in the province.

3.2. Meeting the Requirements of Changing Markets

Market requirements and needs change over time. Consumer demand in B.C. for food products is neither uniform nor static.

3.2.1 *Supply & Demand*

The market for mainstream dairy, poultry and egg products can be classified as a mature market. Growth in demand is largely tied to population growth. New products may increase aggregate demand by small incremental amounts. Market acceptance and sales volume growth of new products may or may not be at the expense of existing products (substitution).

A fundamental tenet of supply management is to produce sufficient volume to supply the market at a price which provides a "fair" return to producers. If the management of the system allocates too much production, prices can be pressured down with the accompanying impact on producer returns. In some cases, such as dairy and eggs, where farm gate pricing is based largely on cost of production formulae, supply can be pressured down if returns to processors or graders are reduced due to small amounts of "surplus" production. Accordingly, the incentive is to manage the system very tightly.

Boards take the position that the system's benefits include a steady reliable supply of products and stable pricing for consumers, together with stable returns for producers. These same issues apply to specialty production and marketing.

3.2.2 *Supply Chains*

The development of highly efficient supply chains and the growth of large national and multi-national retail and foodservice distributors have impacted the regulated sectors over the past decade. At the same time, these consolidated market access channels may be an opportunity for smaller regional supply chains.

Consumers seek an array of product attributes in their food products. Some are interested to know where and how their food was produced, and they are prepared to pay a premium for this knowledge. Hence the emergence of identity preservation and certification systems to assure the consumer that the attributes they value are reliably provided.

The current management of the supply management system is primarily oriented toward volume production to serve the larger supply chains. This is a sound business practice. However, it does

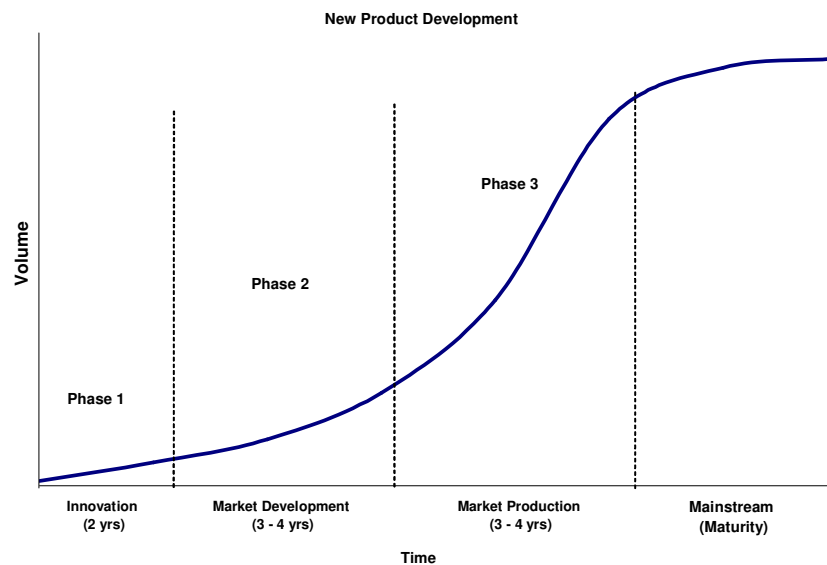
not preclude satisfying those market segments that are of lesser volume due to highly focused regional, production, or product attributes.

Existing producers may or may not wish to embrace new production and marketing protocols to meet consumer demands in small and emerging market segments. Their existing business processes have adapted to and are well established to serve the larger supply chains. But, are these same systems capable of efficiently and effectively serving the more narrowly targeted specialty production?

The essence of the specialty product question in terms of supply chains is that the innovators may be found inside and outside the existing system. They see opportunity and take risks by developing new production protocols, testing new markets, and then developing the market. Once volumes reach certain levels, existing mainstream producers, processors and distributors may see either opportunities for higher margins or a threat of lost volume as consumers switch. This may cause mainstream producers to convert some or all of their operations to the new product/market category, thereby capitalizing on the risks taken by others in developing the specialty market.

3.2.3 The Product Life Cycle

The product life cycle is a well established concept that defines the expected stages in the evolution of a product in the marketplace. A stylized representation of the product life cycle is illustrated in the chart below.



For the purposes of this review, consider specialty products as having four (4) stages as follows:

Innovation	A new product is proposed to be offered to the market. The product is test marketed. There may or may not be any consumer demand: demand is created rather than filled. Production costs are usually high due to new processes and small scale. Distribution is through limited
------------	---

	test market channels.
Establishment	Test market results indicate consumer acceptance. Consumers are seeking the product and are prepared to pay a premium. Repeat purchasing develops. Production expands to capture developing demand. Distribution begins to expand beyond test markets.
Growth	Demand continues to expand. Distributors are seeking to list the product to meet consumer demand. Production continues to expand and production processes increasingly focus on cost efficiencies. Price premiums begin to decline, and price volatility emerges.
Mainstream	Demand is well established. Growth rates slow. Premiums continue to decline and price volatility is normal course ⁸ . Distributors regularly list the product. Production costs continue to decline.

New ideas, be they product or market, tend to follow a predictable life cycle. Innovation, research and development are followed by market growth which eventually leads to market saturation or maturity. The process may take many years. Initially a few players take the risk to develop the product or market. If they are successful, they begin to capture returns as the market grows. At the same time, however, others will observe the market growth and the higher prices (and presumably higher margins) and seek to get on the train.

As a product moves through the life cycle, the essential elements of production change. Initially costs per unit tend to be high as infrastructure and procedures must be developed. As volumes increase, scale economies are achieved, costs per unit tend to decline and price competition intensifies. This usually leads to tighter margins requiring aggressive cost management strategies to overshadow innovation (differentiation) strategies as the market matures. While some argue that supply management volume setting and pricing practices distort competition in the mature market segments, this is not a situation that requires analysis concerning the specialty product question.

3.2.4 Differentiation

An essential element of competition is finding ways to distinguish the business and separate it from other suppliers to capture and sustain market share. Participants seek to differentiate themselves from one another. To do so they innovate.

Production and marketing of specialty products is the pursuit of differentiation. Initial costs are usually higher than for the mainstream products and markets. If consumers value the different attributes provided they will be prepared to pay higher prices which compensate innovators and encourage them to expand their offering. There is typically little experience or information

⁸ Volatility – In supply managed sectors an underlying intent of managing the system is to limit volatility and provide producers, and by extension processors, stable pricing.

concerning the size of the market or the volumes required to fill market demand: it is a developing market which may or may not survive.

One of the difficulties with the term “specialty” is the range of products that can be purported to be differentiated from regular or mainstream products. What starts out as a specialty product due to some innovation can, if successfully adopted by consumers, become mainstream. For instance, the B.C. Egg Marketing Board (BCEP) terms brown eggs as “specialty.” While these eggs are not white, and they command a price premium, are they sufficiently differentiated to any longer be termed specialty?

3.3. Government Policy

3.3.1 *Government Economic Policy Statement*

The Minister has established a Regulated Marketing Economic Policy (see Exhibit 6.2). The underlying intent of the Policy is to promote economic development that capitalizes on B.C.'s advantages such as a diverse market, isolated production regions, and a temperate climate.

The Minister intends that this be accomplished in accordance with the following guidelines:

- | | |
|--------------------------|--|
| Public Interest | - the systems must be responsive to the needs of B.C. stakeholders. |
| National systems | - while operating within the national systems, the B.C. systems must facilitate growth and prosperity of B.C.'s agri-food sector, including providing opportunities for specialty production |
| Serving B.C. demand | - the systems must meet B.C. market demands, including specifically meeting demand for specialty products, and they should also facilitate growth in markets outside B.C. |
| New entrants | - the systems must facilitate new entrants for both existing and new markets. |
| Efficiency | - the systems must facilitate efficiency along the value chain. |
| Safety and quality | - the systems must encourage high quality and superior food safety. |
| Recognition of Standards | - the systems must recognize and encourage participation in production standards programs (eg. The Agri-food Choice and Quality Act). |
| Regional development | - the systems must serve all regions of the province, including accommodation of regions seeking to capitalize on unique location or production attributes. |

The Government's policy is clear that innovation, renewal, and economic growth, as represented by specialty products, must be fostered. Accordingly, all specialty programs developed and implemented by the Boards must foster innovation to fulfill their responsibility to serve diverse market requirements and capture new market opportunities.

3.3.2 *The FIRB's Principles for Specialty Production & Marketing*

In August the FIRB prepared a set of eight (8) principles believed necessary for the inclusion of specialty production in the supply managed systems. These principles are summarized below.

- | | |
|-----------------------|--|
| Clarity in Definition | - definitions of specialty production must be clear, specific and objective. |
| National systems | - production for specialty production should be within national allocations, and B.C. should seek increased allocations. |
| Public Interest | - priority should be given to producers who have not previously produced commodities under quota. |
| Affordability | - permits used to regulate specialty products must be cost effective. |
| Transferability | - clear rules must be established for the transfer of specialty production permits. |
| Administration | - procedures and management must be fair, transparent, effective, accountable, flexible and timely. |
| Accountability | - producers of specialty products must be subject to compliance with regulations established for specialty production. |
| Sustainability | - allocations for specialty production must be linked to demand for that production. |

3.3.3 *Fostering Innovation*

To foster innovation by way of specialty production and marketing in the supply management systems may well require different administrative procedures.

Supply determination procedures are well established for mainstream products. They rely on historic production statistics and changes in inventory stocks. Likewise, pricing procedures are well established, and they rely on historic prices, changes in commodity input costs, storage stock levels, imports and market disappearance.

However, historic records for new products do not exist. Forcing innovators to comply within the existing supply setting and pricing procedures used for mainstream products which rely on years of experience and historic data will not likely be effective or efficient, and it may well constrain innovation.

But who innovates? Innovators often operate outside established systems⁹. They think outside the box. They may be new entrants who challenge the status quo and the establishment. They seek new ways to do things. They are risk takers. Sometimes they are successful, and sometimes they are not.

On the other hand, the well established, mature systems that administer the supply management system will have a natural tendency to change slowly. They will examine every new idea in detail based on a well established culture and years of experience. They will see the reasons why a new idea will not work quicker than why it will work. This is normal and expected in large, established administrative systems. However, it can lead to tension between the innovators and the establishment.

Sustainability requires adaptability and innovation. As consumer demands and markets change over time, so to must production change. Change requires that things be done differently than in the past, and often this requires a producer to innovate. In a mature market, failure to pursue cost efficiency can lead to the demise of a business as other firms innovate, reduce costs, and generate equal or better margins at lower selling prices. As new market segments emerge or are developed, producers innovate with different production and marketing practices and sustain or capture new market share.

Boards need to ensure their practices are encouraging innovation in order for their systems to be sustainable.

3.3.4 Food Safety & Biosecurity

The regulated systems must manage risk and adapt to change in order to be sustainable. For any agri-food sector to be sustainable it must assure appropriate biosecurity standards and the provision of safe food.

Product risk for the regulated commodities can be first measured in terms of food safety. If there is a breakdown in the real or perceived safety of a food product, demand will drop precipitously. Many producers may be harmed as a result of the improper actions of one or a few producers, processors or distributors.

The provision of safe food to consumers is non-negotiable. Any firm that fails to provide safe food will quickly be out of business. Producers have a responsibility to do their part in the production of safe food. It is incumbent upon all producers, mainstream and specialty, and including exempt producers, to ensure their programs meet the minimum provincial and federal

⁹ Innovators – this is not to say there are not innovators inside the system today.

food safety standards. Whether Boards need to be the deliverers of on farm food safety inspection for all producers is subject to decision: ensuring safe food farm practices is not.

Mitigating off-farm risks such as disease is probably best captured in the concept of biosecurity. Boards are responsible to ensure that the market is supplied, and that all registered producers have the opportunity to serve the market. If the actions of some producers put others at undue risk, as through a breakdown in disease management practices, then it can be argued that someone has a responsibility to take action and implement steps to limit the risk to the industry.

Provincial and Federal authorities, together with market access requirements established by processors and distributors, have developed, and will continue to develop, standards of biosecurity and food safety. Boards have a role to play in the areas of food safety and biosecurity since they have the authorities delegated to them by Regulation to register and regulate all production. Nevertheless, Government also has a role to play in establishing policies and procedures in these areas, and delegating authority to responsible entities to implement the policies. Clarification is required for each sector as to whether the Boards, Government or 3rd parties will deliver food safety and/or disease surveillance programs.

3.4. Supply Management

In this section some of the underpinnings of supply management are considered to position the issue of specialty production.

3.4.1 *Accountability*

The supply management systems have a responsibility to serve and satisfy the market. Specialty products target defined niches and therefore the Boards should have effective systems for regulating the production and marketing of these product classes.

In some cases specialty products will be new and innovative while in others the product class may have sustainable and growing market penetration. The Boards' regulations and operations should embrace all classes of product and producer, however differentiated. The Boards should, therefore, bring the specialty producers into the systems at a market responsive level, and then manage the systems to recognize new entrants and existing producers equivalently. At the same time, producers of specialty products need to recognize the existing laws associated with the production of regulated products, and work to develop their businesses and markets respecting the law.

Some specialty producers argue that the supply managed systems are fundamentally unable to accommodate differentiation. They base this argument largely on the observation that the vast majority of regulated production is sold to processors with little concern for its eventual disposition, together with their experience trying to work with the Boards over the past years.

Boards argue that they have created programs for specialty producers, some existing producers have begun to produce specialty products using quota, and specialty producers have the option

to purchase quota to expand their businesses. Specialty producers usually incur higher production and marketing costs and, in many cases, do not hold production quota. They feel that quota holders maximize their returns by focusing on higher volume, lower cost operating strategies and supply strategies focused on investment returns.¹⁰

Both positions converge around quota administration. The Schemes provide that quota is the property of the Board, and therefore the Province. Notwithstanding that quota is public property, holders of quota clearly view quota as their rightful property, and they have grown to expect pro-rata shares of all growth and continuing value appreciation of “their” quota.

The current price of quota is a significant financial barrier to entry for specialty producers. Most informed participants agree that current quota prices are not based solely on current and expected production margins. Quota trades thinly, and prices are driven, in large part, by demand from existing producers. Issuing quota to specialty producers is seen by the Boards as a significant financial benefit to the recipient at a cost to existing quota holders.

Boards are accountable to Government to act in the public interest. They administer a system where the value of an intangible asset (i.e. quota), which is owned by the Board, has become a material contributor to the equity on individual firms’ balance sheets. Boards need to be careful with the administration of the system when it might appear to some that the Board is pre-eminently concerned with protecting and enhancing private sector equity interests based on asset which, in theory at least, has no value.

3.4.2 Setting Supply

Boards, together with their National Agencies, have the authority and responsibility to set supply and produce at a level that will meet market demand. In practical terms, supply is generally established to be less than or equal to demand rather than greater than demand. If supply was set above demand, the marginal supply could only be cleared on the market at depressed prices. These lower prices could then become the floor price against which buyers would compare all other prices, and selling prices could trend lower. The purpose of setting supply less than or equal to demand is to ensure that prices are stable, or orderly, for consumers, processors and producers.

3.4.3 Setting Price

Boards have the authority to set price. In some cases this involves a degree of direct negotiation with 1st receivers, while in others the Board simply considers the representations of demand groups and then sets a price.

¹⁰ Size of Operations – it can be argued that the size of B.C.’s production units is small compared to that found in differently regulated areas such as the U.S. Nevertheless, mainstream producing operations in B.C. are substantially larger than existing specialty operations in B.C.

Boards have a responsibility to ensure the price they establish is "fair." The underlying intent is to provide producers with a stable, fair return for their effort and investment. Boards establish price on the basis of cost of production and market conditions. In some cases (eggs and milk), price is set based on the cost of production and targeted returns, while in chicken and turkey the price is negotiated based on margins over feed and chick together with market conditions.

In B.C., pricing is set, for the most part, based on prices established by Boards in Ontario.

3.4.4 Satisfying Provincial Markets

One of the underlying intentions of national supply management has been that each province produces first to meet its own market demand for the product, and then to fill demands in other provinces. Historically, exporting has not been a central ambition of the supply managed sectors, although in the past decade some sectors have increasingly focused on export markets to grow their production base.

It is generally accepted that B.C. does not produce sufficient quantities to meet provincial consumption in the supply managed commodities. The reasons for this lie in the allocation practices of the National Agencies.

3.4.5 Quota Value

The official stance is that quota is "owned" by the province and does not have value. In fact, the Schemes clearly state that quota remains the property of the Board. Boards have reflected this principle in their Orders. For instance, the BC Egg Producers Orders state that "*Quotas and Permits remain at all times the property of the Board.*"¹¹ The B.C. Chicken Marketing Board General Orders state that "*quotas shall remain at all times within the exclusive control of the Board.*"¹²

Quota has an economic value. It is traded between producers and the quota rights are transferred between producers by the Boards. This administration has created a market through which quota rights are traded between producers for monetary consideration. In fact, several boards administer quota exchanges and have Standing Orders outlining the rules by which quota can be provided as security by producers to lending institutions. Lending institutions provide credit secured against production facilities, including the quota held by that producer or facility.

Quota is valued by buyers on the basis of the potential for positive cash flows from production and the expectation that the asset value will hold or appreciate in the future¹³. Quota values have

¹¹ Source – BCEP Standing Order, revised Nov 2002.

¹² Source – BCCMB General Orders, Part 21, June 2004.

¹³ Quota price increases are often attributed to demand being greater than supply, with one driver of demand being farmers increasing their holdings to become larger. These purchasers use a combination of debt and equity to finance incremental quota purchases, with equity or security sometimes being in the form of increasing quota value on existing quota holdings.

reached levels that are far in excess of the values that would be reasonably expected on the basis of anticipated gross, contribution or operating margins. Quota values, in most instances, exceed the value of buildings and equipment required to produce the regulated product. It is also interesting that quota values have generally increased over time, and in the case of most regulated products in B.C. have doubled in the past 5 – 7 years.

Arguments are sometimes put forward that, in the beginning, quota was provided to producers at no cost to them and therefore they are not entirely legitimate in their demands that any new entrants, whether for mainstream or specialty production, must pay current quota prices. This is countered by arguments that participation in the industry was required at the time of initial issuance, many current participants have paid for their quota, and quota holders have invested in marketing and research to grow the industry through the years.

This review recognizes that quota value is an integral part of the System and that it is traded today for financial consideration: it does not assess whether these values are reasonable from either a business economic or public interest perspective.

3.5. Regulating all Classes of Product

It is fundamental to government policy and supply management that the systems must meet market demand and foster increased economic activity in the province. Since differentiated products are in demand¹⁴, it is a responsibility of the Boards, the FIRB, and Government to ensure the systems facilitate and encourage specialty production.

3.5.1 *Enforcement*

Boards have a responsibility to enforce their regulations. They sometimes find themselves in difficult situations where there are political and/or public image problems with enforcement actions. Boards have also made decisions that seem to some to be unfair, lacking in transparency, and simply unreasonable. This has led to allegations of bias and conflict of interest in decision making.

From discussions with both Board managers and specialty producers, it appears Boards can make improvements to their enforcement practices. This likely involves a combination of having sensible Orders and rules, providing for exemptions where reasonable, and ensuring that decision making practices and administration are in accordance with the principles of natural justice. Boards also need to remember they are government and must operate in the public interest taking into account a wide range of stakeholders: they are not private industry with a

¹⁴ Differentiated product demand – it could be argued that product demand has not been demonstrated. This can easily become a circular argument. If a producer / innovator is restricted from testing a new idea, they cannot demonstrate a demand since they were innovating to create new demand whether by generating new aggregate demand or substituting existing mature products. Limited specialty market size information is available, likely since these are emerging segments. At the same time, those currently capitalizing on the growing segments are going to be slow to provide much information so as to protect their competitive positions. Over time information will be developed as the specialty niches develop and mature.

primarily profit seeking mandate. Specialty producers need to accept that the regulated System is the law, and therefore they are subject to the rules established by the Boards.

3.5.2 Regulatory Scheme

This review accepts that supply management regulations are the law, and that the Schemes provide the Boards the authority to regulate the poultry, egg and dairy sectors.

3.5.3 Exemptions

Schemes provide the authority for Boards to exempt certain classes of production and/or producers. Boards currently provide exemptions from the regulated framework for small amounts of production, and they have the authority to exempt entire classes should they wish to so. One of the original intentions of exemptions was that individuals producing for their own use would not be required to hold quota.

There are material economic differences between small backyard and lifestyle producers compared with mainstream agri-business producers. Backyard production can be for own use and small sales to friends and neighbours. Lifestyle operations include production on hobby and alternative farms where the leading purpose is often other than economic activity. Mainstream agri-business production has as its leading purpose economic returns.

Exemptions provide a tool for the Boards which allow them to fulfill their mandate to regulate all production and marketing of regulated products while at the same time accommodating the smaller operations. Operations which are clearly oriented to maximizing profit, such as the case with mainstream agri-businesses, comprise the majority of production volume in the regulated sectors. They will tend to be larger enterprises where larger volumes are required to drive efficiency and cost reduction, and they will tend to distribute through mainstream processors and food distributors. Operations with primarily lifestyle and community purposes will be less focused on costs and efficiency, will tend to be smaller organizations, and will not normally distribute through the mainstream market channels. Supply Management regulations, and particularly the requirements around quota, can be unnecessarily restrictive and even prohibitive to smaller operations with pre-eminently community and lifestyle mandates.

Exemption levels vary between provinces as illustrated in the Table below. For broiler chickens, turkeys and layers, B.C. has amongst the lowest exemption levels. The BCMMB does not provide exemptions as it takes the position that all milk entering the off-farm fluid chain must be processed through a registered dairy.¹⁵

¹⁵ Dairy exemptions – the argument that milk entering a registered dairy and the pool cannot be exempted is not, in itself, sufficient reason to preclude exemption. There may be regions, small lifestyle producers or cottage operations that could be exempted if the Board saw fit to provide an exemption.

Table. Annual Exemption Levels¹⁶

Supply Management Commodity "Home Use" Exemption Levels				
Province	Broilers # of birds	Turkeys # of birds	Layers # of birds	Dairy litres
	Less than	Less than	Less than	Less than
British Columbia	200	25	100	none
Alberta	2,000	300	300	50
Saskatchewan	1,000	100	300	none
Manitoba	1,000	100	100	none
Ontario	300	50	100	none
Quebec	100	50 light or 25 heavy	100	none
Nova Scotia	50	25	100	none
New Brunswick	200	25	200	none
P.E.I.	500	Unregulated	300	none
Newfoundland	100	Unregulated	100	none
Note 1: Both Ontario (prior to January 4, 1983) and British Columbia (prior to August 1, 1983) have some "home use" broiler producers grand fathered at less than 500 birds.				
Note 2: Ontario has a minimum commercial quota threshold of 14,000 broilers but accepts applications for less than the minimum on a case by case basis with each case considered on its own merits. Two such applications were received and approved in 2003.				
Note 3: Manitoba has egg layer grand fathered at less than 500 birds for those in production prior to Feb 27, 1985. Ontario has egg layers prior to January 4, 1983 grand fathered at 500 birds. Quebec has egg layers prior to January 1, 1994 grand fathered at 250 birds. Newfoundland has egg layers prior to June 19, 1992 grand fathered at 500 birds. Nova Scotia has egg layers prior to July 25, 1984 grand fathered at 500 birds.				
Note 4: In Alberta, a communal group with a communal group production quota is exempt at 6,000 birds per year.				

Revising exemption levels in B.C. to equal or exceed the minima found in other jurisdictions would likely provide relief from the regulatory controls on production (supply levels) and marketing (pricing and selling through a licensed market channel) for many of the home-use and lifestyle specialty producers. It would also provide Boards relief from costly enforcement actions having the potential for poor public image and community relations.

Raising the exemption levels would not address the commercial specialty operations where individuals or businesses have deliberate differentiation strategies aimed at niches outside the mainstream industrial / commercial market segments. These need to be accommodated within the regulations in some manner other than exemptions.

¹⁶ Source – *Treatment of Organics and Other Niche Markets in the Regulated Marketing Sectors of Other Jurisdictions*, W. Lohr, July 2004.

3.5.4 Certification

Certification conveys endorsement of a particular protocol as delivering a specific outcome. Although the endorsement in the fine print may provide only statistical assurance of the outcome, based on sampling procedures, “such as 19 times out of 20 we guarantee ...,” consumers are likely to interpret the certification as absolute.

Four trends which make certification important to producers are:

- Consumer demands for specific product attributes;
- Large retailers and food service distributors seeking specific product requirements for food safety or brand purposes;
- Offloading of service delivery programs by government; and,
- Increasing requirements that on-farm food safety practices be implemented.

Certification requires a certain level of scientific competency and testing rigour. It is essentially judging the validity of a particular protocol to assure a specific outcome or assuring that a particular product was produced in accordance with certain standards. Certification implies endorsement for a system. It implies that scientific principles have been involved in the testing of key control points, and that testing procedures are sufficient to assure the results desired. Certification requires greater technical and scientific expertise than verification.¹⁷

Consumers are increasingly aware of specific attributes of the food products they purchase. Among the areas where farm-based food attributes are gaining importance are:

- Concerns with animal welfare (eg. cage size and barn density);
- Assurance of certified organic (eg. absence of synthetic chemicals and hormones);
- Assurance of non-GMO (could be correlated to concerns over allergenicity); and,
- Assurance that farm practices are environmentally sustainable.

To provide consumers with assurances concerning the attributes of the food products they purchase, a credible certification / verification system is necessary. The attribute could be an assurance that is authorized by regulation, such as “certified organic,” or it could be an assurance that is related to a private or not for profit brand identity. Assurances usually begin with what occurs on the farm and therefore the assurance system must be able to validate identity preservation throughout the supply chain.

To the extent that certification is used to differentiate a regulated product some consideration needs to be given to the purpose and extent of the certification. The question to ask is whether the certification is required by the food chain in general, as in the case of food safety, or is it

¹⁷ Certification is more rigorous than verification. Verification takes a system or protocol already developed and performs a series of tests to provide reasonable assurance that the system was being followed as intended. Verification procedures might include testing key control points in a process or random sampling of products to determine if they meet the required specifications.

clearly a different product targeted for a certain market segment, as in the case of organic products.

It is possible to envision a situation where certain producers, seeking a way to access the regulated system, could propose that some production protocol is different, can be certified, and therefore should be considered separately from other products. For instance, free range, free run or grain fed poultry, without any other differentiating factors, might be represented as different. But are they significantly different?

For the purposes of using differentiation for regulated specialty products it is likely best to think of agri-food production systems as opposed to single agricultural production input variables. In B.C. today, there are 3 production systems that could generally be recognized as differentiating – the certified organic, SPCA certified and Asian specialty chickens. Other farm-based specialty production systems will need to demonstrate that they have established clear definitions and criteria, identified unique market niches, and established assurance systems for identity preservation.

3.5.5 Production Rights – Quota and Permits

Quota, together with a variety of temporary permits, are the tools by which production rights are distributed amongst all eligible producers, including specialty producers.

There are criticisms leveled against the Boards concerning the administration of the permit systems, including lack of transparency, inconsistent application, unfair and inequitable treatment, favouritism, arbitrary changing of the rules, and excessive fees disconnected from services provided. Many specialty producers do not trust the regulated system as a result of the Boards real or perceived permit administration and enforcement actions in the past.

Permits are used as “training wheels” for producers seeking to enter and / or do something different without having to purchase and own quota. Holders of quota guard the system to ensure that current and proposed programs do not materially impair the benefits they expect from their quota.

When permit programs are used they should be viewed in the same light as quota. The only material difference between permits and quota is that rights are more restricted for permits than for quota. Accordingly, permits form a useful instrument for bringing new people and ideas into the system without providing windfall gains to the new entrants at the possible expense of existing quota holders. In developing a specialty product framework, permits will be a useful tool during the innovation and development stages of new businesses or products.

3.5.6 Allocations

Allocation of authorized production levels to quota and permit holders is how the volume of production is regulated. Production volume is central to a farm operation, and so the amount of production authorized by permit or quota is crucial to producers.

Allocation procedures have a core purpose to supply market requirements. Market demand is determined on the basis several criteria including processor requirements, historic disappearance, inventory stocks, import and export volumes, and wholesale price trends. While not explicitly considered, farm gate price trends are also central to supply determination since declining producer margins can be a result of either rising costs or lower prices. If wholesale prices decline, processors will naturally put pressure on farm gate pricing to maintain their margins. If farm gate prices decline in the presence of burdensome stocks or declining disappearance, the incentive is to cutback supply to stabilize the market.

Specialty production has been only partially considered in supply determination. Boards have attempted to develop procedures for allocating a portion of the allotment received from the National Agencies to producers of specialty products. Mainstream producers quite naturally pressure Boards to limit allocations to specialty production since it reduces the amount that will be allocated to their quota holdings. To the extent that Boards and their National Agencies have overlooked or neglected to consider growth in specialty segments, the overall supply levels established are inadequate to provide appropriate allocations to specialty production. Moreover, the protocols and politics of supply allocation by the National Agency to the provinces may further constrain the Boards ability to provide adequate specialty allocations.

An issue that will likely emerge as specialty production is incorporated into the regulated systems is the determination of existing levels of specialty production. In some cases, specialty production has existed and grown outside the established regulated systems. With the requirement to be registered and report, and the impending application of new provincial food safety standards, it is likely that all production going through all processors will be captured. Some of this will not be new production: it will simply be existing production that is newly captured in the industry's information systems.

How the Boards, Government and Agencies address these increased amounts, which will not be new production, will be important. Allocation procedures need to be rules based, they need to consider all classes of production, and they will likely require a coordinated effort between Boards and Government to ensure that the province's needs are not prejudiced by Agency practices that fail to recognize B.C.'s market for B.C.'s producers.

3.5.7 Product Disposal

Specialty products have unique, farm-based attributes based on production practices. These practices are in addition to the minimum acceptable production standards under provincial and federal law. If there is a breakdown in production that prevents full application of the higher standards, a producer may seek to recover at least some of their expenses by finishing their production lot as a mainstream product.

Some Boards have established systems for product disposal that place the costs of disposal on the offending party. In the case of eggs and milk, elaborate systems have been developed based on end use and component pricing where the farm gate price and levies applied serve to provide

differential input costs to different 1st receiver market segments. By doing so they seek to ensure that the total production finds a market without upsetting pricing in the premium priced market segments. National Agencies have established overproduction penalties payable by Boards in the event that the province exceeds its allocation.

Mainstream producers have legitimate concerns for specialty product failing to meet specialty certification standards entering the mainstream channels and potentially impacting their prices and margins. It seems reasonable that specialty producers should incur costs of disposal or redirection of their product, including over-marketing levies, should they fail to meet specialty certification standards, yet still meet acceptable food safety standards.

3.5.8 Specialty Pools

To provide an allocation to specialty production, there must be capacity within the allotment received from the Agencies to meet both mainstream and specialty market requirements. If specialty is growing faster than mainstream, and if this growth is not fully reflected in the allocation from the Agency, one or both segments may be shorted.

Board decisions concerning the allocation to specialty versus mainstream production have the potential to be highly contentious. If mainstream producers feel they are being shorted volume to accommodate specialty producers, they will protest. If specialty producers feel they are being shorted so that mainstream producers can get a share of overall growth even if a large portion of that growth is specialty production, they will protest.

Boards will need to determine how much to allocate to specialty. These decisions will be hampered by a lack of historical market data for specialty products. In some cases, Boards have already established pools for specialty production. These pools are funded by taking a small portion of the overall allocation and making it available to specialty producers. The pools, rather expectedly, are considered by some specialty producers to be inadequate to meet their market requirements.

It will take time to develop the necessary history to have specialty production integrated into the allocation processes. In the meantime, it will be necessary for each Board to develop specialty product pools from which they can allocate production to specialty producers.

3.5.9 New Entrants

Specialty producers seeking to establish new businesses can be likened to new entrants, with the difference that they are distinguishing themselves from mainstream producers by the type of product they intend to produce.

Most of the Boards have established new entrant programs which are intended to assist individuals become mainstream producers. The programs tend to incorporate permits, permit fees, limited amounts of permit availability, and an underlying intention that the new entrant is to purchase quota to build the business. The incentive amounts provided are simply to assist the

new entrant establish a business. Boards limit the amount of allocation that is provided to new entrant pools, and have waiting lists of people wishing to access the programs.

New entrant programs may not work for existing specialty producers or for expanding specialty production due to different production costs and different market prices. Specialty production is likely higher cost than mainstream production. Higher retail prices may or may not be achievable, and they may or may not provide margins comparable to mainstream production. Over time, materially higher prices may not be sustainable as individual specialty product classes mature.

New entrants, whether for specialty or mainstream production, face the same lack of quota availability for purchase. Quota tends to be thinly traded, and trades are often brokered by input suppliers who direct the quota available to existing producer / customers. Permit programs that require the purchase of quota as the permit amounts are clawed back over time place bargaining disadvantages on permittees. These situations place a new entrants business at risk, whether specialty or mainstream.

3.6. Organizing, Administering & Governing

Producers of specialty products should be fully accommodated by the Boards to meet new, emerging and yet to be identified consumer demands.

3.6.1 *Registration*

In the regulated systems registration is at the core of the Boards' operations. Registration is typically done through licensing. Boards use different classes of license to register input suppliers, producers, brokers, and processors.

Licensing confers certain rights to the licensees to operate their businesses in the regulated sector, and it provides the Boards a vehicle for securing information necessary for the management and administration of the sector. In the event that a licensee fails to comply with the terms and conditions of their license, the Board may cancel or decline to renew a license effectively putting the licensee out of business.

3.6.2 *Administration*

The Boards have established administrative systems by which they manage their sectors. These systems have evolved over an extended period of time, and have benefited from years of experience, including trial and error.

A natural tendency of established systems is to buffer against change. Culturally, proposed changes might be challenged by statements such as "we don't do things that way around here", or "we tried that in the past and it did not work." Operationally, change may be inconvenient or add new work, or management may not feel that the appropriate resources are available to effect the change. Politically, change may create new relationships and power structures, thereby threatening established relationships.

One of the questions from specialty producers is “what does the Board do for us?” Some feel that they have developed their businesses, and their markets, despite the Boards. Some feel there are services the Boards could provide, such as price coordination, but that the Boards are either not inclined or not capable to provide responsive and informed service to the specialty producers. Others are simply opposed to Boards as one more level of government that they see as having no legitimate right to dictate how they run their businesses.

Boards will face several challenges bringing specialty producers into the system. First, Boards are not trusted by many specialty producers. Second, the current services provided by Boards may be of little or no value to specialty producers, and they may have unique needs that will require the Boards to change their systems. And third, the established relationships and procedures which are relied upon by the current mainstream producers may need to change, and this may threaten some existing growers.

3.6.3 Information

Fundamental to effectively managing a regulated system is reliable information. One of the roles for Boards is to establish effective production and marketing information. This information needs to be timely and relevant, and assist the Boards work with the industry's participants to serve and grow the market.

Specialty product market information is fragmented and incomplete. Some Boards (egg, chicken and turkey) conducted studies in the past year to gain insights into the specialty markets. These studies identified a range of specialty product offerings, and little in the way of disaggregated market statistics. This lack of reliable market data is not unexpected given that specialty products are often either early life cycle offerings without well established demand or channel information. Moreover, some specialty marketers will consider the information competitively important and work to keep it proprietary.

Boards will likely find it challenging to develop good market information for specialty products. They have the advantage of regulation by which they can require suppliers, producers, and processors to report so that they can collect and compile specialty production information. However, enforcing the submission of market information will be threatening to some, and based on the lack of trust between specialty producers and the Boards, care will need to be taken in establishing the information systems.

3.6.4 Permit Programs

The demand for access to permit programs established by the Boards generally exceeds the production allocated to meet the demand.

Boards have established allocation pools set aside specifically for new entrants and permit programs. These pools are funded by taking a pre-defined amount of the allotment received from

the Agency and reserving it for these programs. Additionally, some Boards also fund these programs by quota transfer assessments.

The amount of production available in the pools is relatively small. There are typically more people applying for access than the allocation available. So, Boards establish waiting lists for people to access the allocation pools.

One of the criticisms from specialty producers is the management and administration of the waiting lists. Complaints of favouritism, inequity, inconsistency, exceptions, and conflicts of interest are common. Some producers go so far as to allege fraud and self-dealing.

So Boards have two challenges with the current pools: inadequate amounts available to meet demand and low levels of trust and respect. To avoid or limit these criticisms, Boards will need to develop clear rules for ensuring reasonable amounts of production allocation are available to the pools. They will also need to ensure their administration of the application process, waiting lists and permit issuance is rules based and transparent.

3.6.5 Levies

Operation of the Boards is funded by mandatory levies assessed on production. The Boards have established a range of levies based on the different activities of the Board and types of quota or permit held.

In most cases, the Boards assess extra fees against permit production. These additional charges are essentially "quota lease" fees. For instance, the BCCMB assess a fee of \$0.18/unit/month on permits issued, the BCEP assesses a fee of \$0.20/layer/week on TRLQ¹⁸ permit and the BCTMB assess a fee of \$0.19/kg live on grower-vendor permit production. These fees are in addition to the regular administration and marketing levies assessed on all production.

From a specialty producer's point of view, the levy practices of the Boards appear to be disconnected from either services provided or specialty economics. Specialty producers believe they receive less service and value from the Boards than regular quota holders producing mainstream product. They point out that there is little price coordination, almost no marketing or market access assistance, and all they really get are restrictions from producing the amounts they believe their markets are seeking. In cases where the Boards operate pools (eggs and milk), levies are used to fund the operation of the pools. Specialty producers do not typically access these pools and therefore feel it improper that they be required to pay costs associated with operating these pools. And economically, specialty products generally incur higher costs of production and the margins received are lower than for mainstream products.

Having fees attempt to compensate for the opportunity to produce without having to purchase quota when, according to the Orders, quota has no value appears to be a contradiction. Clearly, all informed participants in the regulated sectors know quota has a value, and that it has attained

¹⁸ TRLQ – Temporary Restricted License Quota – a permit tool used by the BCEP.

values that are considered by most to be rather high. Boards justify the additional permit fees on the basis that a benefit is being conferred for which others have paid, either with cash or in kind, and therefore permittees should not be given a free ride. Additionally, Boards have established that, subject to certain conditions, permits will convert to quota after some period of time. For instance, the BCTMB and the BCCMB will issue quota to a permit holder after 12 years and the BCEP will issue 25% of the TRLQ permit after 7 years providing the permittee has purchased the other 75% of quota to equal the full permitted amount. In these cases, permit fees are a type of quota purchase fee.

Boards need to examine and justify that their levy policies are based on value for money paid by specialty producers.

3.6.6 Association

The Boards operate in conjunction with producer associations. These Associations focus on non-regulatory activities. The Associations and Boards have a well established history of working together, even to the extent that the Boards may provide shared administration services and serve to collect and flow through levies to fund association activities.

If it is accepted that specialty production is distinct from the mainstream, and therefore may have unique issues, there may be a place for specialty associations. There are regulatory options such as Industry Development Councils and Designated Agencies which may also serve specialty producers' interests. However, the fragmented nature of specialty production, the stage of evolution of specialty products on the product life cycle, and the burden of establishing such organizations may well preclude them as viable options at this time.

Boards and specialty producers may find value in forming advisory committees responsible for considering and advising Boards concerning specialty production and marketing issues. The BCEP already has a specialty egg committee. However, the effectiveness of this committee is open to question based on the amount of contention that has occurred concerning specialty egg production over the past 5 years. Nevertheless, one way for the Boards to enhance their relevance and improve their image with specialty producers would be to establish advisory committees comprised of specialty suppliers, producers and processors.

3.6.7 Governance

The Schemes provide for the delegation of powers to Boards, and Boards are established to be governed by producer directors elected by all registered producers.¹⁹

Producer directors on the boards of directors of the Boards are expected to represent the interests of all stakeholders. However, they are producers first, and have the personal incentive

¹⁹ Producer directors – in general, directors are elected from the ranks of all registered producers. However, in certain cases Government may suspend or withdraw the authority to elect directors to govern the organizations. In these cases, directors are appointed by Government. Nevertheless, the intent of the Schemes is that the Boards be self governing.

to view all decisions from the perspective of how that decision might impact the economics of their own operations. The issue of materiality can be argued, but the reality is that decisions they make regarding quota issuance, supply allotments, prices and levies will impact their own operations. As a result, directors may find themselves in conflicted decision situations.

This is not to suggest that directors do not work diligently to make the very best decisions for the industry. It does, however, illustrate a problem directors face when they approve an application for a special allocation or permit issuance that reduces the pro-rata allocation to all producers, increases the total amount of quota issued, or assesses special levies on a subset of producers.

Specialty producers are not presently represented on the Boards. Whether they could get elected is questionable given their smaller numbers and general tendency to be disengaged from the Boards. This poses a problem for Boards in that they have an expanding producer stakeholder group not represented in the current decision making process.

Boards of Directors will need to find meaningful ways to engage specialty producers in the governance and decision making of the Boards.

4 Recommended Specialty Product Policy Framework

In this section a framework for managing of specialty products within the supply managed system is put forward. This framework is intended to provide Boards with guidance to develop specific specialty production and marketing programs that will encourage growth and development of the industry in accordance with the Ministry's Regulated Marketing Economic Policy and the FIRB's principles for specialty production.

4.1. Definitions

Specialty Products Specialty products are clearly differentiated by virtue of distinct genetics, nutrition, and/or production management on the farm, and the identity of the unique attributes created at the farm level is preserved through production, marketing, and distribution to the consumer.

Specialty products may be marketed and distributed through all market channels.

Specialty Producers Specialty producers are producers who produce and market a specialty product.

To qualify for specialty product permits and/or specialty classes of quota, specialty producers should be required to:

- maintain production and marketing of the specialty products clearly separable from mainstream products; and,
- operate within a certification plan to assure end use consumers of the integrity of the label claims.

Certification plan Plans established to provide certification that the attributes alleged to be built into the product at the farm level are indeed provided and preserved intact to the end consumer.

4.2. Quota & Permits

Registration All specialty producers, suppliers and processors should be required to be registered with the Board.

All registered producers should be issued a license.

Boards should administer licenses in a manner that different levels, types, and classes of production are regulated.

Mainstream Quota	<p>Quota for any class of product is referred to herein as mainstream quota. Boards use several labels for mainstream quota such as total production quota (milk) or primary quota (chicken).</p> <p>Mainstream quota rights should include the right to produce any class of product, including specialty products.</p>
Specialty Quota	<p>Boards and Commissions should establish a distinct class of quota for specialty production.</p> <p>Specialty Quota should be based on products having clear farm-based differentiation, and where the unique attributes are certified as to identity preservation through processing, marketing and distribution to final consumers.</p> <p>Specialty Quota should have restricted production rights in terms of class or classes of product that can be produced.</p>
Quota Transfer	<p>Quota should only be transferable within a class.</p> <p>Approval to transfer quota should remain the responsibility of the Board.</p> <p>Rules for transfer should be similar for both Mainstream and Specialty Classes of quota.</p>
Transfer Assessment	<p>Any transfer of any class of quota should be assessed a transfer assessment.</p> <p>Assessments should be placed into a pool for distribution to new entrants to the class of quota.</p> <p>The amount of the assessment should be determined by each Board at a level that will be sufficient to provide for a minimum number of new quota entrants annually.</p> <p>Exemptions from the transfer assessments should not be permitted, with the possible exception of narrowly defined intra-family transfers and share reorganizations where control does not change.²⁰</p>

²⁰ Transfer assessment exemptions – The Boards either do not have transfer assessments or have a range of exceptions that, practically speaking, result in very little transfer assessment. If the assessment is to have any practical impact for funding new entrants, then ways need to be found to limit the number of exceptions.

Quota Conversion	Boards should not allow the conversion of quota from one class to another.
Specialty Permits	<p>Producers seeking to produce specialty products at levels greater than the exemption levels should initially establish their operations under permit.</p> <p>There should be 3 levels of specialty permit, each with successive consideration of market development of the specialty product.</p> <p>The 3 levels should span a period of 10 years and each successive permit should reflect a stage of product / market development.</p>
Innovation Permits – Phase 1	<p>Innovation permits should be issued for 2 years to provide specialty product innovators the opportunity to develop initial production practices and test market the specialty product. ²¹</p> <p>Permit applicants should be required to demonstrate by way of a business plan that the quantity applied for is necessary for sound research and development of the new product.</p> <p>Phase 1 permits should be non-transferable.</p>
Market Development Permits - Phase 2	<p>Market Development Permits should be issued for 3 or 4 years to producers who have demonstrated they have progressed beyond innovation and have begun, or intend to begin, developing their business to serve a commercial market for their specialty product.</p> <p>During this 2nd permit phase, permit holders should be required to demonstrate development of 3rd party inspection procedures to certify that the attributes claimed to be provided by the specialty product are indeed provided.</p> <p>Permit applicants should be required to demonstrate by way of a business plan that the quantities applied for are necessary for test marketing and development of identified market channels.</p> <p>Permits should allow for quantities to be increased over the span of the permit in response to a business plan and market information provided.</p>

²¹ Innovation permits for 2 years. Certified organic producers may argue that it takes up to 3 years to attain certification and therefore 2 years is inadequate. In this case, the innovation permit could easily be designed to cover 3 years and the Phase 2 permit could be issued for an equivalent shorter period.

	<p>Phase 2 permits should be transferable with the facility, but not separate from the facility.</p>
Production Development Permits – Phase 3 ²²	<p>Phase 3 permits are intended to facilitate development of sustainable and efficient production practices for specialty producers having demonstrated market acceptance of their product.</p> <p>Phase 3 permits should be issued for 3 or 4 years to producers who can demonstrate 3rd party certification procedures, established market access, and production development plans.</p> <p>Phase 3 permittees should be required to demonstrate volumes necessary to meet specialty product demand based on market information.</p> <p>Permits should allow for quantities to be increased over the span of the permit in response to market information provided.</p> <p>Phase 3 permits should be transferable with the facility, but not separate from the facility.</p>
Waiting Lists	<p>Each Board should establish clear application procedures for permits.</p> <p>Waiting list procedures should be:</p> <ul style="list-style-type: none">- Transparent;- Clearly communicated to all participants; and,- updated, published and circulated to all persons on the waiting list on a periodic basis. <p>When a producer on the waiting list is offered the opportunity to enter, a notice should be posted such that the offer is communicated to all other persons on the waiting list.</p>

²² Phase 3 permits – this could also be the new entrant program for specialty producers.

4.3. Exemptions

Registration	<p>All producers who sell regulated product off premises, of any class and in any amount, should be required to be registered with the Board for biosecurity and information purposes.</p> <p>Registration should be renewed annually, and require producers to provide their address, production location(s), and annual reporting of volume of production to the Board.</p> <p>Producers under the exemption level should be exempt from paying levies and from the requirements to hold production permits or quota.</p>
Exemption levels ²³	<p>Producers of any class producing less than a certain quantity should be exempt from the requirement to hold a production permit or quota.</p> <p>Exemption levels should be increased, and should be established considering the following:</p> <ul style="list-style-type: none">- number of potentially exempt producers;- total amount of potentially exempt production;- exemption levels in other provinces;- costs of administration;- costs of compliance; and,- costs of enforcement.
Exemption level review	<p>Boards should review the exemption levels at least every 5 years.</p>

4.4. Marketing Requirements

Licensed Agencies	<p>Holders of Phase 3 Specialty Permits and Specialty Quota should be required to market through an agency or processor properly licensed by the Board.</p>
-------------------	---

²³ Exemption levels – Boards should increase exemption levels. If exemption levels are set too low, there may well be numerous lifestyle producers who are above the exemption level but clearly not in the mainstream markets. As a result, Boards could be faced with costly enforcement measures and poor public image should they seek to enforce their regulations in certain lifestyle farming situations. Failure to enforce regulations, or enforcing them with too much flexibility and discretion, can give rise to perceptions of bias and inequitable treatment. Therefore, Boards need to find reasonable and practical exemption levels.

Certification	<p>Certification of the claimed attributes in a specialty product is the foundation upon which Specialty Quota is intended to be based.</p> <p>Certification plans should be developed for each product type regulated by Specialty Permit or Specialty Quota.</p> <p>Certifying agencies should be 3rd party to both the specialty producers and the Boards.</p> <p>It would be preferable if certification procedures were established in accordance with the Agri-Food Choice and Quality Act.</p> <p>In the event that the certification procedures were not registered under the Act, the onus to demonstrate reliable, rigorous 3rd party certification to standards equivalent to those established in the Act should be on the specialty producers.²⁴</p>
Market Information	<p>Boards should establish procedures to collect and compile information on specialty production and markets.</p> <p>The specialty market information developed should be reported, as a minimum, in the Board's Annual Report.</p>
Pricing	<p>Pricing procedures for specialty products should be allowed to evolve as the specialty markets develop.</p> <p>For the most part, specialty product pricing should be determined in the market place directly between sellers and buyers.</p> <p>Specialty Product Advisory Committees should be charged with monitoring market conditions and recommending to the Boards if and how pricing coordination is required in accordance with the powers established in the Schemes.</p>

²⁴ Certification – It may not be realistic to require a couple of small producers above the minimum level of production to go to the same level of detail in certification as larger producers operating under established organic standards. The whole area of certification could become controversial if some individuals see it as a way to circumvent the mainstream and establish regulated production. By using restrictions on the specialty quota issued some amount of this potential problem may be overcome.

4.5. Production Requirements – All Classes

Food Safety	<p>All production, whether Specialty or Mainstream, should be undertaken in accordance with applicable Provincial and/or Federal food safety regulations.</p> <p>Specialty Products Advisory Committees should be responsible for reviewing specialty production and marketing protocols, and should advise the Boards concerning the compliance of specialty protocols with food safety standards.</p> <p>Specialty producers should have the option to develop their own on-farm food safety standards, providing there is 3rd party inspection and the minimum provincial and federal standards are met.</p>
Biosecurity	<p>Specialty producers should be required to demonstrate that their production practices do not place undue economic disease risks to the industry overall.</p> <p>Certifying agencies and provincial and federal governments will likely have roles in establishing biosecurity standards and ensuring minimum acceptable standards in practice through enforcement..</p>
Administration	<p>Boards should not be permitted to use inappropriate food safety, biosecurity or other production protocols as barriers to specialty production.</p> <p>The onus of proof that specialty production protocols meet the standards established by the provincial and/or federal governments for food safety and biosecurity should lie with specialty producers through the Specialty Product Advisory Committees.</p>

4.6. Production Allocation

Allocation Rights	<p>Government, through the Schemes, authorizes Boards to distribute production rights amongst registered producers.</p> <p>Boards should be required to receive prior approval from the FIRB for allocation decisions.²⁵</p>
-------------------	---

²⁵ Allocation Rights – the Schemes need to be reviewed to determine if changes are required to implement prior approval of allocation decisions in B.C.

Allocation Procedures	<p>Allocations should be based, in large part, on demonstrated growth in each product class.</p> <p>Boards should establish clear written procedures for allocating production, and most specifically growth in allocation.</p> <p>Boards should issue and communicate reasons for decisions on all production allocations.</p>
Allocation Priorities	<p>Boards should establish a priority ranking for allocating growth in provincial allotment to permittees and quota holders.</p> <p>The recommended priority ranking should be:²⁶</p> <ol style="list-style-type: none">1. specialty permits;2. new entrants (specialty and mainstream);3. specialty quota; and,4. mainstream quota holders.
Specialty Product Allocations	<p>Allocations for specialty product classes should be based on market information compiled by the Board for the Specialty Product Advisory Committees.</p> <p>The Committees should be charged with recommending annual specialty production volume requirements in advance so that these volumes can be considered in the Board-Agency allocation negotiations.</p>
Allocations from National Agencies	<p>Boards are subject to overproduction levies payable to the National Agencies in the event that aggregate provincial production exceeds the provincial allocation from the Agency.</p> <p>Boards should give consideration to both mainstream and specialty production in all allocation discussions and negotiations at the National Agency level.</p>

²⁶ Allocation Priorities – it may not be necessary to prioritize allocation between specialty and mainstream quota if sufficient allocation is received from the National Agency to meet specialty market requirements.

4.7. Levies & Fees

Administrative levies	Administrative levies assessed on specialty production should be the same as those for mainstream production.
Permit fees	Permits should be subject to administration levies at the same levels as mainstream production.
Market Clearing levies	<p>Specialty Permits and Specialty Quota production should be levied for market clearing, disposal or redistribution of product only to the extent that specialty products utilize these services / practices.</p> <p>For clarity, specialty products should not be levied disposal or other market clearing levies, such as those used in the Egg Scheme to provide industrial eggs to processors, unless the specialty products utilize the services.</p>
Marketing & Research levies	Marketing and Research levies that may be charged against specialty products should be determined in consultation with the Specialty Product Advisory Committees.
Product removal / distribution levies	Levies to remove product failing to meet specification or to subsidize one subclass of product (i.e. the industrial egg example) should be assessed separately for each class of product.
Other levies & fees	There should be no levies or fees that attempt to create a "rental" fee for the use of a permit based on the underlying assumption that the permit has quota-like value equivalent to the values associated with mainstream quota.

4.8. Eligibility

Existing Mainstream Quota holders	<p>Existing mainstream quota producers should have equal rights to apply for specialty permits and hold specialty quota, providing they fulfill the requirements of specialty production, including:</p> <ul style="list-style-type: none">- maintaining production and marketing of the specialty products clearly separable from mainstream products, including but not necessarily limited to input supplies, production, and marketing; and,- operating within a certification plan, or be actively developing a certification plan, to assure end use consumers of the
-----------------------------------	--

integrity of the label claims.

Existing Specialty
Production

Some amount of certified specialty production is presently carried out using existing mainstream quota.

Producers using existing quota for certified specialty production should have the right to produce either specialty or mainstream products.

Producers having these dual production rights should be:

- clearly and transparently registered by the Boards;
- required to indicate, in advance, their production intentions for an allocation period; and,
- subject to all the other rules and procedures for the class of product they determine to produce in a period.

Maintaining Specialty
Status

To maintain eligibility for specialty status a producer should be required to sustain in good standing their certified status.

In the event that a producer temporarily loses their certification status, they should be provided an appropriate amount of time to regain status.

Should they be unable or unwilling to regain specialty status, they should forfeit their permits. If they hold specialty quota, they should be required to transfer it within an appropriate period of time or risk having their specialty quota rights cancelled.

Specialty Product
Integrity

Specialty product is intended to be marketed retaining the integrity of the attributes claimed.

Boards should establish procedures to ensure there is no unmanaged crossover of specialty products into mainstream product sales.

In the event that a producer of a specialty product is unable to achieve certification of a production lot, that product should either be disposed of outside the food chain or through mainstream product market channels.

In the event that the specialty product is, or needs to be, marketed as a mainstream product (i.e. without certification and labeling assuring consumers of the specialty attributes), it should be subject to marketing penalties less than or equal to the overproduction levies established for payments to the National Agencies.

For clarity, if specialty product should, for some reason, enter mainstream markets it should incur appropriate penalties and service fees.

4.9. Organization & Supervision

Supervision

All specialty product programs developed by the Boards should be required to obtain approval from the FIRB.

FIRB should execute its supervisory responsibilities in regards to specialty production and marketing through Memoranda of Understanding and ongoing review of Board operations.

Governance

Each Board having Phase 3 Specialty Permits or Specialty Quota should establish a seat on the Board of Directors for specialty producers, subject to there being a defined minimum number of registered, non-exempt specialty producers.

For instance, the FIRB may wish to establish a principle that the minimum number of registered, non-exempt specialty producers required before a director position is established should be the lesser of 10 producers or 10% of the total number of registered producers.

Only holders of Phase 3 Specialty Permits or Specialty Quota should be eligible to nominate, elect and represent specialty producers on the board.

Specialty director elections should consider requiring a double hurdle recognizing both number of producers and volume of production. For instance, the Board might establish that a successful vote must exceed both 50% of producers and 50% production.

Specialty Product Advisory Committees

Each Board should establish a Specialty Product Advisory Committee comprised solely of registered specialty producers, processors, distributors and designated agencies.

Composition of the Committee should be determined by the specialty stakeholders.

These Committees should be charged with monitoring the performance of the specialty programs and providing policy and procedure input to the Board concerning the management and administration of the Specialty programs.

Confidentiality	<p>The specialty programs contemplated herein require considerable information to be presented by applicants to the Boards.</p> <p>The current level of trust amongst some specialty growers with the Boards is low.</p> <p>Directors on Boards and their staff should be held to the highest level of accountability and confidentiality in considering private information put before them concerning permit and quota applications.</p> <p>Boards should establish clear rules for assessing applications, and may wish to consider utilizing a 3rd party to review the information and business plans submitted, and to make recommendations to the Board concerning the compliance of the applications with the established rules.</p>
-----------------	--

4.10. Transitional Matters

This section provides some recommendations concerning implementing the specialty products framework.

Effective Date	<p>The effective date for determining status of specialty producers for permit issuance should be January 1st, 2005.</p> <p>This is intended to limit actions that might be contemplated by specialty or mainstream producers seeking to gain advantage as a new program is implemented.</p>
Existing Permit Programs	<p>Existing permit programs should be converted to a new staged permit system.</p>
Issuing Permits	<p>Existing permittees and specialty producers currently operating outside the system should be issued a permit based on the years they have been in operation in accordance with the 3 phase permit scheme outlined above.</p> <p>Existing specialty producers in operation for more than 7 years should be issued Phase 3 permits that convert to Specialty Quota in 3 years.²⁷</p>

²⁷ Issuing Phase 3 permits to established producers. The intent is to provide 3 years for the establishment of Specialty Quota during which time Boards and specialty producers will establish responsive allocation procedures. If quota was issued immediately, there might be an incentive for those issued quota to seek to restrict the issuance of new quota so that the demand and therefore the value of their quota would be secured.

In the event that a specialty product does not yet have a 3rd party certification plan established, a Phase II permit should be issued regardless of years in operation, and subject to there being a plan to develop a credible 3rd party certification plan.

Obtaining Adequate
National Allocation

Bringing specialty production into the regulated schemes should provide a more accurate representation of actual production levels in the Province.

On the basis that this specialty production already exists, and is outside the existing allocation, Boards should be eligible for increased allotment from their National Agencies without having to forfeit any existing mainstream quota allocation.

Boards should attempt to develop accurate information concerning specialty production in the province within 1 year, say by Dec. 31st 2005.

The Ministry and the FIRB, working with the Boards, should seek allocation increases from the National Agencies to supply specialty market requirements.

These allocation increases for existing specialty production should be based on existing production levels once all specialty production is registered.

The incremental allocation provided to B.C. when specialty production is brought with the System should not impact mainstream production allocations either within the province or within the national system.²⁸

Timing

Boards should present specialty product program procedures to FIRB for approval no later than March 31st, 2005.

Boards should be required to have the programs in operation by June 30th, 2005.

²⁸ The underlying argument is that this production has already existed and supplied the market – the province is simply bringing it under the system. Therefore there should be no loss of existing allocation to mainstream quota producers either within the province or in other provinces from the issuance of additional allocation to B.C. to cover specialty production already in existence.

5 New Entrants - Mainstream

The Boards each have programs which are intended to provide some assistance to encourage new entrants to the regulated System. While examination of the new entrant programs was not directly within the scope of this specialty product review, some Boards use the new entrant programs to accommodate specialty production.

When the programs have dual purposes the rules can become blurred, decision making can appear inconsistent and biased, and contention can develop concerning amounts allocated to the different dimensions of the program.

Boards should establish separate programs for specialty and mainstream production. Both will require new entrant programs. Mainstream production and marketing systems are well established so the new entrant programs can be better defined and amended presently. Specialty production and marketing regulations are not so well developed and establishment of new entrant programs for specialty production should be deferred several years. In the meantime, the Phase 3 permit may provide an effective vehicle for specialty new entrants.²⁹

The Boards have established new entrant qualification criteria. However, there have apparently been concerns expressed by the Boards concerning people finding ways to use the programs merely to access free quota without having sincere intentions of becoming commercial producers.

Outlined in this section are some suggestions regarding new entrant programs for mainstream quota production.

Facilitating New Entrants Each Board should have a program for new entrants to the mainstream segment of their sector.

New entrants should be required to have business plans that demonstrate financial commitment and an economic production unit.

²⁹ Specialty new entrant procedures - At some point specialty markets will mature, and existing participants at that time might be inclined to seek restrictions to new entrants when the additional supply would have the potential to oversupply the market and thereby challenge prices and margins. At that point, a new entrant program for specialty production should be considered.

New Entrant eligibility	<p>Boards should establish clear eligibility criteria for new entrant programs including the following:</p> <ul style="list-style-type: none">- Applicants should not have had, either directly or indirectly, any previous financial or family involvement in a supply managed product;- Applicants should be placed on a transparent waiting list with clear seniority criteria;- Applicants should meet residency requirements; and,- Successful applicants should be owner-operators.
Requirement to make a Financial Commitment	<p>New entrants should be required to demonstrate a financial commitment to the industry. This may include a requirement to purchase a certain amount of quota before being granted any incentive permit or quota rights by the Board³⁰, or it may be demonstrated investment in plant and equipment, working capital or performance bonds.</p> <p>Boards should find ways to ensure that sufficient quota is available for purchase by new entrants so that they may economically add to the incentive quota provided by the Board.</p>
New Entrant Permits	<p>New entrant incentive permits should be issued to new entrants for a reasonable amount of production that, when added to quota purchased, provides a reasonable expectation of the production unit being economic.</p> <p>Permits should be renewed annually so as to provide the Boards the ability to ensure new entrants are in compliance with the rules.</p> <p>Permits should convert to non-transferable quota after some reasonable period of time, say 5 years, providing the producer is in compliance with all Board regulations.</p> <p>Permits should be similar to quota in all other ways, including eligibility for pro-rata changes in allocation.</p>

³⁰ Purchase of quota requirement – the problem with this is its potential to inflate the price of quota. For instance, the current TRLQ program in eggs creates a requirement that permit holders purchase quota or lose their production rights. This limits their negotiating ability in a market where quota is thinly traded.

Levies	New entrant permit production should incur the same levies as quota.
Transferability	<p>The permit or quota issued to the new entrant at no cost should be non-transferable in perpetuity.</p> <p>If, at any future time, the new entrant seeks to exit the industry or sell quota, the first quota to be withdrawn will be that quota which was issued at no cost.</p>
New Entrant Pools established from Transfer Assessments	<p>The Boards should levy a minimum 5% assessment on all quota transfers to provide a pool of quota for new entrant incentive permits.</p> <p>The assessment amount should be linked to the needs of the new entrant program established by the Board.</p> <p>There should be only very limited exceptions to the assessment, such as intra-family transfers or corporate reorganizations where control does not change, and the assessment should apply to all mechanisms used to facilitate the transfer.</p>

6 Exhibits

6.1. Contacts

	Contact
Chicken	Bill Vanderspek, B.C. Chicken Marketing Board Brad Reid, producer Lillian Fehr & Bill Friesen, producer Richard Bell, producer
Dairy	Tom Demma, B.C. Milk Marketing Board Jim Byrne, B.C. Milk Marketing Board John Jansen & Board, B.C. Milk Marketing Board Ben Brandsema, producer
Eggs	Peter Whitlock, B.C. Egg Producers David Taylor, B.C. Egg Producers Monica & Willy Fitzl, producer John Jansen, producer Steve Easterbrook, producer / grader Marius Alexander, producer
Hatching Eggs	Dave Cherniwchan, B.C. Broiler Hatching Egg Commission
Turkeys	Colyn Welsh, B.C. Turkey Producers Marketing Board Les Burm & Eric Andrew, B.C. Turkey Producers Marketing Board
COABC	Gunta Vitins, COABC
FIRB	Richard Bullock, FIRB Jim Collins, FIRB
BCMAFF	Hon. John van Dongen, Minister Daphne Stancil, BCMAFF Andreas Dolberg, BCMAFF

6.2. BCMAFF Regulated Marketing Economic Policy

A copy of the Ministry's Economic Policy for Regulated Marketing is included for information.

6.3. Letter from FIRB to Boards – September 2003.

Included is a copy of the Letter from the FIRB to the Boards directing a review of the programs for specialty production.

6.4. FIRB Principles for Specialty Production

Included is a copy of the August 25th, 2004 letter from the Chair of FIRB to the Minister which included a list of principles developed by the FIRB for the management of specialty production in the regulated marketing sectors.