

May-25-18

Kirsten Pedersen  
Executive Director  
BC Farm Industry Review Board  
780 Blanshard Street, 1<sup>st</sup> floor  
Victoria BC V8W 2H1

Dear Ms. Pedersen,

**Request for approval of BCEMB's proposal to distribute growth quota allocation**

In November 2017 Farm Products Council of Canada (FPCC) approved a national increase in egg production that provided the BC Egg Marketing Board (BCEMB) with 108,741 additional units of quota. Per Section 37 (c) of the British Columbia Egg Marketing Scheme, BCEMB requires prior approval from BCFIRB to vary quota. BCEMB is requesting approval for the modified pro-rata distribution of this quota.

BCEMB's proposal and recommendation is to:

1. Distribute 90% (97,867 growth quota units) of BCEMB's allocation pro-rata to all BC producers who are active and in good standing with BCEMB as of April 5, 2018. This represents an increase to Registered Producers of 3.31%.
2. The 10,874 holdback would provide BCEMB with 33,426 undesignated quota which is sufficient for BCEMB to meet its New Producer Program draw commitment from 2020-2025. In the short term, BCEMB is planning to use this quota to increase quota accessibility for producers/graders to fill short term market needs and opportunities. Programming will be discussed with stakeholders at the roundtable meeting in July 2018.

According to BCFIRB's Decision, dated March 27 2017, on the Prior Approval of the BCEMB's 2017 Quota Distribution Policy, the BCEMB is directed to provide detail on the quota distribution policy options considered and consulted on, and the sound marketing policy rationale for our recommendation. The BCEMB is providing the requested information in this submission, specifically:

- Details on the changing economic and market circumstances, including a summary of current and relevant information;
- the results from stakeholder input through stakeholder engagement;
- the results of EIAC consideration of options for distribution of allocation and its recommendations for allocation distribution;
- Information indicating that BCEMB's recommendations are supported with a consideration of how to increase industry efficiencies through the growth of new entrants, small producers and opportunities to support growing markets.

The information is presented in the following sections.

It is important to mention that it is BCEMB's goal to streamline the quota allocation process going forward to ensure that growth quota is allocated in a timely manner and BC egg producers are meeting growing market demand. BCEMB is seeking BCFIRB's guidance and support to expedite this process, including modernizing regulatory procedures, and preventing possible penalties from the national agency.

### **Current Market Conditions**

The consumption of eggs continues to grow at a faster than expected rate. This increase is attributed to a variety of factors such as: stakeholders along the entire supply chain have done an excellent job to keep eggs as a healthy, local, safe, and affordable protein; science is continually improving its view on eggs as a healthy food product; cholesterol from eggs is no longer a concern for a healthy diet.

Table disappearance at retail continues to grow nationally at a higher than expected rate. Our most recent Nielsen data from February 3, 2018 shows that over the last 52 week period Total Eggs showed a 4.9% increase nationally and for the latest 4 week period, an increase of 8.2%. Egg consumption continues to increase in 2018, therefore it is likely that BCEMB will receive another increase in December 2018.

Over the same 52 week period, BC Total Eggs recorded a 4.3% increase and for the latest 4 week period, an increase of 9.9%. Regarding each production type specifically, here are the numbers over the latest 52 and 4 week periods:

<b>Production Type</b>	<b>BC Growth in Latest 52 Weeks</b>	<b>BC Growth in Latest 4 Weeks</b>
Conventional	2.3%	7.7%
Free Range	14.7%	17.1%
Free Run	1.8%	-2.9%
Organic	5.9%	11.1%

From the above information one could extrapolate that: (1) in the last 52 weeks, eggs have grown in every production category, and (2) there is significant variability between the latest 52 week and 4 week growth numbers. The fluctuation in egg consumption can be attributed to (1) a steadily increasing consumption in eggs, (2) the seasonality of egg consumption, and (3) other market factors that impact demand such as retailer decisions and consumer trends.

In this evolving marketplace and era of savvy consumers who are demanding traceability and transparent information, it is vital for the longevity of supply management that commodity boards engage stakeholders and develop sound marketing policies and procedures. This document and the information that follows will provide BCEMB's rationale for a modified Pro-Rata Distribution quota allocation. It will also present our completed works, committees, challenges, strategies, and ongoing programs that are dedicated to ensure that BC remains market responsive and upholds its social licence to its residents.

## Background

When quota increases are received from the national agencies, BCEMB endeavours to put the quota into production in an expeditious manner in order to accommodate the increased consumer demand for BC eggs. Good governance and board policies have a vital role to play in BCEMB's ability to accommodate these increases in a timely manner.

To give an example, an increase of 108,741 quota units represents an additional 108,741 layers that were not previously housed in BC.

Below are the steps required for a producer to accommodate the increase in growth quota:

1. The producer must wait for their next flock change as the additional hens cannot be placed within the current flock. Flocks are placed at 19 weeks of age and removed between 72 to 80 weeks of age. Adding birds to a flock poses a biosecurity risk.
2. If the producer has extra space to accommodate the birds, they increase the number of birds placed at their next placement. This requires a minimum of 6 months' notice, prior to the hatch date, for the hatchery. This is to accommodate the additional breeder hens required and the three weeks from lay to hatch for breeder eggs.
3. The day old chicks are delivered to pullet facilities where they are raised from day old chicks to 19 weeks of age.
4. The producer receives their flock with the additional layers required.
5. If a producer does not have enough barn capacity to accommodate the increase, then they need to build/renovate which must be completed between flocks and often results in 3-6 months without production. In order to maintain market stability, not all producers are able to renovate at the same time, and require grader signoff in order to proceed. The BCEMB is informed by graders and producers of any intended changes of production type and volume.

Consistent application of policy and procedures creates predictability which allows producers to anticipate growth and incorporate the additional birds into future flocks by ordering more chicks.

Policies that introduce flexibility for production further encourage producers to take on additional risks allowing them to anticipate growth. The BCEMB Modified 10/90 Pro-Rata formula creates predictability for producers, and combined with our quota credit system, provides producers with a margin of flexibility in their numbers so if they place more birds than their quota allows they have a mechanism to maintain their good standing within our Consolidated Orders. Producers earn quota credits for levy incurred absent production (during downtime between flocks) and allows producers to temporarily place above their quota for a finite period of time.

## How effective is Pro-Rata Allocation combined with the use of Quota Credits?

BCEMB requires active engagement as well as chick placement before new issuance is granted. This means that the birds are placed and housed at the appropriate density for the production type per our Consolidated Orders.

In a very short timeframe our industry has progressively improved its capacity and therefore ability to place growth quota. The graph below indicates our last four allocations and how quickly BCEMB producers responded by placing the issuance after the allocation was received:

	Percentage of producers who placed the new allocation quota after the growth issuance was received			
	1 <sup>st</sup> Week	5 <sup>th</sup> week	26 <sup>th</sup> week	52 <sup>nd</sup> week
2015 – 2.7% Allocation	18.7%	29.1%	60.4%	82.8%
2015 – 2.65% Allocation	18.8%	28.6%	63.2%	78.2%
2016 – 2.587% Allocation	13.4%	37.3%	73.1%	87.3%
2017 – 3.148% Allocation	25.4%	63.1%	88.5%	96.2%

Our last allocation was given to producers in Week 14, 2017. Within the first week, 33 producers had placed the issuance, by the end of the 5<sup>th</sup> week 82 producers (63.1% of industry) had placed the quota, and at the end of the first year since the quota was allocated, 125 of 130 producers (96.2%) had placed the quota.

This quick uptake of the allocation was due to good governance through board policies that create stability, predictability, and flexibility for producers within the quota system. Almost all of our producers are planning their hatch dates and chick placement sizes a minimum of one-to-two years in advance of their birds being placed. This means that producers are constantly looking forward, anticipating increases, predicting market shifts, and systematically increasing their placement sizes to allow the expedited accommodation of future allocations. The flexibility offered through our quota credit system allows producers to place additional hens due to unforeseen or unintended short placements (excessive mortality) and additional downtime required to retool, renovate, or retrofit facilities as the industry is in a period of growth.

This forward looking perspective from our producers has been instrumental in facilitating the orderly transition of our producers out of conventional systems and into alternative housing systems while continuing to meet our consumer market requirements.

Producers consider many factors when making decisions to build; part of their thought process includes calculating the empty space they have in their egg production units that can be utilized to house future growth increases. For example, a producer has excess capacity that would allow for a density increase of 6%. Knowing that BCEMB has experienced 3% growth annually for the past 4 years, savvy producers will plan today so that two years into the future their new facility or expansion will be completed which will allow them to house additional birds based on the current growth rate. This strategic approach allows for the seamless acceptance of growth quota for any size of production facility.

BCEMB seriously considers its stakeholders and the responsibility of being involved in a supply managed commodity in this equation. Effective July 2016 BCEMB placed a moratorium on Conventional Cages to

facilitate retooling and transition to the enriched housing system along with the Retail Council of Canada's request regarding the commitment of their retailers to move to cage-free eggs, as well as in response to the trends that were occurring in other countries. The moratorium means that any renovations, expansions or new builds must be built as alternative housing systems.

BCEMB supports the grading stations by requiring the producers to obtain grading station operators to sign off and approve any shifts in production type. What this means is that producers are not making decisions to transition or build independently – they are being market responsive in meeting grader and market needs. Grading stations are attuned to their market requirements since they deal directly with retailers, foodservice operators and further processors. Producers and graders are required to mutually agree on production type and the timing of builds and renovations before they begin. The BCEMB is informed by graders and producers of any intended changes of production type and volume.

### **Comparison of Growth Quota Allocation and Production Sleeves**

In order to maintain a thriving and market-responsive egg sector, we want our producers to transition in an orderly fashion and move with consumer demand, we want our producers to build, we want our producers to innovate, we want our producers to take risks, and be forward thinking in the market place.

Production increases and innovation require substantial infrastructure support throughout the industry. Breeder flocks, hatcheries, pullet facilities and lay facilities are all impacted as birds move throughout each part of their life cycle. In addition, increasing production capacity through a barn renovation or new builds costs a significant amount of capital. Returns on investments (ROI) for minor renovations take years to pay for themselves and major builds can take over a decade before they generate a positive cash flow.

Growth quota allocations provide stability for producers since the allocations can be used by producers to secure financing and lower their costs of production. Pro-rata provides stability, predictability and fair treatment to all our producers. Therefore, this approach is favoured by BCEMB and every stakeholder segment that was engaged throughout this consultation process.

Production sleeves provide producers with the opportunity to place additional hens above their quota value for a finite period of time to fill market need. Production sleeves are never owned by a producer and can change at any time. Similar to how market demand is in a constant state of flux, production requirements follow a similar pattern and the board adjusts the production sleeve as required to meet its production requirements.

Production sleeves are effective at addressing short term market needs by providing an adaptive mechanism to fill short term market fluctuations as retailers change respective SKUs and other product offerings without much notice. Because of their temporary nature, production sleeves are typically only utilized by producers that already have additional space. BCEMB has effectively used production sleeves over the past three years to increase its production on a temporary basis when the market requires it. For example, in 2015, an Avian Influenza outbreak in the US created a shortage in the supply of eggs for graders and the processor market. BCEMB adopted a 6% production sleeve to encourage

producers to place additional birds. The sleeve, along with other BCEMB programs was effective at bringing our utilization rate close to 100% and was reduced over time to 3% in 2016 and 0% in 2017. BCEMB plans to discuss the production sleeve policy with stakeholders at the round table discussion in July 2018 to see if there are additional uses for this successful program.

Over the long term however, production sleeves used in lieu of quota allocations creates a stagnant industry where there are little-to-no capital expansion investments. Financial institutions assess producers' total quota holdings when they are providing financing -- production sleeves are not considered an asset. For example, the same person who is getting financing from a bank for a production sleeve versus a quota allocation will get a better rate for lending from the bank because they have a larger asset pool with lower risk to the lender. Overtime, from a macro-industry perspective, this eventually causes capacity issues whereby the industry's infrastructure is no longer adequate to meet the market requirements. This unfortunate outcome has transpired in other supply managed sectors that have experienced continued growth over a number of years without allocating quota.

### **Quota Held in Reserve**

Quota that is "held in reserve" is quota held by BCEMB that has not been allocated to any specific producer. There are four reasons why BCEMB holds quota in its reserve:

1. Quota assessments that occur on non-exempt transfers increase the amount of quota that BCEMB holds in its reserve (5% assessment, LIFO, 10/10/10).
2. Quota that taken off the top from national allocations increases the amount of quota in the BCEMB reserve.
  - a. For example, the modified 10/90 Pro-Rata distribution that BCEMB is proposing for this allocation will result in a 10% holdback which will add 10,874 additional quota units to be held in reserve.
3. Quota that has been allotted to a producer who cannot place the birds until a later date.
  - a. When issuing quota, a condition that BCEMB places on issuances is that producers have to be in a position to utilize the additional quota (additional birds are placed in their barn) before they are allocated their farm's designated issuance amount. Producers are given up to three years to place a new allocation, and until the producer can accept the issuance, the quota is held by BCEMB in reserve. The three year time allowance provides producers who require additional infrastructure to accommodate issuances with adequate time to expand and/or build a new facility to house their issuance. At the expiration of three years, a producer who has not placed the issuance permanently forfeits it to BCEMB. Until the allocation is issued by BCEMB to the producer, the quota held increases BCEMB's reserve.
4. When additional quota to meet increased market demand has been approved nationally by Farm Products Council of Canada (FPCC) it is distributed amongst each province using the Quota Allocation Calculation (QAC). Until BCEMB can acquire BC FIRB's approval for the issuances distribution per section 37 (c) of the British Columbia Egg Marketing Scheme, the quota is held in reserve.

Currently BCEMB has a total of 3,117,779 quota units:

- 2,954,359 quota units are issued and in production;
- 163,420 are held in reserve
  - 108,741 awaiting BC FIRB approval per section 37 (c) of the British Columbia Egg Marketing Scheme
  - 5,127 is quota that has been allotted but not yet placed by producers
  - 21,000 is quota held for 7 NPPs selected from 2016 NPP draw that will start in 2018-2020
  - 6,000 is quota held for 2 NPP's selected from 2018 NPP Creston draw that will start 2018-2019.
  - 22,552 is quota held in reserve for future New Producer Program draws.

All quota that is held in reserve is carefully tracked and monitored by staff using our internal databases. This gives staff the knowledge of when every unit that is held in reserve will be needed. In 2016, BCEMB released quota that was held in the reserve and made it available as temporary allotment to producers who were in good standing for up to a maximum of one year. This was referred to as The Lease Pool Program. The amount of quota that was available fluctuated on a weekly basis because the quota held in reserve constantly changes. The lease fee was \$10/bird/year (prorated by the number of actual days utilized). Over the course of the program, \$285,955 were generated in proceeds which were used to lower the levy rate which benefited all producers. The program was not extended beyond its scheduled 2017 end date because the forecasted utilization rate was too close to 100% and BCEMB did not want to incur penalties for more birds than provincially allowed from the Egg Farmers of Canada

BCEMB plans to reinvigorate the temporary allotment program using stakeholder input at an industry round table discussion that BCEMB is organizing for July 2018. The round table topics that BCEMB will discuss with stakeholders is explained in greater detail later in this document. While the lease pool program allows BCEMB to address short term market needs, in the long term BCEMB plans to use the quota held in reserve for future New Entrant draws. Provided that BC FIRB approves our 10/90 Modified Pro-Rata formula, BCEMB will have 33,426 (10,874 + 22,552) quota designated for future New Producer Programs, sufficient for 11 NPP allotments which will allow BCEMB to continue to meet its NPP commitment from 2020-2025.

### **Quota Allocation Stakeholder Consultation**

In the last 50 years, quota has been adjusted more than 25 times. There have been many decreases as well as increases and egg quota has consistently been adjusted using a pro-rata formula. In some cases, a portion of the quota has been withheld for specific programs while the majority was distributed pro-rata. However, past practice and best practice are not always the same; so BCEMB conducted a consultation to ensure that our policy objectives surrounding the distribution mechanisms of growth quota align with our stakeholders' goals and expectations.

From December 15, 2017 to January 15, 2018 BCEMB engaged stakeholders in a quota allocation survey to challenge our current methodology on allocating quota. BCEMB sent the survey to 304 potential



respondents and received a total of 110 responses, which is a 36% response rate overall. The stakeholder categories that engaged in the survey and their response rates were as follows:

Stakeholder Category	Survey Sent	Responses Received	Response Rate
Registered Producers	135	89	65.9%
Smallest 25% quota holders (6,150 or less quota)	34	30	88.2%
Middle 50% quota holders (6,151 to 27,000 quota)	69	41	59.4%
Largest 25% quota holders (27,001 or more quota)	34	18	52.9%
BCEMB Industry Stakeholders			
Grader/Processor Representatives	10	3	30.0%
Financial Institution Representatives	11	2	18.2%
Equipment/Feed suppliers	5	1	20.0%
Public with an Interest in Commercial Egg Farming <sup>1</sup>	141	15	10.6%
Total	304	110	36.2%

In January 2018 the survey was also made available to members of the public and posted on our website at the following link: <http://www.bcegg.com/resources/quota-allocation>. BCEMB did not receive any responses from the public on this consultation. This follows a similar pattern to previous consultations such as the recent Quota Assessment Tools Review. This is why BCEMB engaged the unsuccessful applicants from our previous 2016 draw for the New Producer Program as they are interested participants that are currently outside the regulated supply sector in BC.

In the survey BC Egg presented and explored five different methodologies for the distribution of growth quota. The five different methodologies were as follows:

1. Pro-Rata
2. Equal Distribution
3. Region Specific
4. Production-Type Specific
5. Variable Method (Combination of Pro-Rata, Production Specific & Region Specific)

Each of the above methods presented was supported with a summary that defined, explained and analyzed the method of distribution. A copy of each of the allocation method summaries can be found in Appendix 1, as well as the preamble to the survey which informed respondents to the objectives of the survey. With the five different distribution methodologies defined, we then asked respondents a variety of questions with the intent to determine their preferred method of allocation. The results of the key questions separated into the different stakeholder categories can be seen below:

<sup>1</sup> BCEMB sent the quota allocation consultation to all 141 unique applicants who applied but were unsuccessful in our 2016 New Producer Program draw. This segment was referred to as “Public with an interest in commercial egg farming”. 2017 New Producer Program applicants were not included since the draw was ongoing at the time of the consultation.



Question:

1. Which allocation method best fulfills the SAFETI principles?  
 (5 = Best Fulfills, 1= Worst Fulfills)

	Smallest 25%	Middle 50%	Top 25%	Grader	Lender/Feed Rep	NPP Unsuccessful	Total
Total Respondents	30	41	18	3	3	15	110
<b>Average Score</b>							
Pro Rata	★ 2.87	★ 3.88	★ 4.44	★ 4.00	★ 4.00	☆ 2.07	★ 3.45
Equal Distribution	☆ 2.33	☆ 1.95	☆ 1.28	☆ 1.67	☆ 1.67	★ 3.07	☆ 2.08
Region Specific	☆ 1.77	☆ 1.85	☆ 1.06	☆ 0.67	☆ 1.33	☆ 2.47	☆ 1.74
Production-Type Specific	☆ 2.60	☆ 2.46	☆ 1.39	☆ 2.33	☆ 2.33	☆ 2.73	☆ 2.35
Variable Method	★ 2.73	★ 2.76	★ 1.67	★ 2.67	★ 2.67	★ 3.73	★ 2.70

2. Which allocation method best fulfilled the following objectives?  
 (5 = Best Fulfills, 1= Worst Fulfills)

- Industry efficiencies throughout the entire sector;
- Economic viability by enhancing the viability of the farm and promoting the quick utilization of growth quota;
- Organizational capacity by encouraging a varied production mix that meets market demand;
- Maintain and support BCEMB's Strategic Vision; and
- Be equitable and fair to all quota holders while supporting growing markets, new entrants and small producers.

	Smallest 25%	Middle 50%	Top 25%	Grader	Lender / Feed Rep	NPP Unsuccessful	Total
Total Respondents	30	41	18	3	3	15	110
<b>Average Score</b>							
Pro Rata	★ 2.67	★ 3.73	★ 4.06	★ 4.00	★ 4.00	☆ 2.40	★ 3.33
Equal Distribution	☆ 2.50	☆ 2.15	☆ 1.56	☆ 1.67	☆ 1.67	☆ 2.60	☆ 2.18
Region Specific	☆ 1.67	☆ 1.93	☆ 1.44	☆ 1.33	☆ 1.33	☆ 2.20	☆ 1.78
Production-Type Specific	☆ 2.63	☆ 2.29	☆ 1.50	☆ 3.67	☆ 2.00	★ 3.07	☆ 2.39
Variable Method	★ 2.73	★ 2.54	★ 1.78	★ 4.33	★ 3.00	★ 3.93	★ 2.72

3. Which allocation method is the most fair?  
 (5 = Most Fair, 1= Least Fair)

	Smallest 25%	Middle 50%	Top 25%	Grader	Lender / Feed Rep	NPP Unsuccessful	Total
Total Respondents	30	41	18	3	3	15	110
<b>Average Score</b>							
Pro Rata	★ 2.83	★ 3.63	★ 4.39	★ 5.00	★ 3.67	☆ 2.73	★ 3.45
Equal Distribution	★ 2.73	☆ 1.90	☆ 1.56	☆ 1.33	☆ 2.67	★ 3.33	☆ 2.27
Region Specific	☆ 1.53	☆ 1.68	☆ 1.50	☆ 1.67	☆ 1.00	☆ 2.07	☆ 1.65
Production-Type Specific	☆ 2.10	☆ 2.02	☆ 1.78	☆ 3.33	☆ 1.67	☆ 2.47	☆ 2.09
Variable Method	☆ 2.17	★ 2.39	★ 2.22	★ 3.67	★ 3.00	★ 3.47	★ 2.50

4. Which allocation method do you most favour?  
 (5 = Most Favoured, 1= Least Favoured)

	Smallest 25%	Middle 50%	Top 25%	Grader	Lender / Feed Rep	NPP Unsuccessful	Total
Total Respondents:	30	41	18	3	3	15	110
<b>Average Score</b>							
Pro Rata	☆ 2.23	★ 3.93	★ 4.22	★ 4.33	★ 3.67	☆ 2.07	★ 3.26
Equal Distribution	★ 2.83	☆ 2.07	☆ 1.78	☆ 1.33	☆ 2.67	☆ 2.80	☆ 2.33
Region Specific	☆ 1.87	☆ 1.39	☆ 1.39	☆ 1.67	☆ 1.00	☆ 1.60	☆ 1.55
Production-Type Specific	★ 2.80	☆ 2.10	☆ 1.78	☆ 3.67	☆ 1.67	★ 3.20	☆ 2.42
Variable Method	☆ 2.27	★ 2.24	★ 2.06	★ 4.00	★ 3.00	★ 3.40	★ 2.45

A full copy of the survey results that includes individual responses and comments can found in Appendix 2.

### Egg Producer Association Feedback

The BC Egg Producers Association (BC EPA) is comprised of producer representatives from the Lower Mainland, Vancouver Island, and Interior region who are elected by their peers. The membership has multiple members from every quota holding segment (Small/Medium/Large). The EPA provided the following comment on quota allocation methodology; “Through our discussions we came to the unanimous conclusion that the pro-rata allocation method is the only allocation method that truly follows the SAFETI principles and allows our industry to continue to thrive.” A full version of their letter of support for the Modified Pro-Rata formula can be found in Appendix 3.

### Egg Industry Advisory Committee Feedback

On May 17, 2018 BCEMB presented a draft version of this allocation submission document to the Egg Industry Advisory Committee (EIAC). BCEMB staff clearly communicated to the EIAC committee members that they had the ability to affect change within the document. The goals of our engagement with the EIAC were:

1. To ensure that our submission document is harmonious with the goals and values of the EIAC;
2. To ensure that the information contained in the submission appropriately represents the egg industry;
3. To gather feedback that will improve and/or strengthen the submission document; and,
4. To obtain a recommendation that BCEMB can include in this quota allocation submission document.

At the May 17, 2018 meeting the EIAC passed the following motion:

THAT the Egg Industry Advisory Committee (EIAC) support the BCEMB’s recommendation of the 90/10 Modified Pro-Rata distribution of growth quota allocation as presented in the Quota Allocation Submission document intended for the BC Farm Industry Review Board. The EIAC looks forward to being part of future conversations regarding market responsive capabilities.

## **Conclusion from Consultations**

The feedback received by industry stakeholders strongly favours a Pro-Rata approach as the mechanism used for allocating growth quota. As a result BCEMB believes that it has received enough feedback to accept the Modified Pro-Rata approach for its method of allocation.

The Production-Type Specific, Equal Distribution, Regional Specific, and Variable Methods all have positive elements however, BCEMB believes that market responsiveness and sound governance is best achieved through our proposed 10/90 Modified Pro-Rata formula and supporting programs. BCEMB will continue to work closely with graders and producers to ensure that production volumes continue to evolve with changing market requirements.

The remainder of this document will explore what BCEMB is doing to attune production to the market requirements for today's consumer while preparing for tomorrow's consumer needs.

## **BCEMB's Production Related Challenges**

The marketplace continues to evolve and, to stay relevant in today's marketplace, supply management needs to evolve with it. Before we describe what BCEMB is doing to be market responsive, we will first list the challenges facing BCEMB related to quota and production.

### **1. Overall shortage of quota**

To put it simply, BCEMB does not have enough quota when compared to population numbers and market demand and therefore cannot produce enough eggs to meet its market needs. Data on interprovincial egg movements from 2017 indicate that British Columbia brings in 9.25 million dozen eggs from our provincial partners while exporting just over 65,000 dozens (<http://www.eggfarmers.ca/market-information-tables/#tableau-5>). There is a market for every commercial egg that is currently being produced in BC. That is why we need to get quota in production as quickly as possible.

Egg Farmers of Canada (EFC) has developed a national formula - the Quota Allocation Calculation (QAC), to calculate and recommend quota allocations that are attuned to current market needs and trends. The QAC is used to determine whether a federal quota allocation increase is warranted and how it is distributed amongst provinces. The QAC's methodology takes into account the latest finalized year of table disappearance data and the current year's extrapolated preliminary table disappearance data plus a growth factor. This data is reviewed biannually. The QAC recognizes that certain provinces are short on quota and it includes a mechanism that directs more quota to short provinces when national allocations are approved. Over multiple future allocations BC may no longer be a short province, however, in the interim BC will continue to rely on provincial movements for a portion of our market demand.

### **2. BCEMB's commitment to meet market demand versus Retail Council of Canada's commitment to house 50% of hens in alternative housing systems by 2025 (i.e. Enriched Colony; non-cage housing)**

These factors are not currently aligned since the market demand for affordable conventional eggs continues to grow, driven by price conscious consumers. This is why industry has committed to the

timelines outlined in the *Code of Practice for the Care and Handling of Pullets and Laying Hens* to have 50% of hens housed in alternative housing systems (enriched colony, free-run, free-range or organic) by the year 2025 and 100% by 2036. To meet both of these objectives, BCEMB aims to fulfill all of our specialty market demand with BC eggs and import conventional eggs from our provincial partners when needed.

Abroad, the US is rapidly converting to non-conventional supply without considering consumer demand as some states have banned conventional production. This directive, which ignores consumer choice, is now being challenged in court by some states. Effective July 1, 2018 Iowa passed the Conventional Egg Bill into law by both the Iowa House and Senate with high majorities, 81-17 and 31-17 respectively “that requires retailers participating in the federal supplemental food program for women, infants, and children (WIC) to make conventional eggs available to shoppers. Conventional eggs are defined as any eggs other than specialty eggs: cage-free, free-range, or enriched colony cage.”<sup>2</sup> BCEMB will continue to closely monitor these developments over time.

US production of cage-free eggs increased by 317% from 2014 (8.5 million hens) to 2018 (35 million hens). Consumer demand has not kept up to the production increase and as a result, the two largest egg producers in the US have modified their cage-free programs. They have halted the addition of cage-free laying systems, at least in the short term<sup>3</sup>.

3. To date, our transition strategy and programs have been effective for the BC egg industry. We are currently a national leader in specialty production and are expecting to meet our 50% alternative housing objective by 2025. Volatility in market requirements continues to be a challenge.

Over the past three years BC Egg has been “short” at some point on every production category. Consumer demands are ever changing, and decisions from retailers can result in huge swings in market demand and therefore production. For example, in 2017 a major retailer switched its specialty egg offerings from Free Run and Free Range solely to Organic eggs, creating a short-term market upset. As a board it is important that we are able to adapt and support the smooth transition to accommodate retailer decisions.

4. Industry efficiency versus values of supply management and consumers

BC residents want fresh, local, safe and affordable food. Economic pressures financially incentivize modern business to consolidate to improve economies of scale to maximize profits. BCEMB needs to remain cognisant of economic pressures and strike a balance between regional needs and industry efficiencies.

Supply management meets all of these objectives as we currently have 135 family owned farms that are spread throughout British Columbia. However, the Lower Mainland contains the majority of registered egg producers in BC since it is where over 81.5% of our total producer population is located as well as 85% of egg production. Gradually over time, economic pressures to increase efficiencies tended to push

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<sup>2</sup> <https://unitedegg.com/iowa-egg-bill-signed-into-law/>

<sup>3</sup> <http://www.eggindustry-digital.com/201802/index.php#/8>

production towards the Lower Mainland as opposed to the smaller regions throughout BC. Currently, 6% of egg producers are located on Vancouver Island accounting for 6% of BC egg production, while 12.6% of producers are in the Interior accounting for 9% of provincial egg production. To keep quota from migrating into the Lower Mainland from the other regions, BCEMB Consolidated orders Part VI 1.(8) requires quota that is sold through the Pilot Quota Exchange to be offered first to perspective buyers from the perspective seller's region. In the three years that BCEMB has operated its pilot quota exchange, all quota for sale has remained within the region from which it was sold. In addition, the pilot quota exchange supports smaller producers (who hold up to 6,000 units of quota) by providing them access to purchase the first 1,000 quota units for sale on an exchange. BCEMB plans to consult with stakeholders on the effectiveness of the Pilot Quota Exchange in winter 2018.

BCEMB supports regional egg production by directing New Producer Program quota to specific regions. BCEMB just completed its draw for the 2018 Creston New Producer Program, resulting in 2 new producers. From this draw we are expecting to have an additional 3,000 hens in production before November 2018 and another 3,000 hen allotment is scheduled to complete in early 2019.

It is fair to mention that despite BCEMB's best efforts to support regional needs through the 2016 New Producer Program Terrace draw that was intended to add 3,000 additional quota units in the Terrace region, the draw was not successful. This draw did not go forward as BCEMB received only one applicant for the draw who failed to achieve the minimum 75 score required to qualify. Following the draw, the oil pipeline was delayed reducing potential for increased economic activity and a larger consumer base, and the grading station informed BCEMB that they no longer required the additional production.

Despite the set back in 2016, BCEMB plans to continue to use the New Producer Program to support new entrants, smaller producers, and address market needs as required throughout British Columbia.

#### 5. Information related to table egg and processor market requirements

Nielsen's table egg disappearance statistics are received monthly and provide BCEMB with an excellent source of data that facilitates discussions with supply chain partners on current and future direction in the table market. Our Board and grading station operators are communicating amongst each other better than ever before which has greatly improved our ability to work collaboratively to solve industry issues when they arise. As these relationships continue to strengthen, BCEMB is confident that our information sharing will continue to improve.

BCEMB shares a similar relationship with its processor, however, there is currently an information gap as our board does not have accurate information of how the processor is using the production that is received, by production type and provincial origin. From the interprovincial movements previously discussed, we know that product is coming into BC so we are confident that we are utilizing all of the eggs we are producing for the table and further processing market. However, no verification tools for the processing sector are currently available to BCEMB. The data below depicts the production that BCEMB producers shipped to the processor in 2017. This information is incomplete as it fails to incorporate the production brought in through interprovincial movements.

## Industrial Product (Dozens)

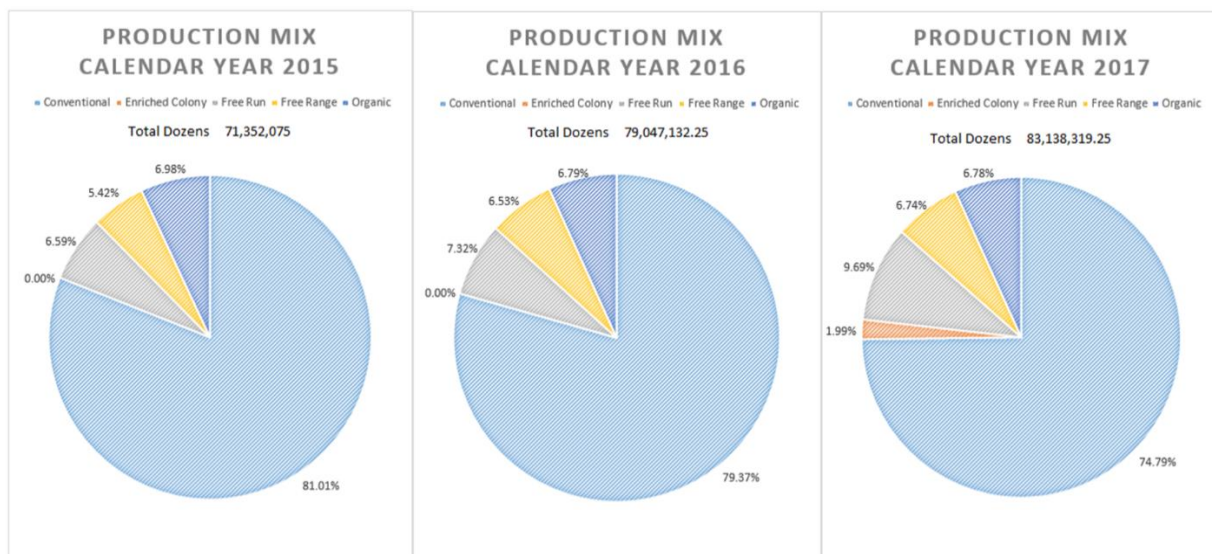
Production Type	2017	Production Mix
Conventional	11,669,205	84.17%
Free Run	1,872,060	13.50%
Free Range	224,355	1.62%
Organic	98,220	0.71%
Total	13,863,840	100.00%

Source: EFC Data

To address this information gap, BCEMB, our processor, and Egg Farmers of Canada (EFC) are working together and are currently in negotiations for BC to be the Pilot province in Canada for a Specialty Industrial Products (IP) program. The Specialty IP program is designed to benefit all parties and will provide data that will strengthen BCEMB's understanding of the entire egg market (table and processor needs). BCEMB is optimistic that a program will be in place in early 2019. Implementation of this program will reinforce BC's position as the national frontrunner in the specialty production market.

### BCEMB's Market Responsive Approach

Market requirements are continually changing. BC consumer demand for eggs is neither uniform nor static. The supply management system has a responsibility to serve and satisfy the market. Boards and their industries have a social licence and commitment to meet consumer expectations for safe, local, and fresh product. Nationally, BCEMB is a leader in the specialty production of eggs; in 2017, 23.22% of the eggs produced in BC were specialty eggs (Free Run, Free Range, and Organic), 1.99% from enriched colony systems that meet specific density requirements, and 74.79% conventional production. The pie charts below indicate how the BC Egg production mix has evolved from 2015 to 2017:



Source: BC TM1 Data



As depicted in the pie charts of 2015 - 2017, BC has transitioned 4.23% of its overall production from conventional to specialty, and 1.99% colony , while adding an additional 11.7M dozen eggs of all production types from 2015-2017. Comparing 2017 to 2016, BCEMB increased its production in 2017 by an additional 2.75M dozen eggs.

Rate of Lay is the statistical average of the dozens of eggs a commercial layer produces in a 52 week period. The national rate of lay is 25.44 dozen or 305.28 eggs. Using the incremental growth in total production over the past two years, BCEMB has added approximately 463,000 layers (11,786,244 ÷ 25.44) between 2015 – 2017. That equates to an average of 4,451 layers of new production being brought into production every week in 2016 and 2017.

The data on the previous page provides a snapshot of our industry and its gradual change. Below is a more complete data set depicting the total yearly production in every egg type since 2010.

Yearly Egg Production by Category (Dozens)								
Production Type	2010	2011	2012	2013	2014	2015	2016	2017
Conventional	56,757,975	60,717,497	59,434,035	60,189,165	58,949,577	57,799,746	63,808,038	62,182,427
Enriched Colony	-	-	-	-	-	-	-	1,656,298
Free Run	2,805,034	3,148,816	3,203,497	3,744,694	3,722,386	4,703,678	5,937,320	8,054,829
Free Range	2,750,721	3,174,477	3,429,163	3,241,679	3,464,777	3,868,319	5,220,925	5,605,429
Organic	2,395,121	2,609,569	3,170,860	3,521,424	4,007,621	4,980,332	5,415,328	5,639,337
<b>Total</b>	<b>64,708,851</b>	<b>69,650,359</b>	<b>69,237,555</b>	<b>70,696,962</b>	<b>70,144,361</b>	<b>71,352,075</b>	<b>80,381,611</b>	<b>83,138,319</b>

Production Type	2010	2011	2012	2013	2014	2015	2016	2017
Conventional	87.7%	87.2%	85.8%	85.1%	84.0%	81.0%	79.4%	74.8%
Enriched Colony	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%
Free Run	4.3%	4.5%	4.6%	5.3%	5.3%	6.6%	7.4%	9.7%
Free Range	4.3%	4.6%	5.0%	4.6%	4.9%	5.4%	6.5%	6.7%
Organic	3.7%	3.7%	4.6%	5.0%	5.7%	7.0%	6.7%	6.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: BC TM1 Data

Since 2010 BCEMB and its producers have increased their operational output by 28.4% or 18.4M dozen eggs. From the data above one can see that BC production has incrementally grown in every production category year over year, except for conventional production.

The sections below provide a description of BCEMB's committees, strategies, programs, and completed works that are dedicated to ensure that BC remains market responsive and upholds its social licence to its residents.

## 1. BCEMB Marketing Board Directors

BCEMB has five Directors; an independent chair that is appointed by Order in Council and four farmer representatives. The four farmer representatives are elected by their peers. To ensure each region has representation at the table BCEMB has two Lower Mainland representatives, one Vancouver Island representative, and one Interior representative. Regarding quota holdings, our current Directors would



be deemed as one small farm representative (6,150 or less quota), two medium farm representatives (6,151 to 27,000 quota) and one large farm representative (27,001 or more quota).

Led by its independent chair, the directors formulate overall direction, strategy, programs, and policies of the BCEMB. Our Directors carefully weigh decisions using the best information available, utilizing committee recommendations, and the SAFETI framework.

## 2. BCEMB Industry Advisory Committee (EIAC)

The EIAC's membership is comprised of representatives from across the production supply chain of the commercial layer industry. The committee's makeup of producers, graders and processors is unique in providing non-binding recommendations by consensus to the Board in all matters involving production and pricing. The committee plays an integral role in helping the Board to maintain the egg industry's stability in the province.

The role of the EIAC is to advise the board, on the request of the board or on the initiative of the committee, on any matter concerning pricing or production decisions, quota utilization, and the effectiveness of on-farm programs including animal welfare decisions.

Since the EIAC was re-established in 2015, the BCEMB has worked closely with the EIAC and routinely seeks feedback. The BCEMB has implemented EIAC's recommendations on a variety of industry and production related issues. Throughout 2017, the EIAC discussed production and marketplace issues over 25 different agenda items and made 12 recommendations to the Board. All 12 recommendations were either implemented by the BCEMB or remain as a work in progress. Examples of these recommendations include:

- a. The development and adoption of an internal BCEMB supply and demand forecasting model. The forecast provides valuable insight and analyses of the market trends in the previous three years from a supply and demand approach for both the processing and retail market. As the EIAC has representation from farm to grader, the retail data prepared by staff is closely reviewed and validated. From this analysis, market trends are identified in all production types and a recommendation from EIAC is provided to the Board. The forecast is reviewed annually and will be used to support decisions on BCEMB programs and budgeting considerations.
- b. The Canadian Poultry and Egg Processors Council (CPEPC) requested that more notification be provided to retailers and processors whenever the monthly Cost of Production (COP) review results in a price change. To accommodate this request, the EIAC recommended a change to our COP procedure that involved a delay to our pricing notification by announcing any pricing change to become effective for the second week in the following period, rather than the first week. This change provided graders with an additional week to communicate price changes throughout their distribution chain. All western provinces have now adopted this pricing approach.

### 3. Pricing specialty production

Since 2011, BC has been the only province in Canada that is pricing specialty production for our producers. As innovators and first movers in Canada, BC risked losing market share due to inter-provincial movements of cheaper eggs and increasing retail price which would impact consumer demand. In the last three years our provincial specialty production has ramped up by 42.41%. Part of this credit for transitioning production to specialty is due to BCEMB assuring producers that specialty production is paid a stable and fair price.

<b>Total BC Eggs Produced (Dozens)</b>			
	2015 (a)	2016 (b)	2017 (c)
Conventional	57,799,746	63,808,038	62,182,427
Enriched Colony	-	-	1,656,298
Free Run	4,703,678	5,937,320	8,054,829
Free Range	3,868,319	5,220,925	5,605,429
Organic	4,980,332	5,415,328	5,639,337
Total	71,352,075	80,381,611	83,138,319

Source: TM1

<b>Increase or Decrease (%)</b>				
	2015	2016 (b-a) ÷ a	2017 (c-b) ÷ b	2015-2017 (c-a) ÷ a
Conventional	-	10.40%	-2.55%	7.58%
Enriched Colony	-	-	-	-
Free Run	-	26.23%	35.66%	71.25%
Free Range	-	34.97%	7.36%	44.91%
Organic	-	8.73%	4.14%	13.23%

Nielsen data compiles the retail sales information from a large volume of retailers in every province throughout Canada. The information reported from Nielsen is accurate up to three years from the date of each report, meaning that if a new retail chain is added they will have their previous 36 months of sales incorporated in the updated report. Not every retail chain is captured in Nielsen data (eg. It does not include Costco sales) so the total dozens is not a perfect reflection of actual sales, however growth percentiles are quite accurate and been utilized and relied on for forecasting at our EIAC.

The table on the following page represents a compilation of data from our 2017 forecast model using Nielsen data that was reported for each provinces' retail sales in specialty production (Free Run, Free Range, and Organic) over three years.

<b>Neilsen Retail Sales (Specialty Table Egg Sales)</b>				
	<u>Aug 2014 - Aug 2015</u>	<u>Aug 2015 - Aug 2016</u>	<u>Aug 2016 - Aug 2017</u>	<u>Growth (2 YR)</u>
NATIONAL	17,644,470	21,054,123	22,661,187	28.43%
NFLD	61,869	68,684	28,297	-54.26%
MARITIMES	484,308	453,371	323,740	-33.15%
QUEBEC	1,444,669	1,824,504	1,805,939	25.01%
ONTARIO	6,218,178	7,504,759	7,578,498	21.88%
MAN/SASK	836,955	937,926	1,078,968	28.92%
ALBERTA	2,720,355	2,969,811	3,458,449	27.13%
<b>BC</b>	<b>5,878,157</b>	<b>7,295,080</b>	<b>8,387,314</b>	<b>42.69%</b>

Source: Nielsen Topline

With more access to specialty production in BC, we have seen our retail sales in specialty eggs increase at a 50% higher rate than the national average (42.69% growth in BC compared to 28.43% national average). One of the mandates of supply management is matching consumer demand with supply; BCEMB has increased its specialty production by 42.41% while Nielsen reported a 42.69% increase in consumer demand for specialty production over a similar timeframe.

#### 4. Implementing and monitoring programs to impact quota utilization

As BC is a “have not” province we need to make sure that we are producing every unit of quota that we receive. At the end of every year our goal is to have our year-end average utilization rate at 100%. We need to be careful however, because the Federal Provincial Agreement (FPA) does not allow provinces to go above 100% or we would hit a “liquid damage” situation which would mean substantial fines for our registered producers. We need to have excellent controls in place to monitor and forecast our inventory. We also need to have sound policies and programs that allow temporary shifts in production to align with the needs of both the farmer and the grader.

Prior to 2015, BCEMB quota utilization was generally hovering around 94%. To address this underutilization, the BCEMB introduced the following programs that have since been effectively used to increase utilization:

- a. A production sleeve that allows producers to place an additional percentage of their quota. This varies from 0%-6% depending on provincial needs;
- b. A lease pool program that allows producers to temporarily lease quota that is being held in the BCEMB reserve. The reserve is comprised of (1) quota allocation that has been allocated but not yet issued, (2) quota that is being held for future new producer program needs, or (3) quota that has been assessed from transfers. When the lease pool is open, producers must meet criteria to qualify and leases are available for a finite duration of time.

These two programs and a few other factors pushed our initial 2017 forecasted utilization above 100%. To address this potential overutilization, the BCEMB ceased the two programs above and introduced an early fowl removal program that was effectively used to decrease utilization. The early fowl removal program provided incentives for producers to extend their time between flocks for longer than usual.

Working with the graders, the BCEMB offered this program only to flocks with production types that BC graders were not short on, ensuring market demand continued to be met.

The 2017 utilization rate ended at 98.33%, and with this 108,741 allocation BC Egg's current inventory projection in 2018 is 97.11%. As a result BC Egg has reintroduced a production sleeve to increase utilization for another 18 months.

Our programs have also been effective at getting quota allocations into production quicker. Prior to any allocation being issued, the BCEMB requires active engagement under our Consolidated Orders Part III 2.(3)(e). This rule includes a number of conditions but primarily the producer must have the space available and place the birds before they are eligible to receive an allocation. For the most recent allocation from April 2017, 79 producers had the birds placed and were producing the quota in the first five weeks of the new allocation. Furthermore, 120 of 130 producers have now placed the birds.

These achievements are directly linked to successful board policies and programs such as our production sleeve, lease pool program, and quota credits. The fact that we are now measuring our allocation uptake in weeks when just a short while ago it was being measured in years, serves as a testament to our producers' ability to fulfill the needs of the marketplace.

#### 5. Regulating production type by supporting graders whenever possible

The graders are the closest point of contact with the market and therefore BCEMB has programs in place to support graders' abilities to adjust production according to their market needs. The BCEMB requires grader signoff prior to the approval of any:

- a. Production changes
- b. Quota purchases on the Quota Exchange
- c. Whole farm transfers as a "going concern"

This affords the grader with the ability to attune supply to their individual market requirements. The BCEMB has found this to be a very effective method of production control and has taken further steps to ensure that graders have the ability to limit a producer's participation on our Quota Exchange if the producer intends to produce egg types not in sync with consumer demand. We amended our Consolidated Orders in January 2018 to clarify a grey area that could potentially have lead to oversupply of a particular product.

#### 6. Eggs for Processing to Stabilize Processor Market Supply

Meeting the demands of the table egg market is the top priority for weekly egg production. After the table egg demand is met, any excess or non-marketable production (Smalls, Peewees, C grades) is classified as overrun and sent to the processor as Industrial Product (IP) for processing. IP supply can greatly fluctuate which provides challenges to the processor.

In August 2015, the BCEMB entered into a three year contract with the BC processor that provided the BCEMB with a temporary 100,000 quota units that is solely dedicated to provide the BC processor with additional eggs to stabilize their supply due to growth in market demand for processed egg products.

This stabilized market supply affords the processor with the ability to develop markets and grow their business. BC producers pay for the program and share the loss through a weekly service fee that they are required to pay. As the contract is set to expire in 2018, the BCEMB is currently in contract renegotiations with the BC processor and will likely continue the program to meet the processors need.

Over ten years the statistical average production that is required to produce 100 marketable table eggs is 131.61 eggs<sup>4</sup>; thus 31.61 eggs are considered “over-run.” Processors turn over-run into a marketable product, providing a valuable service by preventing waste in production. To keep processors competitive to the US, the product is provided to the processor at a competitive price. The loss that is incurred by the IP program is budgeted by BCEMB for 2018 at \$1.1M, and is BCEMB’s second largest budget item (largest is post farm gate transportation costs).

As mentioned on page 14 of this document the BCEMB is working with our BC processor and Egg Farmers of Canada (EFC) to develop a Specialty Industrial Products (IP) program that has the potential to be used across Canada. The Specialty IP program will benefit the processor by providing them with an enhanced ability to predict the production mix received by the grading station, allowing the processor to develop specialty markets independent of the table market needs. This IP program will strengthen BCEMB’s understanding of the entire egg market (table and processor needs). BCEMB is optimistic that a program will be in place in early 2019.

## 7. Programs to share costs of overproduction

When the supply of specific egg production types (ie. conventional, free run, free range, organic) exceed table market demand, the specific egg types are sent to the breaker market and are priced according to a downgrading system, taking into account the producer prices set by the BCEMB. Each production type has incremental additional costs to produce; organic costs the most to produce than free range, free run, enriched, and finally conventional which costs the least.

Supply management guarantees the producer a fair return in exchange for their production. In BC, producers who produce organic eggs are always paid the organic premium, set by the BCEMB, when they sell their production to a grading station. The grading station buys the production from the producer at the producer price, grades the eggs, and markets it to retailers at a premium, who then pass on the premium to consumers.

However the retailer only buys according to their market needs, so if the grading station has more organic production than its market requires, it is temporarily oversupplied. The BCEMB has a specialty buyback program whereby the BCEMB shares the incremental costs incurred to the grader when downgrading specialty production. The specialty buyback reimburses the grader for the premium that’s lost when they downgrade production from organic down to free run. If the grader downgrades from free run to conventional they are responsible for that premium lost. By sharing the costs with the grader, all parties share the risks of creating new markets. The costs of the overproduction resulting from market shifts are shared between the BCEMB and the graders ensuring there is an incentive not to

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<sup>4</sup> Memo EBs Natural Overrun Policy Concept Sept 2017

overproduce. Instead, the specialty buyback program provides a cushion for temporary overproduction that allows graders to more aggressively lead the market.

There are limitations to downgrading production: (1) a brown egg is brown and a white egg is white, and (2) all specialty production in BC comes from brown layers. Any shortage to conventional white production in a given week must be imported from outside the province. Similarly, if a grader is short on organic production it needs to be imported also. For this reason BCEMB and its supply chain partners aim to meet 100% of organic consumer demand and are “okay” with being short on conventional supply as nationally we are transitioning out of the production type and it can be used to fulfill the market access requirements under the NAFTA/TPP11 agreements.

#### 8. Regional Needs

In 2016, the BCEMB offered 3,000 quota units in a New Producer Program draw that was in Terrace that was intended to add 3,000 additional quota into the region. The additional quota would have provided the region with extra production capacity to accommodate the economic development in the area due to the construction of the Trans-Pacific pipeline. However, at the application deadline BCEMB only received one applicant for the draw who failed to achieve the minimum score of 75 necessary to qualify for the New Producer Program draw.

After BCEMB held its draw that awarded 11 NPP applicants in January of 2017, the BCEMB and the Terrace grading station operator discussed if the Terrace draw should be immediately re held. It was communicated to the BCEMB that delays to the pipeline progress had eliminated the immediate need for additional production and no draw was deemed necessary at that time. The BCEMB plans to continue to closely monitor this region’s need for future NPP draw considerations.

In 2018, The BCEMB will have two new entrants from the Creston region that will bring 6,000 quota units of additional production into the East Kootenay Region. This quota will provide additional production to a market that is currently being supplied largely by producers from out of province. The BCEMB will be conducting a consultation on the NPP within the first half of 2018 to assess the success of the program and determine if any changes are necessary. The BCEMB plans to continue to use the NPP as an effective tool to meet developing market demand and/or regional needs outside the Lower Mainland.

#### 9. Pilot Quota Exchange

All quota transfers that are non-exempt as per Part V 1. (3) of Consolidated Orders must occur through the BCEMB Pilot Quota Exchange. The only exception to this rule is whole farm going concern transfers.

Prior to 2015, the quota exchange was a silent bidding process where the quota available was listed at an unknown price and bids were submitted by buyers without knowing the quota selling price. Provided any of the bids met the seller’s minimum asking price, the third party administrator would review the bids received and award the quota to the highest bidder. The process was overly complicated and extremely frustrating for buyers and sellers.

In 2015, the BCEMB reviewed the Quota Exchange process and recommended revisions. Consequently, a Pilot Quota Exchange was approved by BC FIRB, implemented by BCEMB, and the first Pilot Quota Exchange based on the new process resulted in transfers occurring in March of 2016. The pilot quota exchange continued to be run on a quarterly basis. The price of quota is administered by the BCEMB and the price increases or decreases according to the offer to buy/offer to sell ratio. Sellers submit their offers to sell to the BCEMB and buyers submit their offer to purchase to the BCEMB. The first 1,000 quota units available for sale is distributed equally amongst any buyers within the region of the seller who have quota holdings under 6,000 quota units. The remaining quota available for sale is distributed equally amongst all potential buyers within the region of the seller until there is no quota left. Any additional quota that doesn't sell is then distributed to the region which submitted the highest offers to buy. The rules of the Pilot Quota Exchange can be found in Appendix 4 which contains Part VI of our Consolidated Orders.

The pilot quota exchange has proven to be an effective tool at bringing new farmers into the regulated supply sector. Since the first pilot quota exchange in March 2016, nine new farms have entered the egg sector through the quota exchange, accounting for 6.67% of BCEMB's current registered producers (9 of 135). The Pilot Quota Exchange has also proven to be an effective tool at supporting smaller farms. All seven pilot quota exchanges have had the first 1,000 quota units available fully purchased by smaller producers. A total of 21 unique quota holders below 6,000 quota units have taken advantage of the 1,000 quota preferential pool, accounting for 53.8% of the total unique buyers (21 of 39) and 7.02% (7,000 of 99,736) of total quota sold since the first exchange in March 2016.

The regionality clause which was implemented as part of the Pilot Quota Exchange process has been largely effective at keeping quota in the sellers' regions. There has only been one pilot quota exchange where the quota was not 100% purchased by buyers within the seller's region (4,996 quota units left the Vancouver Island region in December 2016). There have been two pilot quota exchanges held for Interior quota and two subsequent pilot quota exchanges on Vancouver Island that have been 100% purchased by buyers within the sellers' region.

Applications from buyers bidding on the quota require production types to be listed, and the forms must be signed by their grading station. BCEMB is mindful that sellers can leave production-type gaps for their grading stations; thus by requiring grader signoff, we are providing graders with the ability to balance their supply and meet market needs.

#### 10. Including Experts on our Committees

BC Egg has added experts from outside the supply managed sector to many of our committees. In 2017 our Audit and Finance committee added two Certified Professional Accountants to the Committee. In 2017 our newly formed Marketing and Communications committee is comprised of one member from the board, one staff member in an ex-officio capacity, and three marketing specialists from outside the agriculture industry. We are increasingly seeking the best talent for our committees and teams wherever possible so that we can continue to innovate and promote market responsiveness.



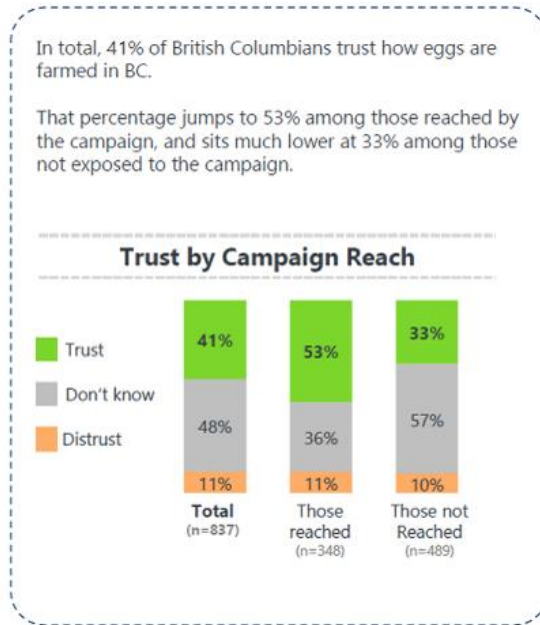
## 11. Stakeholder engagement and improving lines of communication

Both BCEMB directors and staff are now regularly communicating with the BC graders and processor to ensure the BCEMB and its producers are meeting market requirements. All formal requests from graders and processor are brought to the EIAC and Board of Directors for discussion and consideration. The BCEMB also attends their meetings, upon invitation. In 2017, BCEMB directors attended the Canadian Poultry and Egg Processors Council (CPEPC) meeting in Kelowna to discuss current market conditions as well as future market direction.

BCEMB is also engaging directly with retailers to ensure that we are meeting their customer requirements. In 2017 staff met with representatives from Overwaitea, Sysco, HY Louie (IGA), Choices, and A&W. The BCEMB is discussing our industry transition from conventional cages with these retailers; we are also in the very early stages of discussions regarding the potential program that will increase traceability for the consumer by stamping our eggs. We communicate regularly with the retail sector through quarterly updates. At our 2017 visioning session, the BCEMB invited three experts on the Food Chain, Public Trust, and Animal Welfare who provided presentations to attendees that included well over 20 representatives from the entire supply chain. Information obtained from the visioning meeting formed the basis of our 2017 BC Egg Strategic Plan; a full copy can be found in Appendix 5.

The BCEMB is also engaging directly with local residents. In 2017, we organized 10 Meet the Farmer events in grocery stores with Overwaitea. At these events, our volunteer farmers are set up in a booth by the egg section of a grocery store and customers are able to interact directly with the farmers and ask any questions. We rented a large space at the Abbotsford AgriFair and PNE to display a fully operational enriched cage where farmers and staff connected directly with BC residents and educated them on their food supply. Through the fairs and PNE, the BCEMB was able to reach over 200,000 local residents. We also created 10 “Meet an Egg Farmer” videos; each video has an average of over 11,000 views. These videos can be viewed on our website through this [link](#).

We want our consumers to understand and trust where their food is coming from. In 2017 the BCEMB contracted Sentis to determine the effectiveness of our public outreach efforts. Research results indicated that residents reached through public outreach by BCEMB in 2017 had 20% higher trust in how eggs are farmed in BC than the British Columbians that we did not reach. Public trust is viewed by the BCEMB as a critical element that we will continue to foster, build upon, and monitor in the upcoming years.



## 12. Specialty Audit Program

In 2017 the BCEMB created a set of Specialty Audit Standards that set clear and defined rules and regulations for Free Range production which incorporate the new *Code of Practice* as well as additional rules defining outside access for Free Range Production. This audit instrument was developed in BC to provide our local residents with clarity, transparency and assurances about the food products they are buying at the grocery store. On-farm audits will be conducted by third party certifiers and are planned to begin mid-2018.

## 13. Staying Connected to Industry and Innovation

Directors and staff are regularly travelling to attend conferences in BC and Canada relevant to the poultry sector. We are also communicating with our provincial partners to share information on current practices and programs. Directors and staff attend major international poultry conferences to ensure we maintain a global outlook for industry. Many trends start in Europe, move to the U.S. and then into Canada. Our goal is to remain knowledgeable of where the industry is heading. In 2017 Directors and Staff attended 4 international conferences including the International Egg Commission Conference, Urner Barry, and United Egg Producers Conference. Directors and staff present relevant findings from conferences and out-of-province meetings at board meetings and prepare reports to be shared with BC producers through the producer portal on the BC Egg website.

## What we are planning

1. In July 2018, the BCEMB is planning to hold an industry round-table to discuss the future of the egg industry, share information, collectively strategize on dealing with challenges, and

brainstorm on additional programs to assist with production controls and developing markets. The round-table participants will include representatives from the BCEMB, producers, graders, and processors as well as external experts. Some of the programs that will be discussed at this meeting include production transition strategies, programs that can be made available to all graders and impact production on a short term “as-needed” basis, quota credit program structure, and specialty buyback program structure. The roundtable will be moderated by a professional facilitator. The BCEMB looks forward to continuing to work with all supply chain partners to develop effective programs attuned to market requirements.

2. We are overhauling our public website with the intent to create a more intuitive website that provides consumers with the information they are seeking. Within the next two years we plan on creating an individual webpage for every farm that will include the following information: farm description, audits, and scores. An example of what each farm’s finished product will look like can be found at the following link on our website: <http://www.bcegg.com/farm/2319>

### **Response to Previous Allocation Questions from BC FIRB**

In the following section, we will address FIRB’s previous questions regarding quota allocations and conduct a SAFETI analysis that provides sound rationale for our recommendation and request.

Previous FIRB Questions to BCEMB regarding Quota Allocations:

In a letter dated February 2, 2016<sup>5</sup> BC FIRB noted a list of initial outstanding SAFETI-based questions on process and outcomes of the BCEMB 2016 allocation request. As these considerations were at the forefront of our conversations to determine this allocation request and submission, BCEMB would like to readdress these questions with responses for this 10/90 Modified Pro-Rata Proposal document.

1. *Did the Egg Board effectively and strategically engage with its stakeholders? How? What was the outcome?*

BCEMB consulted with stakeholders through survey format to determine the effectiveness and support for its current 10/90 modified pro-rata formula in relation to alternative approaches to allocation. Stakeholders were provided with information to explain each allocation method and asked numerous questions regarding each allocation method. The complete consultation including its outcomes can be found in appendix 2. Every stakeholder segment favored the 10/90 modified pro-rata formula.

2. *Did the Egg Board consult with the Egg Industry Advisory Committee (EIAC) as required by s. 36(3) of the BC Egg Marketing Scheme? What was the outcome?*

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<sup>5</sup> [https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/organizational-structure/boards-commissions-tribunals/bc-farm-industry-review-board/correspondence/bc-egg-marketing-board/2016\\_feb\\_2\\_bcfirb\\_questions\\_emb\\_quota\\_allocation.pdf](https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/organizational-structure/boards-commissions-tribunals/bc-farm-industry-review-board/correspondence/bc-egg-marketing-board/2016_feb_2_bcfirb_questions_emb_quota_allocation.pdf)

The EIAC was consulted and passed a motion on May 17, 2018 supporting our 10/90 Modified Pro-Rata recommendation.

3. *Did the Egg Board evaluate whether its pro-rata distribution policy is effective and strategic in meeting sound marketing policy objectives? Please explain.*
- a. *For example, does adding to current utilization and “not responded” rates for the previous three growth allocations support a sound marketing policy argument for pro-rata distribution?*

BCEMB believes that the consistent application of the board policies and procedures creates stability and encourages producers to be more forward looking in the market place. BCEMB believes that the Pro-Rata formula has been instrumental in the increased utilization of growth. As shown in the table below, 63.1% of BC producers accepted and placed the most recent increase within 5 weeks of its announcement.

	Percentage of producers who placed the new allocation quota after the growth issuance was received			
	1 <sup>st</sup> Week	5 <sup>th</sup> week	26 <sup>th</sup> week	52 <sup>nd</sup> week
2015 – 2.7% Allocation	18.7%	29.1%	60.4%	82.8%
2015 – 2.65% Allocation	18.8%	28.6%	63.2%	78.2%
2016 – 2.587% Allocation	13.4%	37.3%	73.1%	87.3%
2017 – 3.148% Allocation	25.4%	63.1%	88.5%	96.2%

- b. *For example, what proportion of egg imports is driven by table egg demand versus processing demand? How does pro-rata allocation with priority to the table market address this sound marketing policy consideration?*

From an industry perspective we know that statistically it takes 131.36 eggs laid to produce 100 table eggs. By incrementally increasing total production BCEMB incrementally increases its supply to the processor as well. Programs such as the Eggs For Processing (EFP) and our Specialty IP program that BCEMB, EFC, and the processor are currently negotiating will help fulfill any additional market requirements to the processor.

- c. *For example, in 2005 BCFIRB established a policy of pro-rata allocation for growth based on economic rationale. Does this policy and rationale continue to outweigh considerations raised in #4 below? If so, why?*

Every allocation approach has both positives and negatives. BCEMB believes that the 10/90 Pro-Rata formula continues to strategically align best, and adhere to, the BC FIRB SAFETI principles.

4. *Did the Egg Board consider alternatives based on the changing circumstances since 2014 (US avian influenza, shortage of processing eggs, three recent growth allocations, quota utilization, new entrant draw, etc)? Please explain.*
- a. *For example, how do outstanding national questions on layer housing alongside retail trends influence where production is needed in 2 plus years?*

BCEMB believes that its programs support forward thinking producers, graders, and processors that provide opportunities to aggressively transition and develop markets. BCEMB will continue to work with producers, graders, processors, and grocery/foodservice to ensure that the production is moving in tandem with market requirements.

- b. *For example, are there short and/or long-term regional growth considerations? (e.g. industry development, disease risk management).*

A large concentration of our producers are located in a condensed area inside the Lower Mainland. Economically this creates a more efficient industry as the close proximity allows decreased transportation costs to the end user. The trade-off is the increased risk of supply disruptions due to disease.

While BCEMB is satisfied with the current producer distribution throughout the province, we do not want to encourage further concentration of production in the Lower Mainland.

This is an area that BCEMB plans to improve on in the future, and will communicate plans to BC FIRB in future consultations (eg. New Producer Program Consultation and Pilot Quota Exchange Consultation).

- c. *For example, are there short and long-term new entrant considerations?*

BCEMB will continue to use the New Producer Program to establish new markets outside of the Lower Mainland and plans to continue to use the Pilot Quota Exchange to keep quota from flowing back into the Lower Mainland.

5. *Did the Egg Board clearly communicate its rationale and recommendations to its stakeholders, including an analysis of sound marketing policy? How?*

Yes, prior to submitting this request BCEMB sent this document along with its appendices to all of its stakeholders. A copy of this request is also posted on our producer website.

### **BCEMB Request for Approval**

The BCEMB is requesting approval of its 10/90 Modified Pro-Rata formula. Using this formula, the BCEMB proposes to distribute 90% (97,867) of the 2018 allocation Pro-Rata, resulting in a 3.31% incremental increase to all BCEMB producers in good standing with our Consolidated Orders. We are proposing to hold 10% (10,784) of the allocation in our reserve for BCEMB market responsive programs including future New Producer Program draws.

## **SAFETI Analysis**

**Strategic** - Pro-rata distribution ensures that the current market balance remains as is and will not be destabilized. The portion of the issuance held in the reserve will ultimately be used for the New Producer Program, but until that quota is required the BCEMB plans to use it to effectively meet market requirements and opportunities that are communicated through the EIAC and supply chain when required.

**Accountable** – BCEMB has proposed the allocation method that was preferred by EIAC, EPA, and our Quota Allocation Consultation which included producers, graders, processors, financial institutions, and the public. BCEMB has a number of programs in place to attune production to market requirements, and our board plans to continue to utilize the talents of our amazing supply chain partners to build new programs and innovate to meet changing markets requirements.

**Fair** – Fair is a matter of perspective as no allocation option is going to be deemed as perfectly fair by everyone. From a macro-industry perspective BCEMB agrees with its stakeholder consultation results and feels that Pro-Rata is the “most fair” as all producers receive the same percentage increase.

**Effective** – The BCEMB believes that consistent application of board policies and procedures have fostered an environment where our producers are now innovating, building, looking forward and analysing market trends. To date, the BCEMB has utilized the quota held in its reserve to start over 19 new entrants through the New Producer Program since 2010, with 7 more starting within the next two years. At the Market Responsive Round Table, the BCEMB plans to determine if there are further tools that could be utilized to enhance the BCEMB’s ability to meet short and medium term market opportunities.

**Transparent** – The BCEMB has made this document available on its producer website, and disseminated a copy to all of its producers. If approved, the BCEMB will communicate again with all producers to explain how much quota was available, how the quota was distributed and what was held for the New Producer Program.

**Inclusive** – The BCEMB consulted with producers, graders, processors, financial institutions and the public. The EIAC and EPA also provided feedback. The comments received are reflected throughout this submission document. Throughout the consultation and decision making process, the BCEMB considered how the different methods of allocation would affect each producer group, by size and region.

Thank you for taking the time to review the BCEMB request for approval of the 2018 quota allocation.  
Please let me know if you have any additional questions or concerns.

Sincerely,

X 

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Gunta Vitins  
Chair, BCEMB

X 

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Katie Lowe  
Executive Director, BCEMB