

January 14, 2020

2020 Quota Allocation Proposal

On December 19, 2019, Egg Farmers of Canada ratified a National Quota Allocation of 27,538,822 layers, which represents an additional 105,965 layers for the country and 14,916 additional layers for BC, representing a 0.45% increase in quota for the province.

On [July 3, 2019](#) BCFIRB prior-approved BCEMB's [Quota Allocation Policies and Procedures](#) that outlined the procedures that BCEMB would follow for the 2019 allocation and two subsequent allocations. For this 2nd allocation, the BCEMB committed to an equal distribution portion of 150 birds per producer who met the non-conventional housing requirements which equates to 21,600 quota units. The 14,916 birds allocated to BC do not cover the equal distribution portion; 6,684 additional quota units are needed.

After considerable deliberation and additional consultation with the Egg Industry Advisory Committee (EIAC), **BCEMB's proposal and recommendation is to place the 14,916 quota units in the Reserve to be made available for use by all producers through [Temporary Allotment Pool B in July 2020](#)**. The goal is to have the birds in production as soon as possible. At the next EFC allocation, these quota units will be combined with new quota units to ensure that all qualifying producers will receive 150 birds for the equal distribution portion, as per BCEMB's original multi-allocation proposal.

The BCEMB is seeking feedback from the BC Egg Producers Association for this proposal by January 30, 2020.

BCEMB Quota Allocation Policies and Procedures

As communicated in our May 27, 2019 proposal, the step-by-step evaluation of the quota allocation policy and planning process was as follows:

- 1) Determine how much quota is required to be set aside for Quota Reserve Programs
 - a. There are currently 61,198 quota units in the reserve being held for reserve programs, this includes
 - 32,502 for future new entrant draws
 - 28,696 quota units held for Temporary Allotment Pool A

No additional quota is currently required to be set aside for the Quota Reserve Programs since the target amount is 60,000 units.

- 2) Determine how much quota is required for the Equal Distribution Portion
 - a. In order to meet the Quota Allocation Policy, 21,600 quota units are required for equal distribution. This is greater than the 14,916 allocation from EFC by 6,684 units.
 - 144 producers * 150 quota units

- 3) Determine how much quota is available for pro-rata distribution
 - a. As there is not enough quota in the allocation to meet the requirements of the 150 unit equal distribution, there will not be any quota available for pro-rata distribution.

At issue, the multi-allocation proposal that BCEMB requested and was approved by BCFIRB on July 3, 2019 included an equal distribution component to all qualifying registered producers in good standing for 100 quota units on the first allocation, 150 quota units on the second allocation, and 200 quota units on the third allocation.

As this would be the second allocation under this proposal, BCEMB has committed to distributing 150 quota units to all registered producers in good standing who qualify for the non-conventional housing requirements. BCEMB currently has 144 registered producers. 21,600 quota units are required for the equal distribution component (144 producers x 150 quota units). The quota increase of 14,916 units received by BC for 2020 is 6,684 hens short of the 21,600 that would be required.

Over the course of three board meetings (November 21, December 3, and January 3) the BC Egg Marketing Board considered the following options:

- 1) Allocate the 14,916 units equally amongst all producers with non-conventional housing systems who meet the general allocation requirements as per the Quota Allocation Policy and Procedures document. This would result in an equal distribution of 103 quota units to all producers.
- 2) Allocate 21,600 units equally amongst all producers with non-conventional housing systems who meet the general allocation requirements as per the Quota Allocation Policy and Procedures document. This would result in an equal distribution of 150 quota units to all producers and would require BCEMB to issue 6,684 quota units from the reserve which would be replenished by future allocations or assessments.
- 3) Do not allocate in 2020 as the BCEMB is unable to meet the Equal Distribution requirements of the approved Quota Allocation Policy and Procedures. The 14,916 quota units would be made available for use by producers through Temporary Allotment Pool B in July 2020, then combined with the next EFC allocation for 150 unit equal distribution, possibly in 2021. Grader sign-off is required for production quota leased from TAP B.
- 4) Do not allocate in 2020 as the BCEMB is unable to meet the Equal Distribution requirements of the approved Quota Allocation Policy and Procedures. The 14,916 quota units would be made available for use by producers through a stand-alone Temporary Allotment Program once approval is received from FIRB, then combined with the next EFC allocation for 150 unit equal distribution, possibly in 2021.

Using past communications, as well as the framework for good governance provided by FIRB (SAFETI), these options were discussed, debated and evaluated. A summary of this evaluation is attached in appendix A. The options were also discussed with the EIAC. The EIAC provided BCEMB with the following recommendation on December 5, 2019:

THAT the Egg Industry Advisory recommends Option #3, which is not to allocate the 14,916 quota units, but rather to add the quota to a future TAP B Pool for distribution to eligible producers.

The committee felt that this option would benefit the industry most as it requires grader sign-off, allowing them to ensure that additional production is not added to those production types which are in a surplus situation in the current market.

This recommendation was discussed at the January 3, 2020 Board meeting.

The current market conditions have been provided for your information in Appendix B and the full SAFETI Analysis for Option #3 has been provided in Appendix C.

The BC Egg Marketing Board is requesting feedback from the BC Egg Producers' Association regarding the proposed option to:

- 1) Place the 2020 quota increase in the quota reserve
- 2) Make the quota available to producers through the TAP Pool B program in July, 2020
- 3) Distribute the quota with the next growth allocation received from EFC, according to the BCEMB's multi-allocation proposal and Quota Allocation Policies and Procedures approved by FIRB in July 2019.

We look forward to receiving your feedback by January 30, 2020.

Regards,



Katie Lowe P.Ag.
Executive Director

CC: Aryn Alibhai, EIAC Chair, & Rob Regehr, EIAC Vice Chair

Appendix A – Consideration of Allocation Options

- 1) Allocate the 14,916 units equally amongst all producers with non-conventional housing systems who meet the general allocation requirements as per the Quota Allocation Policy and Procedures document.
 - a. This would be an equal distribution of 103 quota units to all producers
 - b. As per the policy, producers who do not currently meet the requirements will be provided with three years from the date of the allocation notification to meet the requirements.

This option would fully distribute the quota allotted to the BCEMB however it would only partially meet the Quota Allocation Policy and Procedures approved by BC FIRB. The BCEMB would be 47 hens short for each producer from the agreed upon 150 units.

The BCEMB would also need to determine if the 47 units that the equal distribution portion would need to be added to the 200 unit equal distribution portion for the third allocation in the policy, which may put us in a similar situation that arose with this allocation.

- 2) Allocate 21,600 units equally amongst all producers with non-conventional housing systems who meet the general allocation requirements as listed in the Quota Allocation Policy and Procedures document.
 - a. As per the policy, producers who do not currently meet the requirements will be provided with three years from the date of the allocation notification to meet the requirements.
 - b. This would require BCEMB to issue 6,684 quota units from the reserve which would be replenished by future allocations or assessments.
 - i. There is currently enough quota in the reserve that only a small portion would need to be borrowed from the NPP quota reserve allowing BCEMB to distribute the 150 hen equal distribution allocation without over-issuing quota to producers in 2020.

This option would meet the equal distribution portion of the allocation policy; however, it would reduce the amount of quota reserved for New Producer Program draws below 30,000. In the Quota Allocation Policy, the Board must first ensure that the New Producer Program portion of the reserve is full prior to allocating quota to producers.

In addition, the New Producer Program quota that is currently held in the reserve is being used for the Temporary Allotment Program Pool B. If the allocation was completed before July 2020, this may result in an over-allocation of quota.

- 3) Do not allocate in 2020 as the BCEMB is unable to meet the Equal Distribution requirements of the approved Quota Allocation Policy and Procedures
 - a. The 14,916 quota units would be held and combined with the next EFC allocation, possibly in 2021.

- b. The 14,916 quota units will be made available for use by producers through Temporary Allotment Pool B.
- c. This would allow the BCEMB to postpone issuing the allocation until it can meet the 150 unit Equal Distribution portion commitment.

The quota would be held and then allocated when there is enough quota available to fulfill the equal distribution requirement of 150 hens from the Quota Allocation Policy. The quota will still be produced as it will be made available through Temporary Allotment Pool B and we will not be at risk of over-allocating.

TAP Pool B requires grading station sign-off so this will assist in ensuring that egg production meets market demand, reducing the risk of over-supplying certain production types to the market. At this time, we have not heard of any producers whose requests for the TAP have been declined by graders.

The TAP B program runs on a July to June schedule so the Board may have to adjust the timelines for future allocations depending upon the uptake of the Pool. BCEMB will also maintain the right not to use TAP B if it looks as though BC will be at risk for a liquidated damages assessment from EFC (due to more bird numbers than provincial quota).

In order for EFC to allocate an increase, the National increase must be at least 100,000 hens. The 2020 allocation of 105,965 hens is close to the minimum allocation that EFC is able to distribute. A future allocation increase will provide enough quota for the BCEMB to fulfill the 150 quota unit equal distribution requirement and would also provide a more consistent equal distribution to pro-rata issuance.

- 4) Do not allocate in 2020. Equally divide the 14,916 bird allocation amongst all registered producers as either a sleeve or separate temporary allotment opportunity in 2020.
 - a. The 14,916 quota units would be held and combined with the next EFC allocation, possibly in 2021.
 - b. This would allow the BCEMB to postpone issuing the allocation until it can meet the 150 unit Equal Distribution portion commitment

This has similar pros/cons to Option 3 however it would be introducing another TAP program which may cause confusion for producers, plus it would not require grader sign-off which could lead to oversupply of certain production types in the marketplace. It would be available immediately to producers (after BCFIRB approval).

Appendix B – Current Market Conditions

Table disappearance has grown on average 4.3% per year for the past five years (2013-2018). The 2019 allocation was based on an EFC projected growth rate of 4.63%. The actual 2019 growth rate to year to date (periods 1-9) is 1.88%.

The expected table disappearance growth rate for 2020 is projected to be 3.10%. The Population growth factor for 2021 is 1.35%.

The 2020 national allocation increase takes into account the 2019 over-allocation, projected table disappearance growth rate for 2020, projected population growth rate for 2021 and an adjustment for the revised ROL resulting in a national increase of 105,965 (0.39%).

BC is a province that is short on eggs and relies on interprovincial movement to meet its provincial consumer demand. This provincial shortage will be corrected gradually over time through allocations based on the updated QAC formula (Quota Allocation Calculation). The QAC ensures that short provinces proportionally receive more quota than long provinces with the goal to ensure that all provinces will eventually be able to meet their market demand.

The allocation approved by EFC for a request for approval from FPCC takes into account:

- 1) the slight over-allocation for 2019, and
- 2) the updated rate of lay (ROL) which reduced the number of hens required for a similar number of eggs

From January to November 2019, BC Egg graders have brought in 5,906,012 dozen eggs from other provinces, and shipped out only 126,060 dozens ([link here](#)). Assuming a 26.54 ROL, that would suggest we are short approximately 217,783 hens at this time.

BCEMB representatives met individually with the major graders in the province to discuss our forecasted production and market needs. Currently, the BC Graders are short in classic white eggs, organic eggs are about where they need to be and BC is slightly long on free-run/free-range eggs.

That total volume of surplus (Large and Extra Large) specialty product shipped to the processor has decreased significantly over the last three years (dropped 156%). However, the volumes shipped to processors vary between production types. The BC graders are shipping a fairly consistent amount of Large/Extra Large Classic eggs to the processor when compared to total production in the last three years. The shipment of Large and Extra Large Certified Organic eggs has declined. Free Run Large/Extra Large shipments have declined significantly as a percentage of total production while Free Range Large/Extra Large have increased.

Over the last three years, the total dozens of Large/Extra Large eggs per production type sent to the Industrial Products pool varied as follows:

- Certified Organic eggs has declined from 1,100 boxes to none (100% decrease)
- Free-Range eggs has increased from 3,800 boxes to 18,800 boxes (395% increase)
- Free-Run has decreased from 81,700 boxes to 15,000 boxes (82% decrease)
- Classic White has increased from 151,000 boxes to 175,000 boxes (16% increase)

From 2017 to 2019, egg production increased by 6% as a whole, varying between production types.

- 36% increase for Certified Organic
- 35% increase for Free-Range
- 12% decrease for Free-Run

- 5% increase for Classic

As a percent of total Large and Extra Large Production shipped to the pool,

- Certified Organic 0.3% of production in 2017 and 0% in 2019
- Free Range 1% of production in 2017 and 4% in 2019
- Free-Run 16% of production in 2017 and 3% in 2019
- Classic 3.6% of production in 2017 and 4% in 2019

EFC has updated their Liquidated Damages Assessment Policy effective February 23, 2020. The previous policy penalized Egg Boards in two situations:

- 1) The province issued producers more quota than was allocated to the province by EFC, or
- 2) The province had more hens in production than the total quota allocated to the province.

The revised policy will only penalize provinces who have more hens in production than total quota allocated to the province. The penalty associated with the policy has been significantly increased to ensure that compliance is maintained.

Appendix C – SAFETI Analysis

Strategic – BCEMB and its stakeholders (TBD) agree that not allocating the 14,916 quota allotment is strategically the most sound policy decision available to BCEMB at this time.

A pivotal piece of the three allocation policy is the equal distribution component for its producer members and the continuance of the New Producer Program. As this would be the second allocation in the three allocation plan, the commitment and plan prior-approved by FIRB would require a 150 quota equal distribution to BCEMB's qualifying registered producers. BCEMB has 144 registered producers, and would require an allotment of 21,600 quota units to meet its commitment.

The recommendation to hold the quota in reserve for the Temporary Allotment program until BCEMB can fulfill its three allocation policy aligns with BCEMB's policy objectives at this time, specifically:

1. Promote animal welfare – all producers must be in compliance with the BCEMB Consolidated Orders, including all on-farm programs, in order to take part in the TAP B Program.
2. Support growth of small farms and new entrants – The BCEMB is not allocating quota from the reserve that is held for the NPP program. In addition, as TAP B equally distributes the available quota to all producers who apply, the smaller farms, who have space, are able to access additional production from that program at an equal rate to larger producers.
3. Support regional growth – As the TAP B is distributed equally to all applicants, there is the opportunity for it to increase the percentage of production in outlying regions, particularly the Interior Region, depending on barn space availability. Due to the format of the NPP, the Interior region has proportionally more smaller farms than the Lower Mainland.

4. Meet emerging market needs – The BCEMB seriously considered the recommendations from the graders at the EIAC to ensure that the hens allocated will be utilized according to market needs. The TAP B program requires grading station sign-off which will ensure that the additional production will be placed as required.
5. Encourage producers to move out of conventional production systems - the BCEMB is maintaining the equal distribution allocation policy which has been effective in encouraging producers to move out of conventional systems. In order to maintain that policy, the BCEMB must postpone the permanent allocation of the 14,916. While it is delaying this allocation, it lengthens the time that this important encouragement is in effect.

Accountable – BC Egg did not receive sufficient quota to meet its equal distribution commitment in 2020. Holding the quota in reserve until the next growth allotment is received enables BCEMB to uphold and fully honor its three allocation policy to its registered producers. Meanwhile, BC consumers will continue to be provided with BC production as BCEMB is proposing to utilize the quota in our 2020 Temporary Allotment Pool B program.

Further, BCEMB remains committed to commencing with a New Producer Program draw in the fall of 2020 or spring 2021. BCEMB expects to start a minimum of two new producers and maximum of 6,000 quota units per year, on average, in a five year period.

Fair & Transparent – This method is both fair and transparent. For this small allocation, the BCEMB consulted with stakeholders most affected in the short term -- the EPA (representing producers) and the EIAC (representing the industry as a whole, producers and graders) ensuring procedural fairness.

Effective – The three allocation policy is designed to be effective at meeting BCEMB priorities including collaborating with stakeholders to address current market realities. Utilizing this quota through TAP B will also provide BCEMB with additional flexibility for managing the LDA risk for the 2020 quota year as the Board is able to adjust the amount of quota offered in the TAP B program dependent upon the future production forecast in June 2020.

Inclusive – Key stakeholders were consulted and their interests were considered in the development of the proposal. All producers who meet the eligibility requirements are able to take advantage of Temporary Allotment Pool B should they choose to do so.