

## 2023 QUOTA ALLOCATION PROPOSAL

BC received an allocation of 103,797 layers in December 2022 from Egg Farmers of Canada and proposes to distribute a total of 147,968 quota units to BC's Registered Producers by a pro-rata allocation. The 147,968 quota units are comprised of the new 103,797 growth quota units combined with the 7,490 growth quota units held in abeyance from the 2022 allocation and the addition of 36,681 quota units from our Quota Reserve.

A distribution of 147,968 quota units represents a 4.528% overall increase in quota holdings for the 147 BC producers who are currently eligible for the allocation.

The BCEMB is seeking feedback and support for this proposal from industry stakeholders prior to seeking approval from BCFIRB. Please provide your feedback by March 8, 2023.

### Background

On December 16, 2022, Egg Farmers of Canada ratified a National Quota Allocation of 28,645,488 layers, which represents an additional 646,850 layers for the country and 103,797 additional layers for BC, representing a 3.05% increase in quota for the province.

In addition, BCEMB has 7,490 quota units held in abeyance from the time when Egg Farmers of Canada ratified a National Quota Allocation of 27,998,638 layers on December 17, 2021, which represented an additional 50,724 layers for the country and 7,490 additional layers for BC. Holding this growth quota in reserve until the next national growth allocation was approved by BCFIRB on [May 3, 2022](#).

The BCEMB proposes to distribute a total of 147,968 quota units to BC's Registered Producers by combining the new 103,797 growth quota units with the 7,490 growth quota units held in abeyance from the 2022 allocation and adding 36,681 quota units from our Quota Reserve which are acquired from assessments from quota transfers. The remaining 55,796 quota units in the Quota Reserve are set aside to meet the following program needs:

- 30,000 for future new entrant draws
- 25,796 quota units held for [Temporary Allotment Pool A](#) (TAP A).

A distribution of 147,968 quota units represents a 4.528% overall increase in quota holdings for the 147 BC producers who are currently eligible for the allocation. Although BC has 149 Registered Producers, two producers are not eligible for the allocation if it is issued prior to June 2023.<sup>1</sup>

On [July 3, 2019](#) BCFIRB prior-approved BCEMB's [Quota Allocation Policies and Procedures](#) that

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<sup>1</sup> There are two producers who sold a portion of their quota effective June 1, 2022 and will be deemed ineligible for this allocation due to Part III 2, (3) of the Consolidated Order "Unless otherwise determined by the Board, Layer Quota shall not be issued: (m) to any Person who has transferred any quota within the last 12 months."

outlined the procedures that BCEMB would follow for the 2019 allocation and potentially two subsequent allocations. According to the Quota Allocation Policy and Procedures, BCEMB committed to distributing a portion of each allocation as an equal distribution to all producers who meet the non-conventional housing requirements<sup>2</sup>, commencing with 100 hens to each producer for the first allocation, 150 hens for the second allocation and 200 hens for the third allocation. The remainder of the quota in each allocation is distributed pro-rata to all Registered Producers in Good Standing. The BCEMB distributed 100 hens to each producer for the 2019 allocation and 150 for the 2021 allocation, as per this policy. For the third allocation, 200 hens are to be distributed to each eligible producer.

Prior to any allocation, BCFIRB requires that BCEMB provide quantitative information that support the following five priorities outlined in BCEMB's Quota Allocation Policy and Procedures:

- Promote animal welfare;
- Support growth of small farms and new entrants;
- Support regional growth;
- Meet emerging market needs; and,
- Encourage producers to move out of conventional production systems.

Due to current market conditions, emerging market needs and preliminary feedback from stakeholders, BCEMB is proposing that the 2023 allocation be distributed pro-rata to producers, and defer the 200 hen equal distribution to a future allocation.

### **Rationale for Proposed Pro-Rata Distribution Plan**

#### **Current Market Conditions and Emerging Market Needs**

In proposing a pro-rata distribution plan, the Board carefully considered the current market conditions. The emergence of COVID-19 in early 2020 caused supply chain disruptions which led to unstable and uncertain retail markets throughout 2020 and 2021. In early 2022, the marketplace started to stabilize, however, global events resulted in supply shortages and increases in inflation which raised the cost of goods produced and sold across nearly all sectors, including food. The average consumer has less spending power and are seeking less expensive/more affordable products and brands.

Economic pressures and changes in consumer buying behaviour are reflected in retail sales of eggs. While there has been some overall decreases to retail sales for all egg types over the last two years in BC, the decreases are greater for the more expensive specialty egg types (free run, free range, organic) as compared to the sales of classic eggs (conventional and enriched).

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<sup>2</sup> Each producer will have the opportunity to obtain an equal portion of that allocation if they meet the following requirements:

1. That producer has 100% non-conventional production, or
  2. If that producer is not currently 100% non-conventional, that producer must house a flock of 4000 hens minimum in a non-conventional production system to receive the allocation.
- All producers who do not currently meet the requirements will have three years to establish a flock that meets the minimum requirement of 4000 hens. Failure to comply with the requirement within the three year timeframe will result in forfeiture of the allocation.

Chart 1 shows the overall trend in total egg retail sales in BC from 2017 – 2022. Although there has been a minor decrease in table eggs sales since 2020, eggs sales have remained relatively strong over the last five years.

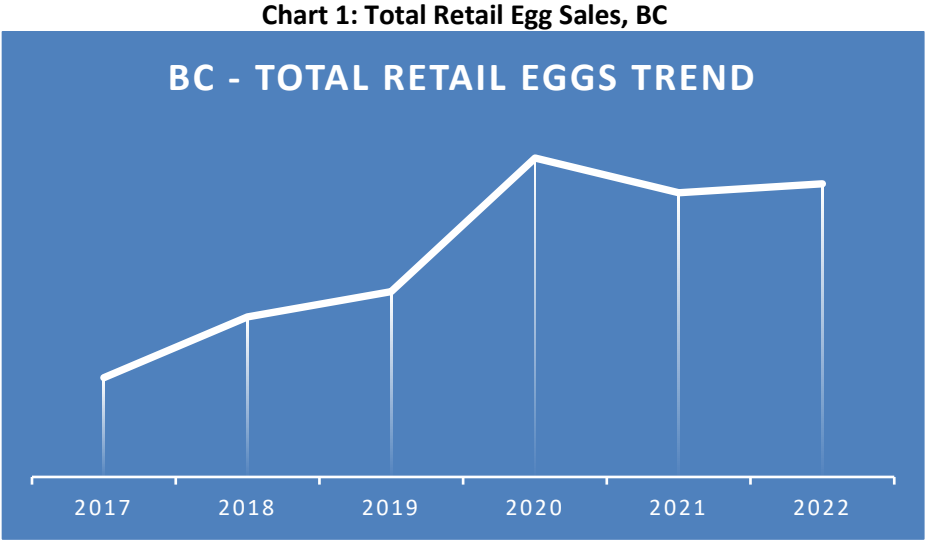


Table 1 below shows a slight increase in overall table egg sales in 2022. However, Nielsen data and recent reports from BC graders indicate a decline in specialty egg sales at retail while the classic white egg market has remained more stable.

Table 1: Nielsen: 52 weeks (Increase/Decrease) in retail table disappearance - as of December 31, 2022:

<b>BC</b>	<b>Previous 52 weeks</b> (December 2020-2021)	<b>Latest 52 weeks</b> (December 2021-2022)
Total Eggs	-5.9%	0.8%
Regular (Classic) Eggs	-7.0%	0.7%
Omega 3 Eggs*	9.0%	17.9%
Other Specialty Eggs	-7.2%	-5.0%
Free Run	-7.8%	-17.6%
Free Range	-2.3%	-0.4%
Organic	-13.3%	-2.2%

At this point it is difficult to determine whether this shift in consumer purchasing behavior and drop in specialty table egg sales are short or longer term in nature. However, an equal distribution of 200 hens would further exacerbate the surplus in specialty eggs while a pro-rata distribution would have a lesser impact, as indicated in the analysis on the following page.

Each of the last three allocations contained an equal distribution portion (2018<sup>3</sup>, 2019, 2021). The intent and outcome of the equal distribution portion was to encourage producers to transition

<sup>3</sup> The concept of equal distribution was first introduced and implemented in 2018 when 256 quota units were distributed to specialty &/or enriched producers and the remaining quota distributed 2.582% Pro-Rata to all producers. To be eligible for the 256 hen equal distribution portion, producers were required to be producing eggs in non-conventional systems at the time the BC allocation distribution plan was announced.

from conventional housing. Table 2 outlines the impact of this equal distribution portion on specialty production. The table compares the equal distribution allocations of those producers who have 100% specialty production to what they would have received from a pro-rata allocation. The last three allocations have resulted in an additional 24,012 units to 100% specialty producers.

Table 2a: Effect of Equal Distribution from 2018-2021 on Specialty Production

	Pro-Rata + Equal Distribution	Pro-Rata Only	Additional Specialty from Equal Dist.
2018	32,096	19,252	12,844
2019	42,356	37,423	4,933
2021	23,388	17,153	6,235
<b>Total</b>	<b>97,840</b>	<b>73,828</b>	<b>24,012</b>

Table 2b indicates that if BCEMB allocates an equal distribution of 200 hens plus pro-rata in 2023, an additional 7,749 quota units would be added to specialty production types as compared to a straight pro-rata distribution.

Table 2b: Effect of Equal Distribution on Specialty Production if issued in 2023

	Pro-Rata + Equal Distribution of 200 hens	Pro-Rata Only	Additional Specialty Production from Equal Dist.
2023	43,130	35,381	7,749

**Promote animal welfare**

To be deemed as an eligible recipient for allocation issuance, registered producers are required to be in good standing with the BCEMB Consolidated Order which includes compliance with all on-farm programs such as the EFC Animal Care Program, the Start Clean Stay Clean Program, the Code of Practice for the Care and Handling of Pullets and Laying Hens, and BC Egg’s Barn Fitness Program.

All BC producers are highly motivated to comply with all on-farm programs, as indicated by their audit scores. Average scores for the Start Clean Stay Clean and Animal Care Program Audits are 99% and Corrective Action Requests, if any, are completed within 30 days or less.

Producers are also meeting housing conversion deadlines which are based on high animal welfare standards supported by evolving scientific standards. The 2017 Code of Practice for the Care and Handling for Pullets and Laying Hens set a national expectation that 50% of birds will be transitioned into alternative housing systems by 2025. BC producers exceeded this milestone by 2021. BC Egg fully expects the accelerated transition to continue, supported by Board programs such as innovative and responsive allocation methods, including pro-rata distribution in response to emerging market needs.

**Support growth of small farms and new entrants**

The proposed pro-rata allocation would result in all eligible registered producers receiving the same percentage increase at their farm, which would benefit all producers equally, including smaller operators and new entrants.

In accordance with Board priorities and market conditions spanning 2018 – 2021, the previous three allocations provided eligible producers with equal distribution portions which resulted in smaller farms and new entrants receiving a higher percentage growth allocation than they would have otherwise received solely through pro-rata allocations<sup>4</sup>. Table 3 depicts how BCEMB's past allocations impacted small, medium, and large layer operations.

Table 3: Impact of Allocations on Categories of Quota Holders

Year	2018	2019	2021	2023	2018-2023*
Status	Complete	Complete	Complete	Proposed	Proposed
Quota Increase Description	2.582% Pro-Rata to all producers plus 256 quota equal distribution to specialty &/or enriched producers at that time	5.217% Pro-Rata to all producers plus 100 quota equal distribution to specialty &/or enriched producers (or 3 years to become eligible)	1.56% Pro-Rata to all producers plus 150 quota equal distribution to specialty &/or enriched producers (or 3 years to become eligible)	4.528% Pro-Rata Distribution to all producers	Total % increase from 2018 to 2023 (proposed)
Smallest 25% Quota Holders **	9.16%	7.84%	6.32%	4.528%	27.60%
Middle 50% Quota Holders**	3.68%	5.89%	2.70%	4.528%	18.45%
Largest 25% Quota Holders**	2.86%	5.46%	1.92%	4.528%	15.41%
Average % Increase**	4.90%	6.32%	3.40%	4.528%	19.06%

2018-2023 percentage increase calculated by factoring Registered Producers who have been in production 2018-2023 who have not transferred quota or purchased on the quota exchange.

\*\*Prior to the 2018 allocation, the Smallest 25% quota Holders held < 6,138 quota units; the Middle 50% Quota Holders held between 6,138 – 28,045 quota units; the Largest 25% Quota Holders held > 28,045 quota units.

\*\*Post 2023 allocation, the Smallest 25% quota Holders would hold < 6,813 quota units; the Middle 50% Quota Holders held between 6,813 – 29,338 quota units; the Largest 25% Quota Holders held > 29,338 quota units.

The 2023 pro-rata allocation proposal provides every registered producer with the same proportional growth allotment. However, Table 3 indicates that even with a pro-rata distribution in 2023, the growth of small farms outpace the growth of larger farms over the period 2018 – 2023.

BC Egg maintains other Board programs which benefit smaller farms such as the Temporary Allotment Pool A (TAP A) and the Quota Exchange. The TAP A program offers qualifying new entrants with the opportunity to produce as much as 1,000 quota units above their quota which is held for 5 years. Additionally, smaller farms are given an opportunity to purchase

<sup>4</sup> The 2017 allocation was distributed as 3.15% pro-rata to all producers.

proportionally more quota when it's available on the Quota Exchange. Exchange quota is distributed equally amongst interested buyers, however the first 1,000 quota units available for purchase on an exchange are distributed amongst quota holders who hold less than 6,000 quota units.

### Support regional growth

Due to a variety of factors such as population density in outlying regions as well as the format of the New Producer Program, the regions of the Kootenay, Peace River, and Thompson/Okanagan have a proportionally higher number of smaller farms than the Lower Mainland. As a result, BCEMB's quota distribution method in 2018, 2019 and 2021 has increased the percentage of quota held in these regions by a higher proportional amount as indicated in Table 4.

**Table 4 – Regional Growth**

Region	Quota in 2017	Quota in 2022	% Change 2017-2022	2023 Post Proposed Allocation	% Change Pre/Post Allocation	% Change 2017-2023
Lower Mainland/Southwest	2,427,165	2,794,236	15.12%	2,919,461	4.48%	20.28%
Nechako	0	0	-	0	-	-
Peace River	5,042	6,003	19.06%	6,275	4.53%	24.45%
Cariboo	0	0	-	0	-	-
Thompson/Okanagan	208,952	241,654	15.65%	252,597	4.53%	20.89%
Kootenay	3,349	10,982	227.92%	11,321	3.09%	238.04%
Vancouver Island	178,430	206,505	15.73%	215,856	4.53%	20.98%
North Coast	35,430	40,587	14.56%	42,425	4.53%	19.74%
<b>Total</b>	<b>2,858,368</b>	<b>3,299,967</b>	<b>15.45%</b>	<b>3,447,935</b>	<b>4.48%</b>	<b>20.63%</b>

Note: Analysis doesn't take into account losses from AI.

The pro-rata allocation proposal will not proportionately move more quota to outlying regions as did the last three allocations which had equal distribution portions; however regional growth will still continue with the pro-rata distribution as indicated in Table 4.

### Encourage producers to move out of conventional production systems

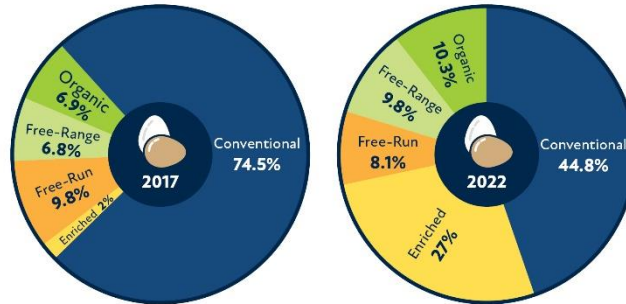
The equal distribution components over the past 3 allocations coupled with enriched pricing in 2019 have incentivized and encouraged producers to transition to non-conventional housing. Since 2018 an additional thirty-eight producers transitioned all, or a portion, of their production into enriched or specialty production totaling 123 producers versus 85 in 2018. The transition to alternative housing is expected to continue.

**Table 5: Progress on Transition from Conventional Production**

Allocation	Qualifying Producers
2018	85
2023 (YTD)	123

The charts below indicate the growth in specialty and enriched production over a five year period from 2017 – 2022.<sup>5</sup>

<sup>5</sup> Production mix calculated considering the overall dozens produced for the 2017/2022 calendar year.



BCEMB's intent is to postpone the 200 bird equal distribution allotment and consider it for the next allocation.

### **SAFETI Analysis for the Proposed Quota Allocation Option**

**Strategic** – BCEMB believes that issuing the 147,968 available quota units to all eligible producer via pro-rata distribution is the most strategic and sound policy decision for BCEMB at this time.

The BCEMB recommendation for a 100% Pro-Rata allocation is strategic as it issues the quota equally to all production types, which does not discourage the conversion to alternative production systems. In addition, it does not provide a disproportionate increase to production types which are in excess of market needs in the short-medium term.

The BCEMB will propose a 200 unit equal distribution allocation for the next growth allocation, depending on the outcome of the market needs assessment at that time.

**Accountable** – BCEMB is accountable to producers, graders, processor and the retail market. This proposal is accountable to all parties to ensure that BCEMB is not encouraging shifts in production where they are not required at this time. Producing the right eggs at the right time for the market ensures that BC consumers are able to purchase their egg of choice, and reduces the costs for surplus removal for both the graders and producers.

**Fair** – Utilizing pro-rata distribution, all producers will benefit fairly from the allocation, regardless of production type. The production of all egg types in the province will increase at a proportional rate.

**Effective** – This proposal is designed to effectively achieve BCEMB priorities and address current market realities.

**Transparent** – As this is a large allocation and BCEMB proposes to move away from the Equal Distribution Portion for this allocation, all producers and graders are being consulted as well as the EIAC (representing the industry as a whole, producers and graders) and the BCEPA (representing producers) thereby ensuring transparency.

**Inclusive** – Key stakeholders are being consulted and their interests considered in the development of this proposal. All producers who meet the eligibility requirements are able to participate in this growth allocation.