

February 20, 2017

BC Farm Industry Review Board
PO Box 9129 Stn Prov Govt
Victoria, BC V8W 9B5

Dear Kirsten,

On November 9, 2016, Egg Farmers of Canada (EFC) submitted an application to Farm Products Council of Canada (FPCC) for approval of amendments to the 2017 Quota Regulations. These amendments were prior-approved by the Farm Products Council of Canada (FPCC) at their meeting on December 13-14. They were subsequently ratified by the EFC Board of Directors on December 16 and have been sent for registration by the Privy Council Office.

The national allocation for 2017 is 25,229,448 layers, reflecting a quota increase of 847,887. BC's portion of the increase is 99,971 layers.

Request

As per Section 37 (c) of the British Columbia Egg Marketing Scheme, BCEMB requires prior approval from FIRB to vary quota. BCEMB is requesting pre-approval for the modified pro-rata distribution of this quota. BCEMB proposes to hold 10% (9,997) of the allocation for the New Producer Program and distribute the remaining 89,074 pro-rata to all BC producers who are active and in good standing with BCEMB. This represents an estimated increase of 3%.

Background

On May 13, 2016, EFC submitted an ad hoc request to FPCC for an increase in the national allocation by 1.1M hens. The majority of these hens were for the purpose of supplying the processor market. FPCC seemed willing to support the allocation request if EFC met certain conditions.

In October, EFC met with FPCC to review the progress made to meet the conditions outlined by FPCC. At that time, additional concerns were raised, including concern over whether or not it was appropriate to increase the regulated quota for the purpose of filling the processor market. Subsequently, on November 4, 2016, EFC withdrew this request.

Current Market Conditions

At the November 9, 2016 EFC Open Board Meeting, EFC presented the Quota Allocation Calculation QAC with an estimated table disappearance growth rate for 2017. The expected growth rate for 2017 is 3.68%; this is the average growth rate for the last five years. It is important to note that the combined growth in table disappearance over the last five years is 17%. When we compare the table disappearance growth rate to the national allocation increases of 13% in the last five years, industry growth is still lagging behind the growth in table disappearance.

At this time, BC's utilization rate is 104 % and continues to increase. The grading stations are long on free-range and free-run, but short on organic and caged white. This problem is evident through the increase in the use of the specialty buy-back program and grading station requests to be able to downgrade to caged white. There has been an increase of 36.7% of product

being sent to the processor over 2015; however, BC is still short in terms of the Guaranteed Supply Volume. BC producers are currently supplying the BC Processor with 77% of his requirements.

Egg Board staff took this into consideration when recommending the pro-rata issuance. The market must still remain balanced with production and the best way to maintain the steady shift to cage-free without negatively impacting the current market balance is to allocate pro-rata.

In October 2016, BCEMB staff met with the BCFIRB Board and staff to review the many challenges facing the industry at this time as well as to review some of the major policy changes that are currently under review. BCEMB staff reviewed the production type changes that the industry is looking at and the struggles with moving towards cage-free and continuing to supply the product that the market requires.

BCEMB conducted a regionalization study that showed where retailers in the Kootenays, the Okanagan and on Vancouver Island are obtaining their eggs from. While the majority of the eggs in each region were coming from BC, there is the opportunity for BCEMB to strategically place new entrants in the Kootenays to reduce some of the interprovincial eggs being sold at retail in that region.

When reviewing these studies, BC should keep in mind that we are a short province, meaning that BC does not have enough allocation to be 100% self-sufficient when it comes to egg consumption. The QAC formula does provide for some differential growth to allow short provinces to catch up, but it will take many years to do so.

Increasing Utilization Rates

It is imperative that allocations are distributed and placed as quickly as possible. In the last 1.5 years, BCEMB has implemented a few policy changes to ensure quota allocations are used as quickly as possible.

1. The 3% Market Growth Allowance was introduced and later increased to 6% so that those producers with available space could place additional hens. This program has been discontinued as of December 31, 2016 as it has served its purpose and BC egg producers are now in danger of over-producing for 2017.
2. A provincial leasing policy was implemented from July 2016 to June 2017 in order to use the quota that is being held in the reserve for the New Producer Program draw of 2016. This program was also successful as all the available quota has been leased.
3. Producers were required to notify the Board of the date that they would be able to use their increases within 30 days of receiving the quota availability notification. This program was also successful and will continue in the future.

BCEMB has also developed a detailed inventory forecasting model so utilization rates can be predicted at least 18 months in advance. FIRB saw this model in October 2016. In early 2017, BCEMB will further refine the forecasting model to include production-type changes.

If this allocation is approved, 82% of BC's producers will have the allocation in production by the end of August 2017. The majority of this additional quota will be in production as of the allocation date. The BCEMB is planning on allocating the quota on April 10, 2017 after the

quota transfers from the March exchange have occurred.

BCEMB consulted with the EIAC on January 12, 2017, and the EIAC is in agreement with the above recommendations.

SAFETI Analysis

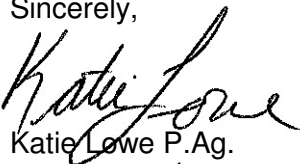
Strategic - Pro-rata distribution ensures that the current market balance remains as is and will not be negatively impacted. The portion of the issuance held in the reserve for the New Producer Program will ensure that quota will be available for our next New Entrant Program.

Accountable, Fair and Inclusive – The grading stations who need the product in the caged-white and organic categories will receive increases to their supply according to their current market share, our producers who have spent years and capital investing in the industry will be able to take part in this growth, the processor needs the product, and quota will be held to ensure our New Entrant Program can continue regardless of the amount of quota that transfers.

Effective and Transparent – All producers will be made aware of how the quota was distributed, how much quota was available, and what was held for the New Producer Program. The allocation will reduce our predicted utilization rate; however, it will likely remain at or above 100% throughout 2017.

Thank you for taking the time to review the BCEMB request for prior approval of the 2017 quota allocation. Please let me know if you have any additional questions or concerns.

Sincerely,



Katie Lowe P.Ag.
Executive Director
cc BCEMB Board