OSDP Project C-10 - Growing the Organic Supply-managed Sector Final Report

Prepared by Paddy Doherty July, 2005

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Introduction

This project began on November 6, 2003 and followed the work of a previous (*Growing Green*) project:

> *Growing Green* was launched in April of 2002. *Growing Green* was a two-year law and policy reform project designed to:
>
> 1. develop concrete, practical law and policy reform proposals to make growing and distributing food in BC more sustainable, and
> 2. Strengthen the capacity of voluntary organizations to contribute to federal, provincial, and local law and policy making.
>
> The *Growing Green* project was managed by West Coast Environmental Law (WCEL) and funded by WCEL, FarmFolk/CityFolk (FF/CF), and the Liu Institute for Global Issues.

The *Growing Green* project concluded that **access to supply management schemes** for organic and other small-scale sustainable farms was a priority for policy action.

Gunta Vitins managed Project C-10 from its inception in 2003. The project was originally scheduled to end on March 14th, 2004 but received an extension until December 2004. Provincial events in December 2004 (government ordered review of specialty production in the supply-managed sector) indicated a need to extend the project further. Project C-10 continued until its conclusion on June 1, 2005.

Paddy Doherty took over management (and consequently conclusion) of this project on May 05, 2005, while Gunta Vitins was (is) away on maternity leave.

Objectives

The aim of the project was to obtain information and develop various models designed to help improve the provincial supply management schemes as they relate to the regulation of production and marketing of organic products—specifically, organic eggs, chicken, turkey, and dairy products. These models would be supplied to the provincial marketing boards and the BC Farm Industry Review Board (FIRB) as suggestions for improving access to supply-managed production for organic farm operators.

Methodology

A project team was developed:

1) Rick Llewellyn of Jerseyland Farm
2) Brian Hughes of Kildara Farm;
3) Peter Johnston of Heron Bay Farm;
4) Gunta Vitins of Pro Organics; and consultants
5) Dr. Rick Barichello,
6) Shinan Kassam (both researchers from UBC); and,
7) Bill Andrews, lawyer.

The project team then developed a Strategy Committee (22 members—broadly-based organic sector representation) to provide input to the project process, research, and development of models.

A consultation committee (included the COABC Project Team and 16 members from the distribution and retail sector plus representatives from the egg, chicken, turkey and milk boards, BCFIRB and BCMAF) was established. This committee guided the consultation process with the marketing boards and BCFIRB to ensure that these parties were fully engaged in the project and were providing input to the research and development of models.

Using the resource network afforded by the Strategy and the Consultation committees, as well as the COABC Board of Directors, the Project Team developed the models referred to above. The completed models were presented to the appropriate marketing boards and the FIRB.

The Project Team then responded to the opportunity for further input into BC's supply-managed system when the Minister of Agriculture ordered a review of specialty production within the supply-managed system.

Project Actions

Throughout the winter of 2003/2004, the COABC Project Team held numerous conference calls, attended three consultation meetings with the egg board, and one consultation meeting with each of the other boards (chicken, milk, and turkey board). The researchers, Dr. Rick Barichello and Shinan Kassam of UBC, interviewed several organic producers of supply managed commodities and developed preliminary draft options for the egg, milk, turkey, and chicken sectors that were reviewed by the COABC Project Team during the February 2004. The preliminary options were presented in a workshop at the COABC AGM and conference on Saturday, February 28th 2004 in Naramata, by the COABC Subcommittee and Project Coordinator. Several producers and interested parties attended the workshop.

The draft options were revised and circulated to members of the Strategy Committee (SC) for their feedback during the month of March 2004. On March 12th 2004, Gunta Vitins presented an overview of the draft options in a seminar at the Growing Green Conference in Vancouver. Several members of the BC Farm Industry Review Board, including Ross Husdon (BCFIRB chair), attended the Vancouver seminar, and participated in the discussions.

It was clear that the draft options needed to be revised a second time and reviewed by the Strategy Committee before they were to be sent to the Consultation Committee for feedback. The cost of production information required verification and the wording of the drafts needed to be revised and "reframed" especially in light of the heightened sensitivity of the organic community and all poultry producers during the Avian Influenza crisis. The dairy draft was the least controversial of the draft documents – it was reviewed and approved by the four organic producers in BC and the Strategy Committee before it was sent to the BC Milk Marketing Board, BCFIRB, and BCMAFF for comment on April 3rd 2004.

The revised chicken draft received approval from the Strategy Committee in June 2004 and was sent to the Chicken Board and BCFIRB at the end of June 2004 for their feedback. The egg and turkey drafts required further revision.

BCMAFF and FIRB responded to the models (draft options) developed by Project C-10 by commissioning a review in Nov/Dec. 2004 to develop recommendations to better integrate specialty production in the supply managed sectors in B.C. The review (called the "Leroux Report") had enormous implications for the organic supply-managed sector.

Agriculture Minister John Van Dongen met with key members of the organic community in January 2005 to present the Leroux Report and to inform the COABC on how the government intended to implement the Report's proposals. The Minister stated that he was fully committed to the initiative and that changes will be implemented according to the recommendations presented in the LeRoux Report (which take into consideration the various models developed by the COABC in Project C-10). The LeRoux Report is available on the COABC website in the "What's New" section
http://licensees.certifiedorganic.bc.ca/WhatsNew/SupplyMgmtReport.html

The project team then worked with George Leroux and Kathleen Gibson (consultants working for BC FIRB) to respond to proposals from the marketing boards. The project team also developed proposals that reflect the interests of the BC organic community.

During 2005, the COABC Project Team had several meetings with the FIRB contractors (Kathleen Gibson and George Leroux) as well with the marketing boards and organic sector stakeholders. The Project Team also responded, in writing, to the marketing boards' drafts to integrate specialty production into BC's supply management systems.

Project Team meetings in 2005:

1. - January 14, 2005 with Minister John Van Dongen
2. - January 25, 2005 with FIRB
3. - February 3, 2005 with FIRB contractors George Leroux and Kathleen Gibson
4. - February 11, 2005 with FIRB contractors George Leroux and Kathleen Gibson and specialty producers
5. - February 26, 2005 FIRB contractors with COABC membership
6. - March 3, 2005 speciality producer sector meetings with George Leroux and Kathleen Gibson
7. - March 4, 2005 with George Leroux and Kathleen Gibson

8. - March 7, 2005 Milk Marketing Board
9. - March 9, 2005 Milk Marketing Board and specialty producers
10. - March 11, 2005 BC Egg Marketing Board
11. - March 17, 2005 BC Chicken Marketing Board
12. - April 04, 2005 BC Turkey Marketing Board
13. - April 22, 2005 FIRB contractors and BCMMB, BCCMB, BCEMB, specialty producers
14. - April 30, 2005 FIRB contractors and COABC Project team teleconference
15. - May 11, 2005 FIRB contractors and COABC Project team teleconference
16. - May 19, 2005 COABC Project team teleconference

Deliverables

Many documents were developed (see appendices) during this project. More important than the writing on paper, however, was the effect this activity had on the government and the BC marketing boards. Since the *Growing Green* project of April 2002, the COABC has been working steadily to improve the climate between the marketing boards and organic producers and to show (via models) that organic producers can be accommodated within the supply-managed system. This level of mature leadership (on behalf of the COABC)—the persistent endeavour to find a solution—encouraged the other players (BCMAFF, FIRB, marketing boards) to realise that organic producers were serious, (no matter what their size) they were not going away, and they needed to be respected and included.

Documents:

1. Appendix A – Model for Supply-managed Organic Chicken Production
2. Appendix B – Model for Supply-managed Organic Dairy Production
3. Appendix C – Model for Supply-managed Organic Egg Production
4. Appendix D – Model for Supply-managed Organic Turkey Production
5. Appendix E – Nurturing Organic Growth in BC's Supply-managed System – COABC Position Paper
6. Appendix F – COABC Review BC Chicken Marketing Board Proposed Specialty Program
7. Appendix G – COABC Review of BC Egg Marketing Board Specialty Plan
8. Appendix H – COABC Review of BC milk Marketing Board Specialty Program
9. Appendix I – COABC Review BC Turkey Marketing Board Specialty Production and New Entrant Programs
10. Appendix J – Organic Production and the BC Broiler Hatching Egg Commission – COABC Response

Conclusion

The COABC is now waiting for the FIRB to respond to the marketing boards (and COABC) proposals to integrate specialty production into the supply-managed system. The result will not be everything we asked for; but it will definitely be a step in the right direction. This is the proof of the success of OSDP Project C-10. The climate has improved, organic producers will be included (in some form or another), and organic production will flourish in the province as a result.

The work of developing alternate models for integrating organic producers into the supply-managed system was slow and complicated. It was not always easy to see the point of this activity over the years. However, the models were (and still are) useful and the FIRB is using them to help develop a new system for organic supply-managed production. It is gratifying to be able to see the work of a long-term project bear fruit. Successful projects that make a difference were the reason for the instigation of the OSDP and I am personally proud to have been part of this work.

Appendix A – Model for Organic Supply-managed Chicken Production

Prepared by S.Kassam/R. Barichello April 2004

Introduction

The purpose of this document is to provide points for discussion regarding the current supply management scheme for chicken and suggestions for promoting the growth of the organic chicken sector in B.C. In the preparation of this document, several organic chicken producers were surveyed to obtain their feedback regarding the current system and to identify areas where the costs of production differed significantly between organic and conventional chicken production.

The BC Chicken Sector

According to the Chicken Data Handbook published by the Chicken Farmers of Canada, British Columbia had 336 chicken producers in 2002, producing a total of 200,256,000 kg (live weight) of chicken that equates to 103.8 million birds (1.929 kg/bird). The handbook also indicated that average farm size in BC was 308,970 birds per year in 2002 (27% higher than the national average). At 605 cycles per year for conventional farms, this is approximately 47,500 birds per cycle for an average farm. Average total quota holdings per farm are currently valued at $2.139 million. [1]

The organic chicken sector represents 0.2% of total chicken production in BC with 15 small unlicensed producers producing approximately 1,000 birds per year (this number will be verified through a province-wide survey) and 2 larger producers producing approximately 2,000 birds per week under permit (one of whom produces organic chicken on a periodic basis; the other produces organic chicken consistently throughout the year). It is estimated that organic chicken production in BC totals 171,000 birds annually which equates to 418,950 kg live weight, thereby representing 0.21% of the entire chicken sector. (Please note: organic birds are heavier at maturity than conventional birds, weighing in at 2.45 kg/bird as compared to 1.929 kg/bird). There is no organic chicken produced under quota in BC at this time.

Of all of the supply managed commodities in B.C., the chicken industry is the only sector to have a continued and sustained growth in the demand for its product over the last decade. Some of this growth has come from an increased demand for organic product as well as from specialty markets such as the Asian market.

The Benefits of Organic Production

To consider Certified Organic food products simply as “specialty” or “niche” products does not represent the true meaning or value of organic agriculture to British Columbians. “Organic” describes a process of food production that avoids the use of synthetic inputs such as chemical fertilizers, chemical pesticides, chemical growth regulators/hormones and antibiotics. Organic production is based on a system of farming that uses production methods which minimize the impact on the environment. The primary focus is to maintain a healthy soil and develop a balanced farm ecosystem that is environmentally sustainable. By its very nature, organic agriculture promotes scale-appropriate mixed farming operations. Certified organic enterprises follow strict organic production, processing and handling standards that are recognized by law in B.C. under the Agri-Food Choice and Quality Act,

[1] One unit of quota currently costs $45 and gives a producer the right to produce and sell one chicken weighing 1.929 kg live weight per 8 week cycle at 6.5 cycles per year.

and thus deliver highly differentiated products to the marketplace. British Columbians are increasingly seeking certified organic food products including organic eggs, poultry and dairy products due to concerns about health, food safety, environmental sustainability, and animal welfare.

More specifically, organic production provides many environmental and health benefits including[2]:

Protects water quality: Organic growers and processors use practices that eliminate polluting chemicals and nitrogen leaching, and avoid excessive animal manure production through scale appropriate agriculture, thereby protecting and conserving precious water resources.

Builds and protects top soil: The Soil Conservation Service (US) estimates that over 30 billion tons of topsoil are eroded from U.S. crop lands annually due to intensive mono-cropping (the planting of vast areas with the same crop year after year) and environmentally insensitive farming practices. Canada is no different. Rather than relying on synthetic fertilizers, including soluble manufactured nitrogen which is known to deplete soil's organic matter, organic farmers build their soil through natural amenities, such as composted manure from plant and animal sources, and by planting diverse crops.

Preserves biodiversity: The loss of a variety of species (biodiversity) is one of our most pressing environmental concerns – for both plant and animal life. Many organic growers have been collecting and using heirloom seed varieties for decades, as well as preserving heritage breeds of animals.

Supports balanced ecosystems: Organic agriculture respects the balance demanded of a healthy ecosystem: wildlife is encouraged by including forage crops in rotation and by retaining fence rows, wetlands, and other natural areas.

Reduces potential health risks: Many EPA-approved pesticides were registered long before extensive research linked these chemicals to cancer and other diseases. Now, the EPA considers 60% of all herbicides, 90% of all fungicides, and 30% of all insecticides as potentially cancer causing. Most, if not all, of these toxic agri-chemicals are approved for use in Canada.

Protects the health of farm workers: While pesticides may pose a health risk to consumers, the risks are far greater for field workers. A National Cancer Institute (US) study found that farmers exposed to herbicides had a six-times greater risk than non-farmers of contracting one type of cancer. Field workers on conventional farms, due to their direct exposure, are the most vulnerable to illness as a result of pesticide use. Organic farms eliminate that risk by eliminating the use of harmful pesticides and other chemical inputs from their practices.

Promotes Sound Animal Health: Organic production methods promote sound animal health. Animals raised in ample space, fed organically grown feed, and not forced to produce beyond their natural capabilities suffer less stress and have healthy immune systems, resulting in increased resistance to communicable diseases.

[2] Adapted from the Organic Trade Association's *Benefits of Organic* - www.ota.com

Keeps rural communities healthy: Organic farms tend to be geographically dispersed, small scale, mixed operations which service local markets. Off-farm inputs also tend to be locally sourced. The majority of organic farms in BC are independently owned and operated and have less than 30 acres. Organic farming may be one of the few survival tactics left for the family farm and rural communities.

The unfortunate outbreak of the avian influenza in the Fraser Valley has revealed many shortcomings of the current system of conventional chicken production. The high concentration of production, high density barns, low biodiversity, excess production of chicken manure etc., have resulted in an industry that is very vulnerable to devastating disease outbreaks. To avoid such occurrences in the future, and in keeping with the organic philosophy of sustainability, emphasis must be placed on decentralizing all poultry production (especially "new" production) and supporting sustainable "small lot" allocations in areas throughout the province.

An analysis of differential costs and revenues

Unlike the conventional producer who strictly produces primary output of chicken and leaves the processing, distribution and marketing activities to other agents within the supply chain, the price received by the organic producer (which is not currently mandated by the board) must cover all direct costs of production, processing and distribution as well as the cost of marketing to the retailer or final consumer. According to the research undertaken for this project, organic chicken production is approximately 2.25 times more expensive than conventional production at the farm level. However, this cost disadvantage appears to be offset by a higher price received for organic chicken, by the producer, approximately 2.3 times higher than conventional chicken. For detailed information on this analysis, please review Appendix 1 at the end of this document.

SMALL LOT GROWER PERMIT PROGRAM

Under current BC Chicken Marketing Board regulations, producers growing chicken for personal consumption are exempt from the regulations of the supply management scheme provided that production is under 200 chickens per year. Specifically, the regulations require that these chickens not be marketed to the general public nor given to any person outside of the farm household.

There are approximately 15 COABC registered producers who currently produce chickens on a 'small' scale and two COABC registered producers who produce on a 'large' scale. "Small" is defined as production in the range of 1000 chickens per year or under and 'large' as production in the range of over 30,000 chickens per year. To facilitate quota acquisition, and in order to bring existing producers under the supply management scheme, the Chicken Marketing agency has formulated a small grower licensing programme. In part, this scheme recognizes the inability of small producers to seek out and acquire very small units of quota from existing producers who may be unwilling to sell incrementally small units of quota. In large part, however, the scheme attempts to bring existing producers outside of the supply-managed scheme into the fold of the marketing board, so as to manage the production and supply of chicken within the province. It is important to note that allocations for the small grower program are not 'claw backs' from the conventional producers. They are new allocations to the province from Ottawa based upon negotiations with the provincial board. New allocations from Ottawa that would foster organic chicken production come without cost to the existing conventional chicken producers.

The Small Grower Permit Program allows existing producers, who do not currently hold quota and who are producing above the exemption limit (over 200 birds/year), to obtain a permit to grow and market up to 500 chickens per week (totaling 964.5 kg/week). [3] Upon presentation of a satisfactory business plan and given legal evidence that the applicant owns the property of land to which the permit will be tied, a 12 year permit is issued by the Chicken Marketing Board. Permit holders are required to pay permit fees in the amount of 18 cents per bird (1.929kg live weight/bird) in addition to the standard marketing board levy of 1.25 cents per kg of live weight. The marketing board levy is payable at the end of each cycle and is based upon actual production – i.e. the final weight of the bird at maturity. For ease of accounting, permit fees are annualized and are paid monthly, regardless of actual monthly or weekly production.[4] Provided that the permit fees are paid over the 12 years, and upon expiration of the 12th year, the amount of the permit is converted to quota[5]. Once converted to quota, the producers are obliged to pay only the standard marketing board levy that is adjusted periodically. In essence, the program is a 'lease to purchase' arrangement. Producers who are delinquent in payments of the lease over the 12 years or who choose not to continue with the lease at any time during the 12 years forfeit their payments into the scheme.

A slight complication to the permit and quota value issue is that all calculations under the board's current program are based on birds with a live weight of 1.929 kg produced in 8 week production cycles (6.5 cycles per year) – which are standard measures in the conventional broiler sector. By contrast, birds raised organically weigh 2.45 kg live weight and are produced in 10 week production cycles (5.2 cycles per year)– thus, the permit fee for an organic bird is 22.86 cents (as opposed to 18 cents for conventional) or conversely, the standard per bird permit fee pays for a portion (79%) of an organic bird. In addition, small organic producers tend to produce more birds during the summer, when the weather is compliant, than during the winter – thus they produce varying numbers of birds in each cycle. It is interesting to note that the board has apparently built some flexibility into their program and will arrange payment plans with individual producers that take into consideration seasonal variations in production. However, for ease of accounting, the board typically calculates permit payments on a consistent number of birds (1.929 kg/bird) each week – for example, if a farmer is producing 1,000 birds per year, he/she would be required to pay permit fees on 20 birds/week whether or not this represents their actual production. Producers are expected to make up any differences in production levels within a maximum of 6 standard cycles (i.e. within the year)– otherwise the board penalizes them with fines for over-production or claw backs for under-production.

So, how much would a 'small' organic producer pay to participate in the Small Grower Permit Program? If an organic producer was to acquire permit to produce 1,000 organic birds per year, he/she would pay $228.60 per year for the permit. The calculations are as follows: 1,000 organic birds weighing 2.45 kg each totals 2,450 kg per year which equates to 1,270 birds weighing 1.929 kg (the standard board measure) -- 1,270 birds/year x

[3] The 2 'large' organic producers received permit to produce more than 500 birds per week through a grandfathering initiative of the chicken board. The grandfathered permit level was based on each producer's historical production of chicken prior to August 2000.

[4] For example, a producer who has received permit to produce 500 birds/week (or 964.50 kg/week) will pay $390 on a monthly basis for the permit fee, plus any board adjustments.
Calculation: ((500 birds/wk x 1.929 kg/bird x 52 wk/yr x $0.18/ 1.929 kg)/12 months/yr = $390

[5] Quota is the amount of chicken, expressed in liveweight, that a grower may produce every eight weeks in one year. In BC, one unit of quota allows the quota holder to produce one chicken weighing 1.929 kg every eight weeks or 6.5 times per year – essentially, 12.54 kg of chicken is produced per unit of quota per year. One unit of quota in BC currently costs $45.

$0.18/bird = $228.60/year or $19.05 per month. If one was to add on the standard board levy of 1.25 cents per kg, then this particular organic producer would pay a total of $259.23 per year to the board for the right to produce 1,000 organic birds per year.

Keeping in mind that this particular producer would receive quota free of charge after paying the permit fee for 12 consecutive years, he/she would have paid a total of $14.04 (present value) for one unit of quota. The calculation is as follows (using standard board measures): 18 cents/bird x 6.5 birds/year [1 bird each 8 week cycle] x 12 years = $14.04. If one were to add on the total cost of the standard board levy for the 12 years (which totals $1.80 for this particular unit of production)[6], then the producer would have paid $15.84 per unit of quota. Quota is currently valued at $45 per unit of quota. To an investor, participation in the permit program would appear to be a good investment if one were in the business of "farming" quota, especially if quota values continue to increase in value.

Drawbacks of the Small Grower Licensing Program

For organic producers, there are least four significant drawbacks of the small grower permit program:

1. Organic producers have no desire to enter the supply managed commodity scheme; indeed, they are adamantly opposed to entering it. Organic producers see quota as being vastly over-priced – for many conventional chicken producers the total value of their quota far exceeds the value of their farm. Organic producers sell directly to wholesale and retailer, not to processors, so they would get no benefit from the Chicken Marketing Board's mandated price on sales of chicken from conventional producers to processors. Furthermore, the scheme does nothing to protect organic producers from unfairly priced imports. And, the organic producers see the Board's assertion of regulatory control over organic products as aggressive and unnecessary interference.

2. The Small Grower Permit Program is unduly restrictive. For example, the rules prohibit permit holders from selling their permits at all during the first six years, and between the sixth and twelfth year, permits may be sold only together with the land and buildings.

3. The Small Grower Permit Program is designed to prevent producers from expanding to an economically optimum size, by limiting production to 500 birds/week (or rather, 964.5 kg/wk). The Program was introduced to facilitate the Board's take-over of regulatory control of specialty chicken production in August 2000. Existing producers were grandparented into the program at production levels many times higher than the current 500 bird/week limit.

4. Organic Producers have no legally binding assurance that they will actually receive quota as promised after paying permit fees for 12 years, as required by the program. The board could change the rules of the Program whenever it wants, since it part of the board "orders." The organic producers are well aware that the Board is run by and for the benefit of the conventional producers exclusively.

[6] Calculation: 1.25 cents/kg x 1.929 kg/bird x 6.5 birds/yr x 12 yrs = $1.80 in standard levy payments for a 12 year period.

Overall Value of Permits/Quotas to Organic Producers:
It is important to note that organic producers have absolutely no interest in "farming quota" --- a practice which is endemic in conventional supply managed sectors. Overvalued quota, much of which has been obtained free of charge by conventional producers from the original allocation of quota in the 1960's as well as through periodic distribution of additional allocations obtained by the provincial boards from the national agencies, are fearfully guarded by the producers. In many cases, the total value of quota for each quota holder far outweighs the value of individual farms. For example, average total quota holdings per conventional chicken farm in BC are currently valued at $2.139 million. Organic producers, by contrast, have indicated no desire to acquire quota – whether through grandfathering or participation in the small growers permit program whereby after 12 years the permit allocation is converted to quota. In addition, there is indication from the free trade negotiations that the Canadian supply management system will be dismantled within 15 to 20 years – thus, the future of quota is questionable.

More importantly, the board's programs offer no services or benefits of any appreciable value to organic producers, yet they are expected to pay a fee – whether for the purchase of quota or to participate in the small growers program. Organic producers would continue to be responsible for all of the costs and risks associated with production, processing, distribution and marketing, even if they participated in the board's programs. By contrast, quota holding conventional producers have a guaranteed market with little or no price competition – costs and risks associated with marketing and distribution are handled further down the supply chain.[7] A legitimate question is therefore, why should an organic producer pay fees for a program that provides absolutely no service to organic producers?

Permit/Quota tradability*:*
Under current regulations, small growers opting into the permit program are restricted from selling their permits within the first six years of the scheme and between the sixth and twelfth year, permits may only be sold with the land and buildings. Additionally, current marketing board regulations place a moratorium on the resale of quota within one year of purchase. More specifically, a producer that purchases quota on the open market is subject to having all of his/her collective quota placed under this moratorium for one full year. From an economic perspective, there is no reasonable argument for placing restrictions upon quota trade and upon the restriction that permits be tied to the land. Simply stated, these restrictions do not allow producers the ability to optimize their farm resources. They hurt farmers and the productivity of the overall system at every turn. They restrict producers from increasing their size of operation through increased costs arising from the purchase of land and buildings. They force producers, who would otherwise want to scale down their operation, to not take on other activities. In the case of the latter, they also restrict producers wishing to retire on a parcel of land by not allowing the quota to be freed from the land. There are other (non economic) reasons for restricting the trade of quota but the benefits of allowing unrestricted trade far outweigh any problems that are seemingly addressed by restricting trade.

Maximum Level of Permit Allocations and Industry Growth
The current maximum allocation for permit under the Small Growers Program (500 birds/week per individual farm) is unduly restrictive for industry sectors experiencing growth. As a case in point, several producers that were grandfathered into the program received permit allocations well over 3,000 birds per week (some over 9,000 birds per week) to produce specialty chicken. If a particular sector is experiencing growth, then it is

[7] To set up such a system required years of research (including in-depth cost analysis) and development – at great cost to the Canadian public.

in the chicken industry's and public's best interest that permit allocations reflect that growth and not be restricted to 500 birds/week or, more specifically 50,154 kg per year per producer.[8] When demand for organic chicken increases, it makes little sense to forbid current organic producers from increasing their production beyond the arbitrary (and possibly non-economic) level of 500 birds per week and to allow only new producers to enter into production.

Considerations:

1. Due to the severe drawbacks of the Chicken Marketing Board's programs, the simplest and most cost-effective solution would be to exempt certified organic producers from the BC chicken supply management scheme. Organic producers (or the COABC) would report organic production numbers to the board on an annual basis; however, that would be the only requirement.

   This solution meets the needs of the chicken board regarding its reporting responsibilities to the national agency. At 0.2% of total chicken production in the province, exempting organic chicken producers from the board's programs will not impact the producers of conventional chicken – nor the value of their quota. However, should the market for organic chicken grow significantly and reach 3 - 5% of the total market for chicken in BC, the board could consider reviewing and revising this arrangement in collaboration with the COABC.

2. Another option would be to revise the current Small Growers Program in the following manner:
   - Establish a legally binding guarantee that ensures permit holders will receive quota at the end of 12 years;
   - Ensure that permits are transferable;
   - Allow existing organic producers to enter the program;
   - Existing organic chicken producers who are producing over the current small grower permit level are to be grandparented;
   - Increase the ceiling for maximum production levels (ie. 500 birds/wk) to reflect market growth.

   The second option is less desirable than the first (exemption) for organic producers for obvious reasons, however, organic producers would receive quota -- guaranteed production rights, for their investment (fee payments) at the end of 12 years.

3. A third option would be for the chicken board to allocate a block of production rights to the organic chicken sector, based on cumulative current production levels and expected market growth. Producers would apply for a yearly permit, based on their projected production levels, and pay a nominal fee that reflects the costs of administration by the Chicken Board. The board would not offer any services except that of providing permits to certified organic producers – the board would not set prices; rather, the organic producers would continue to negotiate their own prices with processors, distributors, retailers and farm gate customers.

[8] The board calculates production levels in kilograms rather than in bird numbers since weights/bird can vary tremendously, particularly in the specialty markets; thus, total allowed production under the permit program is limited to 500 birds/wk x 1.929 kg/bird x 52 wk/yr = 50,154 kg per year – which equates to 20,471 organic birds per year, each bird weighing 2.45 kg .

Permits for organic production would be renewable on a yearly basis. If a permit allocation is underutilized or a producer decides to no longer produce organic chicken then the unused permit allocation or the entire allocation would revert back to the board for redistribution to certified organic producers awaiting initial permit and/or an increase in their production levels. A producer who loses his/her organic certification status must return the entire allocation to the board for further distribution.

This option would appear to be the least desirable of all of the options since the organic sector would relinquish control to the chicken board and, after paying a fee, albeit nominal, there is little gained for the investment (ie. no quota or guaranteed production rights). This option leaves the organic sector in a vulnerable position.

An over-riding concern regarding the chicken marketing board (and indeed, all of the boards) is that the board members are elected by the conventional producers. Boards consisting of conventional producer members (most of whom hold large amounts of quota) are unlikely to make sound decisions regarding organic production that are in the best interests of the public and the organic sector. Thus, exempting organic production from the provincial chicken scheme is the best solution to this problem. Consideration should also be given to establishing an Organic Advisory Committee that will provide expert advice to the marketing boards and commissions regarding all matters dealing with the organic sector. The Organic Advisory Committee will work collaboratively with the boards and report directly to BCFIRB.

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In addition, it is suggested that any supply management program dealing with the BC organic sector (including “Exemption”) be restricted to organic producers certified under the BC Certified Organic Program which is administered by the COABC. As a government-sanctioned administrator, the COABC ensures that certifying bodies within its program and their clients are adhering to the province’s strict organic production standards. Other out-of-province certifiers cannot guarantee this level of compliance to standards. Therefore, it is in the best interest of the organic sector and public to have the program restricted to producers certified by COABC accredited certification agencies.

APPENDIX 1

An analysis of differential costs and revenues

Information used in the following cost analysis is based upon producer surveys, previous cost of production estimates conducted by the BC Ministry of Agriculture Food and Fisheries (BCMAFF), as well as industry representatives. Readers are cautioned on quoting the absolute values of these cost figures given the scope and nature of the analysis, particularly since the intention was to analyse the areas where the costs of production differed significantly between organic and conventional production.

Costs:

Production Parameters:

Table 1 presents a summary of general production parameters and input costs for both conventional and organic chicken production. These figures were obtained from various sources including BCMAFF publications, individual producer surveys, local hatcheries, and local feed mills. Readers should note that, with the exception of chick costs, these parameters are assumed not to be sensitive to the size or scale or operation.

Table 1: General production parameters and input costs

		Conventional	Organic
Barn density	sq ft/bird	0.67	2.0
Feed conversion	kg feed/kg live	1.87	2.35
Average weight at sale	kg	2.00	2.45
Feed Costs	$/tonne	275	610
Cycle length[9]	Weeks/cycle	8.0	10.0
Cycles/year	#	6.5	5.2
Barn Cost	$/sq ft	7	7
Volume	kg/year	13.00	12.74
Chicks	$/chick	0.58	0.58

Feed:

Feed cost estimates were based upon the parameters presented in table 2 below. Feed costs were obtained from a survey of individual organic producers and from a survey of feed companies engaged in the sale of conventional feed. Feed conversion ratios, which indicate the amount of feed converted into live weigh per chicken were obtained through a survey of individual producers as well as through conversations with local hatcheries[10].

[9] An average conventional chicken is sent for processing at 5 weeks weighing 1.929 kg as compared to an average organic chicken which is sent for processing at 8 weeks weighing 2.45 kg. Barn cleaning and set up takes 2 – 3 weeks, and then a new cycle begins. Thus the average number of weeks per cycle for conventional production is 8 weeks as compared to 10 weeks for organic production.

Table 2: Feed Cost Parameters

	Conventional	Organic
Feed costs ($/tonne)	275.00	610.00
Feed Conversion ratio (kg feed/kg live weight)	1.87	2.35

On the basis of the above parameters, feed costs were estimated as $0.51 per kg of live weight for the conventional operation and $1.43 per kg of live weight for the organic operation.

Labour:

Labour cost indicators per kg of live weight for conventional production were obtained from BCMAFF publications. The indicator used by the BCMAFF for conventional labour costs is 200 hours per cycle for 50000 chickens. At a wage cost of $11 per hour[11], and an average live weight of 2kg for a mature conventional chicken, the labour cost per kg for conventional production is estimated to be on the order of $0.02/kg.

Organic chicken production is subject to longer cycles. In particular, where an average conventional chicken is sent for processing at 5 weeks, an organic chicken is sent for processing at 8 weeks. Accordingly, the average weight for organic chicken sent for processing is approximately 2.45 kg as opposed to the 2 kg for conventional chicken. The researchers were told by organic producers that one employee, at a salary of $37000, could manage an organic operation of 200,000 chickens per year. [12] Using these figures, the cost of labour per kg for organic chicken was calculated as $0.08/kg. Smaller organic producers have larger wage costs per kilogram for a number of reasons. For instance, the total time required for barn cleanup and setup may not be significantly different in terms of total hours spent between various scales of operation. Yet, on a per kg basis, conventional operations may have a significant labour cost saving advantage due to larger scale. Moreover, unlike conventional producers, organic producers are required to devote labour time to the maintenance of outdoor areas as well as time in facilitating the movement of chickens in and out of the barns.

Barn Costs:

This cost analysis uses a hypothetical production unit of 15000 chickens per cycle for conventional production and 5250 chickens per cycle for organic production. Organic certification standards are 2 square feet per chicken and an industry standard for the conventional sector of 0.67 square feet per chicken.[13] Therefore, a 15000 chicken/cycle conventional operation would involve a barn of a size that is equivalent to a 5250 chickens/cycle organic operation. The choice of the 15000 chicken/cycle conventional unit was on the basis of conversations with various producers who indicated that 15000 chickens/cycle is a minimum optimal size (although it is smaller than average farm size in BC). It is recognized that most organic producers are not producing as much as 5250 chickens per cycle. In order to understand the nature of differential costs and returns, the optimal conventional size was used as a basis for reference.

[11] The going farm wage is estimated at $11 per hour. Any premium over and above this wage rate for managerial/proprietor expertise will be reflected in the profit of the operation.

[12] This figure is hypothetical since no organic producer operates at this level of production, plus it is very difficult to calculate the labour required for organic chicken production because most organic farmers produce other agricultural products at the same time.

[13] Organic standards were obtained from COABC documentation. Conventional standards were obtained from the Chicken Marketing Board.

An industry standard for building costs is $7 per square foot. With an average barn life of 25 years, a barn size of 10500 square feet, and a rate of 10% (sum of the depreciation rate plus the cost of capital)[14] an annual cost for the barn is estimated at $0.02 per kg of live weight for conventional production and $0.06 per kg of live weight for organic production.[15]

***Land Costs**:*
Survey results indicate that bare land is currently renting for approximately $1500 per acre in the Fraser Valley. Conventional production does not require any land over and above the land required for the housing of the barn. When converted to a per kilogram basis, the cost of land is negligible for a conventional operation.

Organic certification standards require 1.2 square feet per bird of outdoor pen space.Therefore, an operation of 5250 chickens/cycle requires 0.14 acres of land plus 0.24 acres of land for the barn (2.0 square feet per bird). At a rental rate of $1500 per acre, and a final live weight of 2.45 kg, the annual cost of land for organic production is $0.01 per kg of live weight. Organic operations incur additional costs for fencing but that these costs are very small when converted to a per kilogram basis.

Utilities:
In 1998, BCMAFF had estimated the cost of utilities for a conventional operation at $0.02 per kg of live weight. This estimate was multiplied by 10% in order to arrive at a reasonable estimate of current utility cost in the order of $0.022 per kg of live weight. The choice of 10% reflects the average increase over the past six years in the cost of electricity and natural gas.

1. There is a wide range of views on the actual cost of utilities for an organic chicken operation, however, the researchers were unable to obtain specific information on utility costs from organic producers. Some organic producers claim that their utility costs are ten times greater than conventional operations. Others have claimed that the differential is closer to four times. There is good reason to believe that organic producers face higher utility costs. This is largely due to smaller densities (less total body heat generated) and certification standards that require the barn doors be opened frequently in order to allow for pasture of the flock. Given the lack of adequate figures, the researchers simply estimated that the utility costs in organic production are six times that of a comparable conventional operation.

Chick Costs:
According to the Lilydale Hatchery, a representative price for chicks is 58 cents per chick. There is no difference between the type of chick used in organic production and the type that is used in conventional production.

One item to note, however, is the current restriction that has been placed upon the local hatcheries by the Chicken Marketing Board. In particular, the board has restricted the local hatcheries from making sales to unregistered chicken producers. This has resulted in organic producers importing chicks from Alberta or Washington State which can cost as much as $1.40 per chick, including freight.

Despite this current disadvantage, it is assumed that there are no differences in chick costs for the purposes of this report. Indeed, this would be the case if organic production were recognized within the supply-managed system and as such, purchases from local hatcheries

[14] Adding together the depreciation rate of 4% and a 6% cost of capital gives the long run total cost of capital.

were permitted. On that basis, given the difference in the number of cycles per year and the final live weight of the chickens, chick costs were estimated as $0.31 per kg of live weight for conventional production and $0.26 per kg of live weight for organic production. Readers may wonder how the cost per chick can be cheaper for organic producers given that all other costs and production methods are more expensive. The intuition lies in the fact that organic producers have higher final weights for their chickens (2.45 kg versus 2.00 kg).

2. One issue that is noteworthy is the existence of seemingly higher mortality rates and condemnations for organic chicken. Organic producers say that their mortality rates and condemnations are ten percent higher than conventional rates. One explanation for this differential is that conventional producers medicate their flock continuously throughout the cycle leading to lower condemnations at the processing plant and less incidence of flock mortality within the cycle. It is not uncommon for a whole organic flock to be condemned once in every ten cycles. The organic chick costs have been increased by 10%, in order to account for this increased mortality and risk.

A summary of the estimated costs is presented in table 3 below.

Table 3: Summary of estimated costs per kg live weight

		Conventional	Organic
Feed Costs	$/kg live weight	0.51	1.43
Labour Costs	$/kg live weight	0.02	0.08
Barn Cost	$/kg live weight	0.02	0.06
Land Cost	$/kg live weight	0.00	0.01
Utilities	$/kg live weight	0.02	0.13
Chicks	$/kg live weight	0.31	0.29
Total	$l/kg live weight	0.88	2.00

Revenue:

According to the Chicken Marketing Board "Pricing Order for Chicken" dated December 8, 2003, the minimum farm gate price paid to producers by processors was mandated at $1.2395 per kg of live weight for broilers in the weight class of 1.82 kg to 2.73 kg.

The Chicken Marketing Board does not mandate prices for organic chicken. The surveys indicate that an average price received by an organic producer selling directly to a retail chain is in the order of $6.70 per kg of dressed weight.[16] Moreover, when sold directly to the consumer at the farm gate, organic producers are reportedly receiving $8.80 per kg of dressed weight.[17] It is difficult to compare dressed weight prices for product sold at retail with live weight prices of product sold to processors that are mandated by the Chicken Marketing Board. The researchers applied the following procedure in converting dressed weights to live weights for organic chicken.

[16] 'Dressed' weight indicates the weight after processing and is distinct from 'live' weight, which is the weight of the bird at the time of processing. Organic producers have stated that the conversion from live weight to dressed weight is 62%.

[17] The average retail price of previously frozen (whole) organic chicken at Capers is in the order of $11 per kg.

3. Using the 62% conversion rate, a dressed weight price of $6.70 per kg is equivalent to a live weight price of $4.15 per kg. The 62% conversion rate was provided by at least two organic producers.
4. All organic producers currently ship their flock to processors for custom processor runs. Unlike conventional producers who are guaranteed a sale through a processor, organic producers must find their own processor, wholesaler and/or retailer. Given certification standards, processing of organic chicken must be conducted under strict standards that differ from conventional processing. According to organic producers, the average cost of custom processing is on the order of $2.50 per chicken plus $0.30 per chicken for the packaging cost. In addition, organic producers must pay for the return cost of transportation that we are told is on the order of $0.25 per chicken. On a per kg basis of live weight, this cost of processing is on the order of $1.25 per kg of live weight.
5. Given the live weight price of $4.15 per kg less the processing costs of $1.25 per kg, it is estimated that the average price received by an organic chicken farmer is in the order of $2.90 per kg of live weight.

Differential Returns

The analysis indicates that the cost of production for an organic chicken farmer is approximately 2.25 times the cost of production for a conventional producer, while it is estimated that the price received by an organic producer is 2.3 times the price received by conventional producers.

Table 4 summarizes estimated costs and revenues with the intention of shedding light upon the nature of the differentials between organic and conventional chicken production. The figures presented in the tables should not be taken as absolute values.

Table 4: Summary of differential costs and returns

	Units	Conventional	Organic	Differential
Estimated Costs	$/kg live wt.	0.88	2.00	**1.12**
Farm Gate Price (adjusted to live weight basis)	$/kg live wt.	1.24	2.90*	**1.66**
Estimated Differential Return	$/kg live wt.	0.36	0.90	**0.54**

*Estimated through producer information

In comparing the differential returns, one needs to be careful in the interpretation of the price received by the average organic producer. Unlike conventional producers who receive a price that is mandated by the Chicken Board, the price negotiated by organic producers is inclusive of their role as a primary producer, processor, distributor and marketer of organic chicken. As such, it would be reasonable to expect that these producers should realize a return on their time and investment in their activities that extend past their role as primary producers of organic chicken.

Appendix B - A Model for Organic Supply-managed Dairy Production in BC

Prepared by S.Kassam/R. Barichello April 2004

Executive Summary

There are four organic dairy producers currently engaged in the production of organic fluid milk and organic cheese within the supply managed system and two within-arms length processors that are involved in the processing of organic fluid milk and other organic industrial product (e.g., yogurt, sour cream, cheeses). Our focus in this brief is to present options and arguments to assist the industry to respond effectively to the demand for organic milk and milk products as well as assure that there is a sustainable economic base for organic milk production. Our analysis of organic production in those commodities that are regulated by supply management has shown that there are a number of organic producers who favour an exemption from the supply-managed system. However, legal barriers to such an option appear to be considerable, if not insurmountable, even though the degree of substitutability among conventional and organic products may be relatively low in some markets. We proceed, therefore, to find workable avenues for organic production to exist within the supply managed system that minimize the potential for friction between organic and conventional producers.

The current organic milk producers were granted licenses on the basis of products that were deemed to be innovative and non-competitive to products that were already in existence within the market place. These organic products are still innovative, have a strong market following, and provide a source of further growth to an industry that has generally faced stable demand for its product over the past decade. The investments made by these organic producers in creating a market for product that did not previously exist benefit the entire dairy industry.

Our suggested options address the differences in production costs between organic and conventional production. We begin by attempting to measure the differential in the cost of production between organic and conventional milk. We find, as in our other studies of the feather industries, that organic production is significantly more expensive than conventional production. In the case of organic milk, we find that organic milk production costs are approximately fifty percent higher than conventional costs of production. In litre terms, the cost of producing organic milk at the farm level was found to be approximately 30 cents per litre higher than the cost of producing conventional milk. Our cost estimates have been derived on the basis of discussions with all four of the organic dairy producers as well as with the input of a recent BCMAFF study that analysed the costs of transition from a conventional dairy herd to an organic herd. We further note that we have largely limited our analysis of costs to those inputs that are deemed to be significantly different in the amount of application as well as input cost. This cost differential between organic and conventional exists largely as a result of higher feed and labour costs, higher shipping costs, as well as a lower production levels per cow for organic operations.

We also find that there is currently a mandated price premium for organic milk that is shipped to the arms length processors of thirty cents per litre. It turns out, perhaps fortuitously, that our cost differential estimate is equal to the price premium. Given that the extra costs are covered by the price premium for organic milk, we were left with the question of why more current conventional producers have not shifted at least a portion of their herd to organic production, or why new organic producers have not entered the industry. We suspect that this premium does not provide enough of a margin to cover organic production costs plus the non-trivial costs of the transition to organic production and

the extra costs of milk product marketing and distribution that is presently on the shoulders of existing or would-be organic producers. In the case of marketing and distribution, these extra costs relate to the costs of securing access to processors, costs that are related to finding a market for organic milk products, and costs involved in finding new processors and/or retailers in case of bankruptcies within this chain which are possible with so few players in this chain.

There are three key issues that must be dealt with, in our view, to generate an organic milk sector that is economically healthy and sustainable. First, the existing Domestic Dairy Product Innovation Program (DDPIP) allocations that were granted by the Canadian Dairy Commission (CDC) for certain organic dairy products remain unclear as to who has the long term property rights to that quota. Producers believe that those allocations should rightfully revert to the organic producers who have operated in good faith and who have helped to develop the market for their organic products. In addition, these allocations have not disadvantaged existing producers because they very likely would not have been granted to anyone else in the province. If these allocations are not made permanent to those producers, the risks are that they will not continue producing for this market, and newcomers will have little incentive to enter under these programs with such insecure and brief property rights.

Second, it appears that the future of organic milk production depends upon organic producers gaining some kind of privileged access to milk quota as long as profitability remains at its current level relative to conventional milk production. Current returns appear to be insufficient to compensate organic producers for the extra costs and risks that are involved, both on the production and marketing sides. Our cost and revenue estimates support this conclusion and to confirm it, we observe that there are no new farmers entering this market segment. The easiest method of providing such privileged access to milk quota is through a block allocation, defining an “organic milk quota.” This has the advantage of providing for sustainable organic production into the future. An alternative method, providing quota on a favourable rental or lease basis, has been proposed but when this favourable rental period runs out there would be no organic producer able to bid profitably for conventional quota if current levels of profitability are maintained.

Initially this block of organic quota would be provided for by the existing DDPIP allocations. Future allocations could come from three possible sources. One would be further allocation from the national agencies if programs such as DDPIP continue to operate. A second source would be for organic quota to be increased as consumption of organic products increases. This would be in line with existing practice in conventional quota markets where market growth is usually allocated pro rata among existing producers. The third source could be from purchases of conventional milk quota by organic producers, but the feasibility of this option will depend on the organic price premium.

Third, the pricing premium for organic milk (the margin above the conventional milk price) is a critical variable for an organic milk sector that is viable in the longer term. Few would argue against the notion that the smallest possible premium on organic milk will help to “grow the market” for this product. However, it must also cover the higher production costs, the transitional cost from conventional to organic standards and the successful marketing of that milk. Further, if the demand for organic milk products continues to grow, there must be a mechanism by which new quota can be obtained by the organic sector as noted above. One avenue is through purchases of conventional quota, and for this to be financially viable the organic milk premium should be market determined. This premium could be overseen by the Board, but it must be flexible and move up and down with supply and demand. If this does not happen, and if the level of organic milk profitability falls, such

as due to increased organic costs with a fixed price premium, then organic production levels will not meet existing or increased market demand. If the level of profitability rises, such as due to falling organic costs and a fixed price premium, then the organic market will be constrained by overly high organic prices. By some mechanism, the buyers and sellers of organic milk must be involved in the determination of this price.

Our study has also uncovered the existence of potential processors and distributors of organic milk products within the province who find the current premium of 30 cents per litre uneconomic for the purposes of producing and marketing specialty organic milk products. This raises the question of whether the current cost structure will change in the future. This should be expected, and if certification requirements stay the same, one would expect both production and marketing costs to decline as the organic segment matures and expands. This will be due to learning and added competition in input supplies and marketing.

With such changes almost certain to occur, it is important to keep the regulations, particularly pertaining to quota, as flexible as possible. One example where flexibility is important is in terms of the location and size of production unit. Specifically, organic quota should not be fixed to particular farms or regions, but should be allowed to trade among both farms and regions. To allow differently will make the industry less flexible and less efficient in the longer term, will make it more difficult for new entrants to enter the industry and will raise costs to all other parts of the marketing chain. It will also ignore the lessons of several marketing boards that have tried such regionalization measures, as well as tying quota to certain farms, and abandoned them. If one region wants to develop its own unique brand or product, it is free to do so by advertising the merits of local products to attract consumers to them.

Analysis of estimated costs and returns in the fluid milk sector

In conducting our analysis of estimated revenue and costs for the dairy sector, we have made extensive use of a recent publication by the BC Ministry of Agriculture, Food and Fisheries (BCMAFF). This publication was particularly useful in obtaining parameters for cost of production in conventional and organic production. We realize that this is not a cost survey but a consensus report and is intended to give a rough indication of costs, as opposed to being precise, but it is still valuable as a benchmark. We have corroborated many of these parameters with existing producers and have extended the analysis of the BCMAFF study by including annual estimates of capital costs in order to derive a rough estimate of the returns per litre of milk in both the organic and conventional sector.

Revenue:

Our analysis on returns is based upon the parameters presented in table 1 below. We note that the production parameters are based upon Holstein production and are likely not indicative of production from Jersey cows.

Table 1: Production and price parameters

	Conventional	Organic	BCMB price
		$/hl	
Annual Production/cow (hl)	85.00	69.50	n/a
Butterfat (kg/hl)	3.68	3.68	$4.78
Protein (kg/hl)	3.29	3.29	$10.73
Other Solids (kg/hl)	5.54	5.54	$1.46
Organic premium ($/hl)			$30.00

Based upon the parameters presented in table 1, revenue per litre of milk production is calculated as shown in table 2 below. Given our intention to uncover the differential

returns between organic and conventional milk production, we have incorporated the differences in yields between organic and conventional production into the cost side of our analysis. Readers should, therefore, note that we have not ignored the differences in yields but have simply deferred their implications upon differential returns to the cost side of our analysis.

Table 2: Revenue per litre of milk production

Returns:	$/cow conventional	$/cow Organic	$/litre	$/litre conventional	Organic
Butterfat	-	-	0.18	0.18	
Protein		0.35	0.35		
Other Solids			0.08	0.08	
Premium			-	0.30	
Total Returns from milk sale ($/litre)				0.61	0.91
Livestock Sales	279.33	207.33	0.02	0.01	

The item for livestock sales represents the bull calves and heifers that are sent to market. Organic producers have informed us that due to a small market for organic heifers, organic operations retain a higher number of heifers in their herd as a contingency against unforeseen mortality or injury in the milking herd. Therefore, we have assumed a 30% replacement rate for conventional production and a 40% replacement rate for organic production. We have valued bull calves at $250 each and heifers at $600 each. Some may argue that given the current environment owing to the recent 'mad cow' incident there is no market for bull calves. However, we anticipate that, in time, the value for bulls at market will fetch a positive return. Our figure of $250 is based upon the values that bull calves were receiving at market prior to the 'mad cow' incident.

Variable Costs

Labour:

Our estimates for labour costs are based upon the estimated hours of labour required from the BCMAFF Planning for Profit document. These are shown in table 3 below. We note that these figures implicitly assume that the differences between labour required for conventional operations versus organic operations are due entirely to the nature of organic production which require extra labour in bedding/manure removal, composting of manure and in general herd health/breeding. We use the figure of $15 per hour as the general wage rate and note that any premium over this wage rate for proprietor expertise is embedded in the profit from the operation. As an aside, we note that the BCMAFF study had used a wage rate of $10 per hour. We feel that $15 per hour is a more appropriate rate and is consistent with the rate being paid by current dairy producers for skilled labour.

Table 3: Estimated hours of annual labour required

Type of Task Completed	Conventional Operation		Organic Operation	Difference
Feeding	728	728	0	
Milking	1456	1456	0	
General Maintenance	120	120	0	
Manure spreading	120	120	0	
Bedding/Manure removal		1460	2190	50%
Composting	0	156	N/a	
Herd Health & Breeding		252	384	52%
Total Annual Hours	4136			5154

25%

We include the employer's Canada Pension Plan contributions of 4.95%, the Employment insurance contributions by the employer of 1.4 times the employee contribution of 1.98% and the Workers compensation board contribution of 3.41% on the employee's earnings. The addition of these extra wage remittances (over and above the gross wage expense) results in an annual labour expense of $919.28 per cow for a conventional operation and $1145.55 per cow for an organic operation. We note for clarity that the conversion per cow estimate was performed based upon our model farm of 75 milking cows.

Feed:
Our feed cost estimates are based upon the parameters shown in table 4.

Table 4: Feed cost parameters

	16%							
Ration								
Forage								
Minerals								
Salt								
	(tonne)	$/tonne	(tonne)	$/tonne	(kg)	($/kg)	(kg)	$/kg
Conventional	248.77	270.00	470.21	150.00	500	0.90	500	0.90
Organic	206.03	490.00	470.21	180.00	500	0.90	500	0.90

In constructing this table we have made the following assumptions:

The cost for organic forage is based upon our conversations with organic farmers who suggest that organic forage is 20% more costly than conventional forage if purchased on the open market. The consumption figures in table 4 were adopted from the BCMAFF study. Our summary table (table 9) includes a feed cost estimate for calf starter and milk replacer. For conventional production, this estimate is derived from consumption of 468kg of milk replacer and 12 tonnes of calf starter . We derive organic production estimates by noting that the average consumption per heifer calf is 4 litres per day of fresh milk plus 2 lbs of grain per day for 42 days. We have taken the cost of the fresh milk as the price per litre received for organic milk production and as shown in table 2. This price represents the opportunity cost of selling the milk as opposed to providing it to the heifer calf in lieu of using powdered milk as a substitute. We note that under organic production, calf starter is not a valid alternative to fresh milk. These feeding parameters were obtained from the BCMAFF study.

On the basis of these parameters and assumptions, we have estimated feed costs per milking cow (75 milking cow model) as $1903 for a conventional operation and $2625 for an organic operation.

Freight:
We have been informed that the two organic producers who ship to the organic fluid milk market pay for dedicated loads when shipping to their exclusive processors. The figures that were provided to us indicate that these two organic producers pay $5.58 per hectoliter to ship their organic milk whereas conventional producers in the Fraser Valley pay $2.00 per hectoliter for shipping their milk.

Veterinarian Expenses:
Our cost estimates for Veterinarian expenses are taken directly from the BCMAFF Planning for Profit calculations and include the cost of vaccinations and other veterinarian services. We note that in the BCMAFF cost estimates, there is no difference in the cost per cow between conventional and organic production. We had initially conjectured that the costs for veterinarian services in organic production should be lower than conventional operations given the strict certification standards that mandate against certain medications and practices. Yet, discussions with various producers would suggest that organic production has other distinct needs for veterinarian services. We have, therefore, left the estimate of $115 per milking cow as the estimate for both organic and conventional production units as was done in the BCMAFF study.

Other Variable Costs:
All other variable costs have been taken from the BCMAFF publication and are detailed, along with the above costs in table 5 below. For the sake of brevity, we have not included a discussion of these other variable costs and refer readers to the BCMAFF publication for further information on their derivation. We remind readers that the conversion to a per cow basis in table 5 was computed on the basis of 75 milking cows.

Table 5: Variable Cost Estimates ($/milking cow)

Variable Costs:	Conventional	Organic
Labour	674.14	755.92
Feed:		
-concentrate	896.40	1347.50
-forage	940.50	1128.06
-minerals/salts	7.50	7.50
-milk replacer & calf starter	59.00	104.46
Repair and Maintenance	225.00	225.00
Veterinarian Expense	115.00	115.00
Utilities	90.00	90.00
Cleaning Supplies	80.00	80.00
Tractor maintenance	72.00	83.00
Bedding	40.00	80.00
Pasture Irrigation	37.00	37.00
Total Variable Costs ($/cow)	3236.54	3941.12

When converted to a per litre basis, our variable costs have been estimated as 43 cents per litre for conventional production and 70 cents per litre for organic production. These per litre figures include the differential cost in shipping fluid milk that is in the order of 3.8 cents per litre.

Fixed Costs:
Our estimates for annual fixed costs per cow were derived on the basis of the parameters presented in table 6. These parameters were obtained from the BCMAFF publication, and are based upon a model farm of 75 milking cows.

Readers should note that unlike the egg and chicken sectors, certification standards in the dairy industry do not place any restrictions on density per barn or cows per unit of open land. Therefore, it is reasonable to expect that for similar herd sizes, the expenditure on capital costs should be the same between conventional and organic production units. Indeed, even in the case of the standard that organic cows must be allowed at least 120 days of open pasture per year, the barn size must be able to accommodate the full herd

during periods of inclement weather. Therefore, there is no reason to expect that organic barns be of a smaller size than comparable conventional production units. Similarly, it is reasonable to expect that all other capital asset expenditures do not differ between organic and conventional production units. Where they do differ, however, is in terms of the cost contribution of the asset per unit of milk produced (due to lower production per cost from organic farms). We account for this differential in production when we convert our cost estimates from a per cow basis to a per litre basis.

Table 6: Replacement cost of capital assets

Asset	Conventional ($)	Organic ($)	Estimated Life (yrs)
Herd	208,800	214,200	N/a
Buildings	300,000	300,000	25
Tractors	45,000	45,000	6
Small Tools & Implements	38,000	38,000	10
Vehicle	20,000	20,000	6
Milking equipment	150,000	150,000	10
Augers/Loaders	4,000	4,000	10
Generator	5,000	5,000	10
Fencing and Irrigation	26,560	26,560	15
Total	797,360	797,360	

Herd Value:
Our estimate for annual costs are based upon the following herd numbers and values that have been quoted in the BCMAFF study.

Table 7: Herd parameters and Herd Values

	Milker	Dry Cow	Bred Heifer	Open Heifer	Heifer Calf
Conventional (#)	75	12	18	8	26
Organic (#)	75	12	18	8	35
Value ($)	1800.00	1800.00	1500.00	1200.00	600.00

In order to derive a yearly cost for this capital asset, we simply use the interest costs on the total value as the yearly cost. We have accounted for the sales revenue opportunities on the animal side by including the sale of bull calves into the revenue section of our analysis. Depreciation, in terms of aging stock, is implicitly taken care of through the replacement of the herd by the rearing of the heifer calves that are born and reared. Using a value of 5% as our interest rate, the annual (interest) cost of the herd is calculated as $139.20 per conventional milking cow and $142.80 per organic milking cow.

Buildings:
We assume a 25 year life for barns and other buildings. Straight line depreciation over the 25 years would result in a rate of 4% per year, to which we add a real interest rate of 6%.

Adding the depreciation rate of 4% with the opportunity cost of capital (6%) gives us the long run annual user cost of capital. Applying this annual user cost to the value of the buildings yields a per cow estimate of $436.18 per cow per year.

Land:
We have assumed, based upon our discussion with both organic and conventional farmers, that one acre per milking cow is a reasonable approximation. A survey of recent bare land sales suggests that larger plots of land, 40 acres and above, fetches an average value of $10000 per acre. On the basis of this figure, and given that we have been unable to obtain an accurate estimate on the rental cost of 75 acres of bare land, we calculate the interest costs on an acre of land as $500 per year. Given our assumption of one acre per milking cow, this figure also represents our annual cost for land per cow.

Other Fixed Costs:
All other fixed costs have been calculated as in the case of buildings:
We obtain our depreciation rate by dividing the capital asset equally over its estimated life, as shown in table 6. So, for instance, in the case of the tractor, the rate is 16.6% (100/6). To this straight-line rate, we add a real interest rate of 5%. We multiply this cost of capital rate (depreciation plus real interest) times the market value of the asset. Assuming no salvage value for the asset, the market value of the asset, on average, will be equal to half the purchase value of the asset. For the sake of simplicity, we assume that the current market value is one half the value of the replacement cost.

Table 8 summarizes our annual fixed costs on a per cow basis. When converted to a per litre basis, our estimates indicate that fixed costs are on the order of 14 cents per litre in conventional production and 18 cents per litre in organic production. To reiterate, the differences in per litre costs are due to the difference in productivity (yield per cow) between an organic and a conventional operation.

Table 8: Summary of Fixed costs

Fixed Costs:	Conventional	Organic
Herd Value	139.20	142.80
Buildings	436.18	436.18
Land	500.00	500.00
Tractors	63.00	63.00
Small Tools and Implements	27.87	27.87
Vehicle	34.67	34.67
Augers/Loaders	4.00	4.00
Generator	5.00	5.00
Irrigation and Fencing	20.36	20.36
Total Fixed Costs ($/cow/yr)	1230.28	1233.88

Returns
Table 9 summarizes our estimates of revenues and costs and calculates the estimated differential returns per litre of milk for both organic and conventional producers. We reiterate again that our intent was not to obtain absolute values on the costs of production for organic and conventional milk. Rather, our interest was based upon an understanding of the differential returns between organic and conventional milk production. We suggest, based upon our figures, that there is a fairly significant difference in the returns between organic and conventional milk production. However, we note that the 30 cent per litre premium currently applied to organic fluid milk may be enough to offset the higher direct production costs, but may not be enough to offset the costs related to transition between conventional and organic production, and incremental marketing costs. On that note, we

highlight our inclusion of the costs that are related to organic certification in table 9. This figure includes the costs of COABC certification in the amount of $1750 per year as well as added costs that relate to organic certification requirements for seeking out non-GMO statements, maintaining specific audit trails, as well as other organic management requirements. We have estimated these extra management costs by assuming that organic producers spend an extra hour per week on these specific duties at a conservative rate of $30 per hour and add this figure to the certification fees of $1750.

Table 9: Estimated Returns from Conventional and Organic Milk Production

Returns:	$/cow conventional	$/cow organic	$/litre	$/litre conventional	$/litre Organic	Differential
Butterfat	-	-	0.18	0.18		
Protein		0.35	0.35			
Other Solids			0.08	0.08		
Premium			-	0.30		
Livestock Sales (bulls)		143.33	143.33	0.017	0.021	
Livestock Sales (heifers)		136.00	64.00	0.016	0.009	
Total Returns			0.64	0.94	0.30	
Variable Costs:						
Labour	919.28	1145.55				
Feed:						
-concentrate	896.40	1347.50				
-forage	940.50	1128.60				
-minerals/salts		7.50	7.50			
-milk replacer & calf starter			59.00	141.02		
Repair and Maintenance			225.00	225.00		
Vetrinarian Expense	115.00	115.00				
Utilities	90.00	90.00				
Cleaning Supplies		80.00	80.00			
Tractor maintenance		72.00	83.00			
Bedding	40.00	80.00				
Pasture Irrigation		37.00	37.00			
Freight costs	-	-	0.020	0.058		
Total Variable Costs	3481.68		4480.17		0.430	0.703	0.27
Fixed Costs:						
Herd Value	139.20	142.80				
Buildings	436.18	436.18				
Land	500.00	500.00				
Tractors and Vehicles		97.67	97.67			
Small Tools and Implements		27.87	27.87			
Augers/Loaders/Generator			9.00	9.00		
Irrigation and Fencing			20.36	20.36		
Total Fixed Costs	1230.28		1233.88		0.145	0.178	0.03
Gross Returns	2251.40		3246.29		0.065	0.059	-0.006
Advertising Levy ($.26/kg bf)					0.01	0.01	
Administration Levy ($.16/hl)					0.002	0.002	
Marketing cost & Loss Levy:				0.03	0.03		
Organic Certification Fees				0.00	0.006		
Estimated Net Returns ($/litre)					0.02	0.01	-0.01

Current organic milk production and the sustainability of production

Four individual producers currently account for all organic milk production in British Columbia. Two of these four producers are obligated to ship their fluid milk to an arms length processor under an exclusive agreement that is to expire shortly. These two producers who are currently engaged in organic fluid milk sales to off farm processors had previously obtained production rights on the basis of a DDPIP application made by the processors (Avalon and Olympic) for the supply of organic milk in order to produce industrial milk product (cheese, yogurt, sour cream). It is our understanding that these processors were granted allocations for organic milk supply, which were outside of the existing provincial plant supply allocations. We further understand that at the time of the application being granted, there were only two organic milk producers that could provide the production to meet the allocation. These allocations were on the basis of a five year period, the expiry of which is approaching within the next year. Moreover, one of the clauses within the DDPIP regulations states "At the termination of an approved allocation, applicants should review, with their provincial milk marketing board or agency, how milk will be supplied for products developed under this program". The milk board has suggested through conversation that, upon expiry, these allocations will revert to the provincial plant supply and that any production of organic fluid milk by these two producers will have to be on the basis of quota holdings. In other words, milk board argues that these producers would have to purchase quota in order to replace the allocations that were provided to them under the DDPIP programme.

The remaining two organic producers who are currently engaged in on farm processing of organic fluid milk were provided with allocations from the Cottage Industry Programme and DDPIP. Under programme rules, participants were required to operate a dairy plant on farm and to process only that amount of fluid organic milk that was produced on farm. Shipments of organic fluid milk to the farm or off the farm were expressly prohibited. As part of the programme, these producers were provided with class "D" restricted producer vendor licences for the portion of their enterprise that dealt with processing. As in the case of the two fluid milk producers under DDPIP, there was an expiry date of five years beginning at the first month of production and this expiry date is rapidly approaching. In both cases, the Milk Board has claimed that ongoing organic milk production, upon expiry, would have to be conducted under conventional quota holdings.

Given that the Canadian Dairy Commission had previously issued licenses and allocations for the production of organic milk products as well as for the supply of organic milk outside of the conventional milk pool suggests that there is recognition of the organic and specialty markets for milk and milk products. "By encouraging such new development, the overall demand for milk is expected to increase." Moreover, the programmes under which the existing organic producers were granted licenses were based upon the explicit condition, judged by the CDC, that these allocations would not affect existing provincial plant supply allocation systems for milk or existing product markets. It is surprising, therefore, that the Milk Board would insist on having these 'restricted' and 'specific' allocations revert back into a general pool that would be proportionately disbursed among the conventional producers, none of who produce for the market to which these allocations were granted. Therefore, we can see no reason why this quota should not revert on a permanent basis to those who originally received it, particularly given that there was no diversion of milk production from the conventional sector for the production of these products. It would seem, therefore, that the relevant question is how to assign specific rights to organic milk production to individual organic producers and the right to receive organic milk by individual processors,

and not whether this quota will or will not revert to the organic producers who actually are responsible for obtaining the same.

Rights to the production of organic milk and sectoral expansion

On the basis of the preceding analysis, we argue that the current production levels of organic fluid milk and organic milk products should be grandfathered to the existing organic producers. Grandfathering these allocations to the existing dairy producers acknowledges the 'pioneering' activities of these producers who operated in good faith and this decision/allocation takes nothing away from existing quota holdings within the conventional milk sector. Some conventional producers may claim that this grandfathering of quota could result in a windfall profit through immediate sale and a subsequent re-entry by the vendor producer into the industry under a programme that is designed for entry into organic production. While we acknowledge the possible validity of the argument, such fears can be laid to rest through simple mechanisms that anticipate such actions. One of these mechanisms could be to impose a moratorium on the sale of grandfathered quota for a limited time period with the exception of clearly stated mitigating circumstances such as death or bankruptcy.

Grandfathering quota to the existing organic producers ensures a base for organic milk supply but does not address avenues for handling any growth in organic milk demand. Two options exist for handling any growth in demand. First, increased demand could be accommodated through increases in national quota as well as through programmes such as DDIP, which aim at providing an allocation of milk for the production of industrial product. Secondly, and in order to meet an increased demand for organic fluid milk as well as other organic milk products, conventional quota could be transferred to the organic sector. In the case of the latter, pricing for organic milk becomes an important issue. If profit margins are lower in one sector (e.g., organic sector) then quota will not naturally flow to it and there will be pressure for quota to move to the other (higher profit) sector. Appropriate pricing through reasonable price premiums is one good avenue for ensuring that the profit margins are the same between the two sectors and that there is no unanticipated disruption to either market sector.

Allocation Options

On the basis of our differential cost analysis, there appears to be some plausibility to the claim that organic producers cannot generate enough of a surplus, after being compensated for all of the added costs and risks, to allow for a profitable purchase of conventional quota. Therefore, if the industry is genuinely concerned about serving this growing market segment, given casual evidence of strong demand, some method of privileged access to milk quota is necessary. If no such allowance for privileged access is granted, this market will likely not be served except for the small amount of production that may be produced 'below the radar' of the boards enforcement mechanism. Such a scenario surely cannot be in the interest of the dairy industry.

In contrast to the status quo where organic producers are required to purchase conventional quota on the open market, our suggestion of privileged access to milk quota can be accomplished with at least three options.

There could be a block of quota allocated to the organic sector where it can be bought and sold among organic producers. This would create a new class of milk quota which one can refer to as 'organic milk quota'. Under such a scenario, organic quota values would be determined only by supply and demand factors within the organic sector. However, in

addition to the usual transfer and enforcement rules in conventional quota schemes, there would also have to be clear and transparent rules about how conventional producers wishing to produce organically could transfer conventional quota into the organic pool. We have, in a separate document, identified the reasons for why we believe that quota should be relatively unrestricted in its trade. Specifically, organic quota should not be fixed to particular farms or regions, but should be allowed to trade among both. To restrict quota trade, either by tying it to farm land parcels or create "regional" quota that does not trade outside the region, will make the industry inefficient in the longer term, will make it more difficult for new entrants to enter the industry and will raise costs to all parts of the organic chain. It will also ignore the lessons of several marketing boards that have tried such regionalization measures, as well as tying quota to certain farms, and abandoned them. If one region wants to develop its own unique brand or product, it is free to do so by advertising the merits of local products to attract consumers to them. This, of course, occurs now.

Second, there could be a privileged temporary allocation, such as 20 years, where for this period there is a type of 'organic milk quota', but where some fee is charged by the agency entrusted to administer the scheme. We could refer to this as a long-term quota rental option. Upon expiry of this time period, the quota would revert to the provincial allocation pool and would be open for purchase by all producers, conventional and organic. This would only work under the condition that by some means organic producers would be able to compete successfully on some kind of level playing field with conventional producers. Indeed, a time frame such as the one suggested would allow the organic dairy sector to mature and may allow for cost reductions in input supplies, primarily feed. It would also be desirable if these rental options worked like standard lease options under which there are mechanisms for allowing producers to assume the balance of lease obligations from other producers without having unfulfilled leases revert back into the pool. But, what if the profit differentials between the two sectors did not converge at the expiry of the temporary allocation? Then this option is not sustainable or attractive. Clearly, therefore, pricing issues arise here as one avenue to ensure comparable profit differentials between the two segments of the milk industry. This is only a short term solution.

Third, the CDC or the province could continue programmes such as DDPIP and the cottage industry programme where would be producers or processors apply for quota on the basis of certain criteria. In order for such an option to be feasible in terms of increasing organic production and for enticing would-be organic producers, the rules should be clear as to the reversion of production rights and quota upon expiry of the programme.

In all three cases, some consideration of a financing mechanism would have to been undertaken so as to determine who would effectively finance the stock of 'organic milk quota'. This could come from the national agencies during periods of market growth and would be in line with existing practice in conventional quota markets where market growth is usually allocated pro rata among existing producers. If there is a rental fee involved as suggested in our egg quota option, the proceeds from the rental fees could be used for buying conventional quota and turning it into organic quota. Neither of these two methods generate new organic quota at the expense of existing conventional farmers.

In the case of sectoral growth, we have been informed by organic producers that, unlike the conventional sector where increased market allocations are distributed pro rata among existing producers, it would be desirable for a portion of this increased allocation to be distributed to new (non existing) organic producers. In order to reduce any notion of nepotism or privilege we suggest that one possible avenue of accommodating new organic producers would be for the provincial milk board to distribute a portion of the increased

allocation (accruing to the organic sector) along the lines of the national DDPIP programme. Such a programme would be managed provincially and the new entrants could be chosen through a mechanism such as meeting the criteria of the DDPIP program. Various alternative or supplementary options exist, from an auction to a lottery to a temporary allocation as in the second option above.

Pricing Premiums and Processor allocation issues

We have noted that based upon our differential costing analysis, the current premium of 30 cents per litre applied to organic fluid milk is reasonable for covering direct production expenses. However, we have also noted that there are significant one-time costs involved in transitioning between a conventional dairy operation and an organic operation. Depending upon the options chosen, there could also be financial issues that relate to quota purchase and or quota lease options by new entrants into the organic sector. On the demand side, lower organic milk prices are likely to generate increased demand for organic fluid milk and industrial dairy products that are manufactured from organic fluid milk. Yet, farm gate prices must cover all production costs, transitional costs, marketing costs, as well as allow a margin for financing growth. Although we are hesitant to comment upon what a reasonable premium should be for organic milk production, one must note that the current price is not high enough to attract any entrants or increased organic production. In the end, the appropriate premium will have to be negotiated between all industry participants. Indeed, it is desirable that this premium be negotiated and revised periodically. If the organic sector is allowed to expand profitably then there is good reason to believe that the markets for organic inputs will become more competitive in the long run leading to lower input prices and lower costs. These cost savings, when passed on the consumer, will generate growth in the demand for organic milk products.

Lastly, there is the issue of how to treat the two arms length processors and their exclusivity agreements with the organic fluid milk producers. These processors have played a valuable role in building the market niche for organic milk products, yet there is much to be desired and valued in the ability for processors to compete for organic farmers' milk. We suggest that one option could be to extend the exclusivity agreements for a limited time period, over which these exclusivity agreements would be phased out. The particular details would have to be worked out through negotiations within the industry.

Summary

Our analysis suggests that the cost of producing organic milk is approximately fifty percent higher than the cost of producing conventional milk. On a per litre basis, the cost of producing organic milk is approximately 30 cents per litre higher than conventional milk. Despite an organic price premium of 30 cents per litre that is paid to organic fluid milk producers, there has been a very modest uptake of this price offer. We suggest that there is little financial surplus left to compensate organic producers for the increased costs of production, the costs of transition and other costs related to marketing, risk and growth/expansion. Indeed, all of the producers argue that they cannot afford conventional quota if forced to replace their allocations under CDC and DDPIP programme allocations. In order to stimulate increased organic milk production we have proposed three options. These include (a) a block of quota that is allocated specifically to the organic sector, reclassified as 'organic milk quota' and allowed to trade freely within the province, (b) a long-term leasing arrangement for 'organic quota' and (c) the continuation of programmes such as the Cottage Industry programme and DDPIP which are aimed at meeting the demand for industrial milk product. The first option addresses the realization that organic producers are currently unable to compete for quota on the open market for reasons that

we have highlighted. The second option pertaining to favourable rental provisions is only a short-term solution and we do not believe that it is a preferred option, as it does not provide for long term growth in the organic products sector. Our last option attempts to address this issue of long term growth by allowing federal programmes to increase the pool of organic milk production. However, this is only attractive if the rules are clear and if the allocations are indeed made to the organic producers upon expiry of the federal programmes. We have also suggested that increases in sectoral production allocations, due to increased market demand, be partially allocated to new 'would be' organic producers through some mechanism like a provincial version of the DDIP program.

In all of the cases, the pricing of organic milk is an important consideration as are issues related to security in finding processors of organic milk. It is important, therefore, to emphasize the desirability for the organic milk premium to be negotiated periodically by the organic producers and their processors and not unilaterally fixed by the board. Specifically, there is much to be desired in a pricing mechanism that is market determined. This is particularly true if the cost of production for organic milk decreases in the long run as input markets become more competitive.

All of the these sectoral expansion options are contingent upon the existing allocations under CDC and DDPIP programmes being permanently allocated to the current producers with some consideration for the arms length processors who had initially applied for two of these allocations.

Appendix C - A Model for Organic Supply-managed Egg Production in BC

Prepared by S.Kassam/R. Barichello April 2004

Introduction

This brief has been prepared in order to facilitate solutions to the problems currently being faced by organic egg producers in the province of British Columbia. In particular, its focus is to report upon the economic challenges under the current system and to suggest possible options for improvement. In order to gain a perspective on the pertinent issues, it was important to understand the nature of production costs and, in particular, the nature of the differences in production costs and revenues between organic and conventional producers. Given the scope of the project, our cost estimates may diverge slightly from true production costs. Indeed, we have sought to target only those costs for which there are significant differences between organic production and conventional production. These differences are manifested in higher organic feed costs, higher feed conversion ratios for organic layers, higher pullet costs, increased mortality among organic layers, greater land costs for organic production, lower production rates among organic layers, and differences in building and equipment costs between organic and conventional production. In sum, our analysis indicates that there are significant differences in costs between organic and conventional egg production. Excluding board levies, organic egg production is shown to be on the order of 150% more costly than a conventional egg production. Readers should note that this figure is based solely upon a differential cost analysis. That is, the figure relates only to costs that differ between conventional and organic production. The advantage of using a differential cost analysis, particularly given our scope for analysis, is that it avoids having to perform a detailed analysis of cost of production levels for both conventional and organic production. Readers should also note that our cost analysis has been conducted on the basis of COABC certification standards and may or may not apply to PROCERT certified producers.

The magnitude of this large differential in costs has two important implications. The first is that pricing at the farm gate must be consistent across all egg sizes and grades. The current pricing structure for eggs that is mandated by the British Columbia Egg Producers Association (hereafter BCEP) penalizes organic producers to the point that organic production under these prices provides for a much lower profit margin (in fact, a negative margin) than is received for conventional egg production. It places all of the increased cost recovery upon the farm gate price for large and extra large eggs and leaves the price of medium organic eggs at the same price as conventional eggs. Quite apart from dampening consumer demand for large eggs at the retail level, this pricing structure has the unintended effect of restricting cash flow for the producers at the early stages of production when medium and small eggs comprise the majority of the lay. The second implication of this BCEP mandated pricing structure, and perhaps of more importance, is that the expected price realized by the organic producers is less than the cost of production for organic eggs. If, according to the BCEP, the vision is one where the organic sector and, indeed, each of the sectors is expanding and profitable, organic producers require a sufficient margin over costs in order to continue to supply the expanding market.

Based upon consultations with grading stations and industry representatives, it would seem that British Columbia has a distinct advantage in the production of organic eggs, which is largely attributable to its favourable climate. Indeed, during these consultations we were surprised to learn that organic eggs produced in British Columbia were being shipped to national retail chains in Ontario while local (specialty) retail chains in British Columbia were having difficulty meeting the regional demand. It would seem, therefore, that there is

opportunity for growth in the organic egg sector within British Columbia. This opportunity has not gone unnoticed by BCEP and nor has it gone unnoticed by the British Columbia Marketing Board. The quagmire has been one of how to accommodate the existing organic producers and indeed new entrants into a supply management system. Existing organic producers are quick to argue, and with sufficient merit, that they have, by their own accord, fostered consumer loyalty for organic eggs. That their product is of sufficient difference in character and brand should warrant them exclusion from the supply-managed system is a central thesis. Despite merit, the arguments have been laid to rest on the basis of recent court decisions and judgments that have ruled an egg to be an egg and a chicken to be a chicken. Accordingly, there is a need for the refinement of BCEP policies that will allow a viable, profitable and expanding organic sector for egg production in British Columbia.

One policy that needs refinement is the current Temporary Licensing Quota (TRLQ) under which organic producers are allotted an organic quota to produce organic eggs with a maximum production unit of 5000 laying hens. The current scheme mandates that producers must, incrementally, over a period of seven years purchase sufficient quota on the open market in order to replace the TRLQ organic quota. Notwithstanding the fact that replacement of TRLQ organic quota with conventional quota does nothing for industry expansion, our consultations have indicated that few producers have been able to afford or to locate small units of quota for purchase. More importantly, the levies charged for the TRLQ organic quota are of a nature that few have been able to afford and for which some of the organic quota accounts are in arrears. It would seem, therefore, that in order to guarantee sectoral viability, profitability and expansion, and based upon the significant cost differentials, significant changes need to be addressed to the TRLQ system. This brief concludes with proposed guidelines and attributes for a working model that will allow the organic sector to be viable and to sustain growth in the demand for its products.

COST DIFFERENTIALS – ORGANIC V. CONVENTIONAL PRODUCTION

Based upon our analysis, cost differentials between organic and conventional egg production stem from both productivity and input price differentials. From a productivity standpoint, organic producers face lower production rates and higher rates of broken/rejected eggs. They also face higher production costs due to the increased land base required for their operations. In addition, the current levy for TRLQ quota holders adds a sizeable cost in the order of 25 cents per dozen (11 percent) to the cost of production. More importantly, however, organic producers face prices for feed that are more than double the cost of conventional feed as well as substantially higher costs of pullets that are reared to laying age.

The analysis that follows is based upon the reality that most existing organic farmers do not rear their chicks on site and opt instead to contract out the rearing of the chicks. In addition, the majority of organic producers have the option to purchase organic feed from only two small feed mills. Size of operation precludes the ability to produce feed on farm for many of the small-scale organic farmers. Indeed, only two organic producers with sizes of operation above the organic farm average have feed mills that are attached to their production operations. Costs for feed are therefore much higher than would exist if there was a larger demand for organic feed and a greater number of organic feed suppliers.

Our calculations are based upon a 5000 hen organic operation and a comparison of costs that would be incurred by a similar conventional operation. The choice of 5000 hens as a representative measure is not entirely arbitrary. The BCEP's TRLQ levy programme is based upon a policy that restricts any producer from holding more than 5000 units of TRLQ layers. In the short run, therefore, new and existing organic producers can only increase their size

of operation through the purchase of quota or transfer of existing conventional quota if the same is held. The organic production costs that are obtained, hereunder, are therefore generally representative of the largest size of organic operation that is likely to exist in the short run. We define short run as a minimum three year period, which would be the time required for a conventional operation to gain accreditation for organic standards. Readers should note that according to the BCEP, the 134 conventional farmers in BC hold between 14000 and 20000 layers. Given the technology of caged production, a conventional barn housing 14000 caged layers is roughly equivalent to the dimensions of a barn that can hold 5000 organic layers. If we assume that conventional producers generally hold at least 5 acres of land (the minimum standard required for 5000 organic layers), our cost differentials lend easily to comparisons between the largest organic producers and the smallest conventional producers, in the short run. Given the apparent economies of size that exist in egg production, this comparison may understate the cost disadvantage of average organic compared to average conventional producers. In other words, the numbers that follow may show the lowest costs achievable for organic producers but the highest costs for most conventional producers.

However, on the other side of the coin, we note that in restricting our attention to the 5000 layer unit for organic production, we have not analysed the various joint product relationships that exist in smaller operations where producers produce a multitude of organic products (nuts, vegetables, et cetera). These relationships are generally non-existent as producers begin to specialize solely upon egg production. But they may mean that producers smaller than 5000 layers may have some cost/revenue advantages of their own.

Feed Costs

Table 1 presents the parameters used to calculate the differential feed costs between organic and conventional egg production. Layer production cycle is the number of weeks of a laying cycle beginning at 19 weeks of age. The feed conversion ratio relates the amount of feed consumed per bird to its egg production. This ratio has been calculated on the basis of 120 grams of feed/hen/day for organic production and 1.58 kg/dozen of feed for conventional production. Figures were obtained from the BC Ministry of Agriculture, individual producer surveys and from various CEMA bulletins relating to cost of production information. Feed cost information was obtained from various producers purchasing organic feed and from Ritchie Smith Feeds for conventional feed pricing.

Table 1 : Feed cost parameters

	Organic	Conventional
Layer Production Cycle (# weeks of lay)	52	52
Feed Conversion (kg/dozen eggs)	2.10	1.58
Feed Cost ($/kg)	0.55	0.26
Egg Production per hen (eggs/cycle)	250	320

Based upon the parameters in table 1, the feed costs per dozen eggs are calculated as $1.15 per dozen for organic production and $0.41 per dozen for conventional egg production.

Pullet Costs

Based upon consultations with organic producers, one constraint that is particularly troubling is access to pullets that have minimal mortality rates. Notwithstanding issues of cannibalism and predatory attacks by coyotes (and other animals), organic producers are

currently hampered by marketing board orders that have prohibited local breeders and hatcheries from supplying pullets to organic producers who are not registered by the board. Consequently, many of the current (unregistered) organic producers obtain pullets from Calgary and from Washington State. Those who have obtained pullets from local hatcheries in what is thought to be an illicit manner have done so without appropriate certification of vaccines and without the ability to subrogate against the hatchery in the event of high mortality and disease. In order to mitigate these losses, many of the smaller producers have simply contracted out the growth of pullets to laying age on a contractual basis with other farmers that currently hold quota and who have the ability to purchase pullets directly from the hatchery. The figures quoted in Table 2 reflect purchases of pullets directly from breeders or other farmers who raise the pullets to laying age on a contractual basis.

Table 2: Pullet Costs

	Organic	Conventional
Pullet Cost at 20 weeks ($/pullet)	9.00	6.00
Egg production (eggs/52 week cycle)	250	320
Mortality (%)	5	1

Source: Individual Producer Surveys

On the basis of the figures in table 2, pullet costs (at 20 weeks) are calculated to be $0.46 per dozen eggs produced for organic producers and $0.23 per dozen eggs produced for conventional producers. We have included the incidence of mortality into the cost of the pullets and have assumed that the bulk of the mortality arises early in the production cycle. We note that there are significant benefits to farmers raising pullets on their farm, which, in the long run, can have the beneficial effect of decreasing production costs.

Board Levies and Certification Costs

Under the TRLQ programme, registered producers are required to pay the standard board levy of 17.1 cents per bird per week plus an additional 10 cents per bird per week for the TRLQ levy. Of the 10 cents additional levy, 8 cents is deposited into an account to accumulate and be drawn down at a later date for the purchase of production quota We have included the entire 10 cents into the cost of production given that it is a cost to be paid up front and given that the 8 cents of accumulated funds are forfeitable in the event that the producer does not purchase quota following the surrender of his/her TRLQ organic quota. . It should be noted that this cost for levies is unlike all of the other costs of production that we have analyzed thus far. Given that it is a ‘cash flow’ cost and not a ‘real’ cost of production, we include it as a separate category in our summary table. To be more precise, it only becomes a ‘real’ cost at a time when the producer surrenders his TRLQ quota and forfeits the accrued amount.

Certification costs are costs associated with the renewal of certification as required for COABC members. The costs are based upon gross farm revenues and on a sliding scale. Our figure of 1 cent per dozen eggs is based upon a 5000 layer operation with anticipated gross sales of $200-$300 thousand dollars when registered with PACS .

The conversions from cents/bird/week to cents/dozen were calculated on the basis of egg production in the amount of 250 eggs per organic hen and 320 eggs per conventional hen over a 52week laying cycle. Readers should note that the difference in standard board levies between organic and conventional producers is not due to any difference in the levy rate, but rather due to the difference in the rate of lay between organic and conventional layers. Since the levies are charged on a per bird basis, a lower rate of lay in the organic sector results in a higher levy per dozen eggs.

Table 3: Board Levies and Certification Costs

	Organic	Conventional
Standard Board Levy (cents/hen/week)	17.1	17.1
Standard Board Levy ($/doz)	0.43	0.33
TRLQ levy (cents/hen/week)	10.0	0.0
TRLQ levy ($/doz)	0.25	0.0
Certification renewal ($/dozen)	0.01	0.0

Land Costs

The amount of land required for production is of significant importance for organic egg production. Current COABC certification standards require that there be a maximum of 1000 layers per acre of pasture. Conventional production requires no land for production other than the land required for siting the barn. We note that while conventional producers generally hold acreage in excess of those required for egg production, our analysis assumes that this land is rented out at the cost of the land so that there are no benefits or costs to holding this excess land in the production of conventional eggs.

Recent sales of bare land in the Fraser Valley are on the order of $30000 per acre. Based upon our consultations, it is our understanding that bare land is currently renting at approximately $1500 per acre per year (net of taxes). Using the rental rate of $1500, 1000 hens per acre of land, and a laying rate of 250 eggs per 52 week cycle, we calculate land costs for an organic operation to be 7 cents per dozen. Land costs for a conventional operation are negligible.

Buildings

Organic operations require 2.5 square feet of housing, 18 square inches of roosting space and nesting space. Conventional production requires 64 square inches of cage space. However, cages can be stacked and based upon information obtained from Jonkman Equipment in Aldergrove, a general industry standard is that a conventional barn can hold 2.5 times the amount of layers as a similarly dimensioned organic barn.

Based upon individual producer surveys and industry representatives, the average cost of a new barn is in the order of $12 per square foot. Since the barn structure does not vary significantly between organic and conventional production, the only source of difference lies in the nature of costs between nesting spaces (plus floor slats) and conventional cages. Estimates obtained from Jonkman Equipment in Aldergrove suggest that equipment for a 5000 layer organic operation costs roughly $70000. Cages for a conventional operation are on the order of $8.50 per layer. As discussed previously, we use the figure of 14000 conventional hens as the point of comparison with a 5000 layer organic operation.

We assume that average life of a barn and the equipment is 25 years. We derive an annual rental rate for capital of 10% by noting that straight-line amortization over the 25 years yields a rate of 4% to which we add a historical real return on (cost of) capital of 6%. The resulting figure per hen is converted to a per dozen basis using our production parameters of 250 egg per organic hen (52 week laying period) and 320 eggs per conventional hen (52 week laying period).

Our results indicate that Building costs are 23 cents per dozen for organic production and 9 cents per dozen for conventional production. This is the cost for both buildings and equipment (cages and nests).

Labour Costs

Labour costs were calculated on the basis of 32 hours per week of labour for a 5000 hen organic operation and 23.7 hours per week for a 14000 hen conventional operation. The wage rate was taken as $11 per hour. We note that in most organic operations, the labour may be supplied by the owner/operator. As such, implicit in our calculation is the notion that the owner/operator is the residual claimant to any profit from the enterprise and that this profit is implicitly the owner's return to labour and time invested in the enterprise over and above the skilled labour return of $11/hour. The choice of $11 per hour reflects an average wage rate in the agricultural sector with some appreciation for the skill and dexterity needed.

Labour cost information for the conventional sector was obtained from the website http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/pou3597?OpenDocument in addition to individual producer surveys. Costing information for the organic sector was obtained from the BC Ministry of Agriculture in addition to information obtained from individual producer surveys.

On the basis of these parameters, labour costs were estimated as 18 cents per dozen for an organic operation and 10 cents per dozen for a conventional operation.

Summary

Table 4 presents a summary of our results from the cost analysis.

Table 4: Summary of cost differentials - organic vs. conventional

	Organic	Conventional	Differential	
Feed Costs ($/dozen)	1.15	0.41	0.74	
Pullet Costs ($/dozen)	0.46	0.23	0.23	
Land Costs ($/dozen)	0.07	0.00	0.07	
Building costs ($/dozen)	0.23	0.09	0.14	
Labour Costs ($/dozen)	0.18	0.10	0.08	
Subtotal	2.09	0.83	1.26	
Standard Board Levy ($/dozen)		0.43	0.33	0.10
TRLQ levy ($/dozen)	0.25	0.00	0.25	
Certification Costs ($/dozen)		0.01	0.00	0.01
Total	2.78	1.16	1.62	

Readers should note that a value of $0.00 for conventional land costs indicates that the cost of land is negligible for a conventional operation. It does not suggest that there is no cost for land.

PRICING DIFFERENTIALS – Organic v. Conventional Producer Prices

Table 5 below compares the expected farm gate producer prices, as mandated by the BCEP, for both conventional and organic production based upon certain laying characteristics . In particular, the expected prices are calculated using the ratio of eggs that fall into particular sizing and quality characteristics. The prices listed in Table 5 are the posted farm gate prices by the BCEP as at September 28, 2003. They are mandated by BCEP as the farm

gate prices (paid to producers) for eggs sent to registered grading stations. Eggs sold directly to the retailer or to consumers at the farm gate are not mandated by the BCEP.

Table 5: Expected (farm gate) producer prices set by BCEP

Grade (%)	Egg size and Quality (A) BCEP mandated prices ($/doz)		(B) Expected farm gate price ($/doz)		(A) times (B)	
	Organic	Conventional	Organic	Conventional	Organic	Conventional
Jumbo	3.80	4.30	1.73	1.65	0.07	0.07
X-Large		23.00	21.00	3.27	1.68	0.75	0.35
Large	50.20	54.20	3.27	1.65	1.64	0.89
Medium		16.00	14.99	1.49	1.49	0.24	0.22
Small	2.00	1.35	1.13	1.13	0.02	0.02
Pee Wee		0.30	0.30	0.31	0.31	0.00	0.00
Grade B		0.20	0.00	1.43	1.43	0.00	0.00
Grade C		2.50	3.80	0.40	0.40	0.01	0.02
Broken/ Rejected		2.00	0.00	0.00	0.00	0.00	0.00
Expected price						2.73	1.57

One item that is particularly noteworthy is the BCEP policy of placing all of the emphasis of cost recovery for organic producers upon the large and extra large categories. More important, however, is the fact that the average producer price received under the BCEP mandated pricing scheme does not cover the cost of production as calculated in our study. The average expected price as calculated in table 5 is $2.73 per dozen, whereas the costs have been calculated and shown in Table 4 as $2.78 per dozen.

There are two important implications of this BCEP mandated pricing structure quite apart from the fact that it does not, seemingly, cover the cost of production for an organic enterprise. The first is that it is an inefficient scheme for promoting organic eggs at the wholesale and retail level. Placing all of the emphasis of recouping increased costs through higher pricing of the large and extra large eggs surely has a dampening effect on the volume of large and extra large organic eggs that can be marketed at the wholesale and retail level. In the long run, this does nothing to assist in the growth of the organic sector.

The second and perhaps more important implication is that an emphasis of cost recovery only on large and extra large eggs will lead to potential cash flow problems for producers in the early stages of their flock cycle where medium and small eggs comprise a large proportion of production. The cost of producing an egg is independent of the size of the egg produced. That is, it matters not whether the hen lays a medium, small or large egg because the cost for the producing that egg is the same, irrespective of size. Clearly, there are incentives for the farmer to attempt organically to influence the size of egg produced. However, the fact remains that the cost per egg remains the same irrespective of size. Therefore, it would seem that a more appropriate and sensible pricing strategy would places the emphasis of increased production costs evenly across all size and quality categories and based upon the probability that each of these size and quality categories are realized.

In the sections that follow, we begin by outlining some guiding principles for the organic sector and thereafter sketch out two possible working quota management models for the organic sector. One of these models outlines a framework for appropriate pricing. We do not, however, make it a condition of the model for the BCEP to mandate prices. Indeed, there is strong resistance on the part of organic producers to a mandated price structure. Our intent in presenting this pricing framework is as a guide to appropriate pricing based upon our estimates of costs and a profit margin that levels the playing field between organic and conventional producers. We submit that the prices charged by and paid to organic producers could be based upon individual negotiations between the producers, the wholesaler/grader, the retailer or individual consumers. The pricing framework is presented only as a guide. Using such a framework for pricing is important in assisting the organic producers in facing a level playing field in the acquisition of quota on the open (conventional) market, should they wish to do so.

Clearly, the notion that conventional egg prices are mandated by the BCEP while organic eggs are left to the market may not sit well with conventional producers or with industry representatives. The current mechanism in the conventional sector implicitly subsidizes surplus removal while maintaining a fixed price for conventional eggs. There may, therefore, be fears that allowing the market to price organic eggs may interfere with the pricing for conventional eggs. Yet, such fears need not exist. Based upon our analysis of costs, it is extremely unlikely that the price for organic eggs will ever be lowered to a price equal to conventional eggs. Indeed, it is reasonable to expect that the organic industry will adjust to any fall in prices (as a result of oversupply) by a reduction in the number of layers within the sector. This is a natural mechanism of the market. There is no indication, or little reason, to believe that a free market pricing of organic eggs will significantly interfere with the functioning of the current pricing mechanism in the conventional sector when costs are as different as they are between the two sectors.

GUIDING PRINCIPLES

On the basis of consultations with various producers and industry representatives, as well as our costing and pricing analysis, the following items need to be addressed and incorporated into a working model so as to ensure a viable and profitable organic sector.

1. Any organic quota or license held by organic producers must be freely transferable and vendible among organic producers. This is an important issue for the economic efficiency and sustainability of the industry, for the flexibility of producing in the industry, and for keeping the industry open to newcomers. It ensures the most productive use of the organic quota (or quota) and ensures that new entrants are not restricted from entering the industry by having to purchase their own land and buildings in order to farm organically. Given the current legal proceedings against certain organic producers and the judgments that have been handed down by the courts in British Columbia, the ability to produce organically will certainly be on the basis of a restricted level of production. Any organic quota that is issued based upon a restriction on the particular industry will hold value. This value will manifest itself in many guises. Tying the organic quota to the farming unit will result in the capitalization of the value into the land and the buildings. Restrictions on the manner of trade or leasing of organic quotas will undoubtedly result in side agreements and exchanges (both monetary and in kind). There is no escape from the manifestation of value on a restricted right to produce.

Yet, there are avenues available for restricting the ability of producers to speculate on quota values. One of these avenues is to institute a fee on the trade of the organic quota that is

equivalent to the profit of the trade. This can be arranged through an administrative third party agency, with the proceeds of the funds accruing from the collection of the fee (less administrative costs) being targeted toward the marketing/advertising of organic eggs or research development specifically targeted to the organic sector. One disadvantage of this mechanism is that it may be difficult at the outset to determine the appropriate level for the fee on the transfer. Other avenues include the auctioning of organic quotas under a variety of scenarios where the highest bidder is not necessarily the winner of the auction. The point is that a variety of mechanisms exist to reduce the ability of producers to speculate on the value of the organic quota in lieu of using the organic quota for the specific and sole purpose of producing organic eggs. As long as the rules are clear, transparent and non-judgmental (i.e. that they are not reviewed on a case by case basis), the incentives for profit seeking on quota holding can be minimized and alleviated. There are no reasonable economic arguments for tying organic quotas to production units or for restricting trade in organic quotas. Indeed, once the economic arguments are satisfied, allowing trade in organic quota, a variety of mechanisms can be implemented in order to satisfy considerations relating to equity, profit motives, or ideology.

2. Growth in organic quotas within the organic sector must be in line with the demand for organic eggs. Specifically, growth in the demand for organic eggs should be recognized by CEMA or BCEP irrespective of the growth patterns in the conventional sector and should be matched by increased organic quota allocation to the organic sector. Clearly, in the alternate situation, where demand falls, there would be mechanisms in place to reduce production. Casual evidence would suggest that the demand for organic eggs has been increasing over the past decade while, at the same time, the demand for conventional eggs has remained fairly stable. There is some indication to suggest that this increased demand will continue for some time, given that BC appears to have a comparative advantage in the production of organic eggs. Indeed, conversations with representatives from local graders have uncovered that organic eggs produced in BC have found a market in Ontario. Despite claims that BC is deficient in meeting its demand for organic eggs regionally, BC graders are obliged by contract to ship organic eggs to large retail chain accounts in Ontario. Given this interregional demand, the need for increased allocation of organic quota to the organic sector will likely continue over the short term and must be met in order to capture the increasing demand for organic eggs at a time in which conventional egg demand is relatively stable. Conversely, a decrease in demand for organic eggs must be met by either a reduction in the base of organic quotas issued or in the utilization rate of the organic quotas.

3. The levy structure for the organic producers must be fair and transparent and consistent. Only those producers who contribute to any surplus removal mechanism should be charged a levy. There are few producers who have objected to paying a small levy for administration and marketing/advertising costs that are specifically targeted to the organic sector. Most producers agree that a fee for administration and marketing/advertising of their organic product is a necessary and valid cost. One problem with the current TRLQ system is the observance of various side agreements between individual producers and the BCEP that pertain to the levy structure and the payment of levies.

4. It would be desirable for there to be some mechanism in order to allow new entrants into organic production without subjecting these entrants to the same type of constraints that currently exist for organic producers in the present system. In particular, there must be a mechanism in place in order to allow new entrants into organic production without having these entrants subject to inordinate entry costs and delays One mechanism could hinge upon the surrender of organic quotas by producers not interested in continuing with organic egg production. These organic quotas would revert into a revolving pool for

disbursement to new entrants into the sector. Alternatively, a clawback mechanism could be instituted on traded organic quotas with the clawback held for new entrants. The essential feature of any mechanism hinges upon the ability to transfer organic quotas rather than having the organic quotas attached to the farm. As in (1) above, the existence of open trade in organic quota can be supplemented with mechanisms to ensure (given current preferences or ideology) that there is no profit or speculation in the trade of organic quotas.

5. There is a call from the existing organic producers to exempt farmers with 'small' production units from any regulated scheme. The current system exempts producers with 99 or fewer birds. There is an argument that this threshold should be raised to 499 birds. The choice of this threshold level is not entirely arbitrary, but rests upon the number of producers who are currently producing at levels between 99 hens and 499 hens as well as the potential number of entrants in this category. We have no figures to conduct an analysis of this threshold. A producer with 499 birds has the potential to supply approximately 10000 dozen eggs over a 52 week cycle. This may not pose a problem to the organic sector in the short run given current growth patterns. Yet, as the industry matures and as the number of producers in this category expands, there may be a potential for surplus eggs on the market. Again, we cannot comment on the appropriateness of this threshold, given a lack of data on the number of organic producers in this category.

What we can comment upon, however, is that there is little economic basis for choosing one particular number. The figure of 499 is based upon a historical situation where producers in BC were permitted 499 layers without having to purchase quota and without being subjected to licensing requirements. The threshold has since been lowered from 499 to 99 layers. Alberta, in contrast to BC, has set a threshold of 299 layers. The models that we propose in the following section hinge upon a block allocation of production rights for the organic sector. One avenue that is available in deciding upon this threshold level is to look at the available number of organic quotas from the block allocation, in relation to the demand for organic quotas from the organic producers. The appropriate threshold can then be determined jointly with the choice of an allocation scheme for disbursing the block organic quotas. We describe this process a little more fully within the next section.

One matter that is clear is the notion of an administrative or regulatory agency or body that has the ability to oversee and monitor the number of layers within the organic sector and to distribute the initial allocation of organic quotas without bias. This can be any third party agency that relies on the records of the (organic) certifying bodies with respect to producer certification of layers and upon application by existing producers and new producers wishing for these organic quotas. Given the existence of such a body, the organic sector can, on the basis of the organic quotas issued to it by the BCEP, self-monitor its flock size. The existence of this third party agency also mitigates any tendency toward nepotism in the issuance and trade of organic quotas.

WORKING ORGANIC QUOTA MODELS

On the basis of the differential cost of production figures analyzed in this study and on the basis of current BCEP mandated prices, it would seem that the current TRLQ programme does not foster growth and profitability in the organic sector. Indeed, under the current structure, producers are mandated to purchase quota on the open market in order to replace TRLQ quota by the 7th year of initiation into the programme. Notwithstanding the issue of quota affordability, this does nothing to respond to the growth in consumption in the organic sector as purchased quota simply displaces TRLQ license. Given the arguments presented by BCEP as well as by organic producers and given current legal precedence, we offer two outlines for working models.

These models make an attempt at resolving two particularly thorny issues from the perspective of the organic sector. The first is the issue of quota value and quota purchase. We have heard, quite clearly, that organic producers are not in favour of attaching any value or having any value accrue to quota or production organic quota. The second issue is that of a minimum threshold level for organic production under which the organic producer is exempt from any regulation. The current exemption is 99 layers, which is a reduced figure from the historic threshold of 499 layers. There is no formula available to calculate this threshold and, indeed, the choice is somewhat arbitrary. Our suggestion is that this threshold level be identified at the outset once the block allocation of organic quotas are announced and in light of the demand for organic quotas by existing organic producers and new entrants. The choice of this threshold will depend on the allocation scheme of the initial distribution, which we will argue must rest upon a neutral third party agency in consultation with other supervisory bodies.

Both of our models hinge upon a block allocation of quota to the organic sector that is initially distributed to all existing organic producers with a mechanism for exemption at some threshold level. In addition, both models rely upon the existence of a third party agency to facilitate the process of quota distribution. The key difference between the two models is that in the first model, we propose a mechanism for industry growth that is funded in a collective manner by all quota-holding producers. In our second proposed model, industry growth is funded through individual producer purchase of quota based upon a pricing scheme that levels the playing field between organic producers and conventional producers in the ability to purchase conventional quota.

Proposal 1: Block allocation with producer funded growth

Under this proposed model, there would be a block allocation of organic quota issued and allocated to the organic sector for trade only within the organic sector. These organic quotas would be distributed based upon an allocation scheme mandated by a third party agency that is at arms length to the producers, the certifying boards, and the BCEP. We discuss some possible methods of allocation below as well as a proposal for dealing with the minimum farm size for exemption from the scheme. The proposal also includes a mechanism for subsequent quota reallocation among organic producers.

Disbursement of organic quota and industry growth: At the outset, organic quotas could be disbursed by the third party agency based upon an allocation scheme that accounts for the quantity of organic quota available and upon the demand for organic quotas from all existing organic producers. It is highly desirable that there also be some mechanism in place in order to allow some entry of new organic producers. Minimum threshold levels for number of layers exempt from the scheme could also be decided at this time. This decision will likely depend on whether the quantity of organic quota issued (to the organic sector) at the outset is less than the quantity needed to satisfy all existing organic demand. Under such a scenario, one possible avenue could be to proceed by licensing the largest producers and moving down the list on the basis of decreased layer holdings. Once fully allocated, and given some allowance for new entry, the remaining (existing) producers would be exempt from having to hold organic quota. The point at which all issued quota is disbursed would dictate the threshold level for exemption. There are many other allocation rules that are also feasible. Alternatively, if the initial allocation of organic quota is greater than the quantity needed to satisfy existing demand, a variety of scenarios exist and the choice of threshold would have to be made on the basis of a clear and transparent allocation rule and on the basis of an agreement between the third party agency, the producers, and any other supervisory bodies.

One important point to note is that, for the purpose of allocation, the production level of an existing producer needs to be taken at a historical point of time. So, for instance, the point of reference could be the producer's level of production (# of layers) in December 2003. Taking an historical date as the basis for allocation avoids any un-necessary games and ramping up of production levels in anticipation of quota allocation.

In this first and initial round of disbursements, all current and existing producers provided with organic quota, and excluding those producers under the threshold level, could be charged an annual user fee for the organic quota. What we are suggesting is that while all existing producers are provided with organic quota at the outset, they are not provided with the quota free of charge. In suggesting an annual fee for the quota, we are proposing a fee that is not excessively onerous but rather a fee that contributes to the viability of the scheme. Another way of putting this is that the organic quota would be issued on a rental basis with no date of termination. The rental fee would not include any component for the purchase of quota nor would it require the purchase of the same at any time. Upon default of payment or non-use of the organic quota, the organic quota would revert to the third party agency for re-disbursement to other organic producers.

Given that there will be an excess demand for these organic quota, in light of the current increasing demand for organic eggs, this scheme will require an appropriate allocation mechanism. Our proposal is that this excess demand be handled through an auctioning mechanism, administered by the third party agency, whereby the bids at auction are offers for the yearly organic quota fee. The auctioning mechanism could be one of a sealed bid type in which the second highest bid wins the organic quota. These sealed bids would reflect an offer of a yearly fee for the right to obtain the organic quota. That is, organic producers would bid based on what they were willing to pay as a yearly rental fee for the organic quota. In the second and subsequent rounds, after the initial disbursements of organic quota are made to existing organic producers, any organic quota held by the third party agency could be disbursed through an auctioning mechanism of this type. These organic quotas in the second and subsequent rounds would have accrued from voluntary surrender of organic quotas to the agency, and from increased organic quota issued by BCEP/CEMA through increased demand for organic eggs. By instituting a second highest bid mechanism, the auction ensures that producers do not overbid for organic quotas. The reversion of quota to the third party agency ensures that there is no speculation in the trade of organic quota. Putting it differently, producers would not be buying and selling the quota, only renting it from the agency, and the competition for those quotas would be done through the bidding process described above.

The accrual of funds from the payment of the yearly organic quota fees to the third party agency would first satisfy the costs of administration by the third party agency. There could also be some payment made to the BCEP for whatever administration of the program the BCEP undertakes. A budget could also be allocated for marketing and advertising of organic eggs. The key advantage of this system, however, is the ability of the organic producers to fund their own growth. An excess of funds over and above the (modest) administrative and marketing costs could be used towards the purchase of conventional quota on the open market. This purchase would be done by the third party agency on behalf of the organic sector. Once purchased, the conventional quota would be converted to organic quota for use only within the organic sector and would be subject to auction among the organic producers as described above. One point to note is that in a period where the demand for organic eggs falls below the total quantity of organic quota, a contingency plan may be necessary whereby unused organic quota is sold back to the conventional or other specialty sectors. We suggest that this be within the purview of the third party agency rather than

allowing the trade to occur between producers in different sectors. Again, we recommend the restriction of quota trade between organic producers as well as between organic producers and producers in other sectors given that the organic producers canvassed under our study were uncomfortable with the notion of producers being able to speculate on quota value.

Transferability: Organic quotas would not be transferable among organic producers nor between the organic sector and other egg producing sectors. Unused organic quotas would be surrendered to the third party agency for redisbursement as outlined in the section on organic quota disbursements below. There could be a rule for organic quotas to be bequeathed to immediate family members (spouse, sons, daughters) under strict and transparent rules. However, we suggest that organic quotas not be tied to the farm unit and upon sale of the land and buildings, the vendor producer would surrender the organic quota to the third party agency. The prospective purchaser would be required to obtain the organic quota for production from the third party agency through the annual (monthly?) auction. From a business perspective, this could merely be a subject condition pertaining to the final sale of the farm unit. The main point in suggesting that organic quota not be tied to the farm unit is that it removes the profit motive on the sale of quota and also on the potential for quota to implicitly acquire value through capitalization into the land value. It appears that this issue is particularly dear to the organic producers that we have canvassed.

Pricing and Levies: Pricing for organic eggs under this model could be done in many ways. A pricing scheme that ensures a fair margin and profitability could be constructed and mandated either through the BCEP, the third party agency, or through other supervisory agencies. We discuss a particular pricing strategy in our second proposed model where it is particularly applicable, and which could be similarly applied under this model. Alternatively, organic producers may prefer to leave pricing to negotiations between themselves and the grader, wholesaler or retailer. Clearly, if there is little profit in organic production, the bid values at auction will reflect the same. Conversely, high profit margins will also be reflected in the bid values, which are the rental rates for the organic quota. In the case of the latter, higher profit margins do not become capitalized into the organic quota given that organic quota must ultimately be surrendered to the agency in order to be auctioned. The intent of this proposal is for all organic quota transactions to go through the third party agency, without the possibility of side agreements between producers. These side agreements would have the potential to undermine the system through speculation and non-observable transfer payments.

There would be no other levies instituted per bird or per dozen. The only cost to the organic quota would be the yearly fee payable to the third party agency. Given the potential for varying fee payments among producers, we would suggest that the scheme also impose a time period for revising the yearly fee in order to ensure that yearly fees are consistent with prevailing market conditions. Overbidding in this type of an auctioning mechanism, where the second highest bid wins, is not advantageous and so there is a reasonable chance that producers will bid fairly and based upon their ability to afford the fee associated with holding the organic quota.

One final note that we make is one that relates to pricing. Unlike our second proposal in which an appropriate pricing scheme is imperative for viability, there is no clear requirement for a mandated and fixed pricing scheme under this proposal. Quite clearly, prices must cover costs (particularly variable costs) and should provide a reasonable profit margin. Allowing prices to be set through individual negotiation with graders and wholesalers may not always achieve a ‘reasonable’ profit margin. As such, there may be a concern on the part of the conventional producers that in such a case, the price of organic eggs under a

non-regulated pricing scheme may interfere with the demand for conventional eggs, which are regulated by price. However, based upon our analysis, the cost of producing an organic egg is roughly two and one half times the cost of a conventional egg. Given that the majority of the cost differentials stem from variable costs, we find it highly unlikely that the retail or farm gate price for organic eggs will ever be at levels that compete directly with conventional eggs. It would seem, therefore, that conventional producers should have no concern over an organic sector that may wish to leave their pricing to individual negotiations with graders, wholesalers and retailers.

Proposal 2: Free Rental with profitability to fund growth through quota purchase

Our second proposal is similar to the first in that we recommend a block allocation of production rights to the organic sector similar to the current TRLQ programme but with a longer timeframe and with a pricing mechanism that ensures a level playing field between organic producers and conventional egg producers.

Given the recognition that the organic sector is an important and growing sector of the egg industry, this option would allow a threshold level of production in the organic sector by increasing the length of the TRLQ licensing period and by removing the restriction of incremental quota purchase over a seven year period. The licensing period should be long enough to allow the industry to mature and to achieve profitability. The appropriate period will have to be one that is based upon mutual consent between the organic producers and the BCEP. We would suggest that as a benchmark, this figure could be between 15 and 20 years, but the ultimate number, as stated, would be based upon mutual consent. Our recommendation is that the number of initial organic licenses issued be equivalent to the current level of production in the organic sector. This number is undoubtedly greater than the 17000 hens currently allocated under the current TRLQ programme.

One important aspect that needs to be considered under such a scheme is the initial distribution of organic licenses . Clearly, given the indication of excess demand for organic eggs, all existing producers could be accommodated under the initial licensing scheme but based upon their production in some historical period. There could also be some allowance for new entrants into the industry based upon the list of applicants that is currently being held by the BCEP. For instance, the allocation could be based upon the production levels during the year 2003 for each individual producer with the requirement of proof of production or purchase of initial pullets. As noted previously, basing the allocation on a historical date avoids any ramping up of production levels in order to capture an increased number of organic quotas. There would also be some allowance extended for new entrants based upon a reasonable expectation of demand in the short to medium term. Additionally, the choice of threshold level for farm size that is exempt from licensing would be determined at the outset based upon the block of allocation and the demand for organic licenses. We briefly discussed the same type of avenues in our first model. There are certainly other mechanisms and there may be some that are more in tune with the ideology that currently exists within the industry. These organic licenses would be specific to the organic sector and transferable only within the organic sector. Mechanisms can then be instituted that remove the potential for profit motives in the trade of organic licenses. One of these mechanisms could be a fee payable on the transfer of organic licenses that is equivalent to the value of the organic quota.

The disadvantage of this scheme is that it may be difficult, at the outset, to determine this fee but this problem is not insurmountable. Another manner in which the profit motive may be removed is to subject all transfers to a silent bid auction in which the second highest bid wins the organic license similar to our first model. The point is that it is highly desirable for

organic licenses to be transferable in order to expand production levels at the farm level for those producers who wish to expand while at the same time ensuring that all organic licenses are fully utilized. We suggest that the licenses not be tied to the farm unit as this only serves to capitalize any accrued value from the license to the value of the land and encourages the potential for farmers to speculate on marginal land, that has limited agricultural use.

Growth in the industry, after the initial allocation, could then occur through increased license allocation from BCEP based on increased demand and through conventional quota purchase by those producers who wish to expand their scale of operation. But, this ability to purchase quota is dependent upon profitability and is in large part tied to the pricing structure for organic eggs. Prices
for organic eggs must cover costs and provide a margin that places organic producers on a level playing field with conventional producers in their ability to bid for quota on the open market. Our pricing analysis that follows is intended to provide an option should a fixed pricing structure be contemplated, but more importantly, in order to highlight the necessary issues that relate to appropriate pricing and the ability to purchase quota should the same be desired by an organic producer.

Given that quota prices are based upon a cost per hen, the pricing structure must account for the differences in production rates between organic hens and conventional hens. That is, a simple margin placed on the price per dozen eggs does not account for the differences in profitability per hen. For instance, if based upon our calculations, the current margin on conventional eggs is roughly 41 cents (expected average price of $1.57 less cost of production in the order of $1.16), the profit per hen for a conventional producer with 14000 hens would be approximately $11 per hen. The same margin of 41 cents per dozen applied to an organic producer with 5000 hens would yield a profit per hen of $8.50. The last reported value on quota traded was $126.50 per hen. Using an indicator from the financial markets, the price to earnings ratio for the conventional producer would be 11.5 (126.5/11) and 14.9 (126.5/8.5) for the organic producer. That is, based on this margin; it would take a conventional producer 11.5 years to pay back on unit of quota and approximately 15 years for the organic producer to payback one unit of quota. In other words, the payback period for the organic producer is approximately 30 percent longer than that for the conventional producer despite the fact that we have allowed for the same margin on the selling price for eggs.

In order to achieve a level playing field in the ability to purchase quota we must, therefore, equivalize the profit per hen and not the margin of profit on the selling prices. Using the same example, if conventional producers are accorded 41 cents per dozen margins on the selling price of their eggs, the profit for a 14000 hen conventional producer would be $11 per hen. For the 5000 hen organic producer, an $11 profit per hen can only be realized if the margin on the expected average selling price is 53 cents per dozen. Based on these 53 cents per dozen margins on the selling price, an appropriate pricing structure that places an appropriate weight on all sizes and categories is as shown in table 6.

Table 6: Suggested Organic Pricing at farm gate (2cent/hen/wk TRLQ levy)

Grade	Egg size (%)		(A) BCEP mandated prices ($/doz)		(B) Expected farm gate price (per dozen)		(A) times (B)			
	Organic		Conventional		Organic		Conventional		Organic	Conventional
Jumbo	3.80	4.30	2.82	1.65	0.11	0.07				
X-Large		23.00	21.00	2.87	1.68	0.66	0.35			
Large	50.20	54.20	2.86	1.65	1.44	0.89				
Medium		16.00	14.99	2.60	1.49	0.42	0.22			
Small	2.00	1.35	1.98	1.13	0.04	0.02				
Pee Wee		0.30	0.30	0.58	0.31	0.00	0.00			
Grade B		0.20	0.00	2.50	1.43	0.00	0.00			
Grade C		2.50	3.80	0.73	0.40	0.02	0.02			
Broken	2.00	0.00	0.00	0.00	0.00	0.00				
Expected price							2.68	1.57		

Note that we have not included the standard board levies into the cost of production for organic production and only 2 cents per week per bird for administration costs. The average expected price of $2.68 is composed of the production costs ($2.09) plus the 2 cent per bird per week marketing levy (5 cents per dozen), the one cent per dozen certification cost and the 53 cents per dozen profit margin.

To reiterate, under this model, an initial allocation of organic licenses are provided to existing organic producers for a period to be determined, but longer than the seven years under the current TRLQ programme. That is, all organic licenses would have a date of expiry longer than the current seven years under the TRLQ programme as it currently exists. We have suggested 15 to 20 years as a benchmark. The ultimate time frame would have to be mutually negotiated between the BCEP and the organic producers. The number and quantity of organic licenses issued would also be based upon some historical production within the sector. The only levy payable by organic quota holders would be a levy to finance administration and this would be paid directly to the BCEP. We have used 2 cents per bird per week in our calculations. The calculations are easily extendible to other figures. Organic licenses would be allowed to trade between certified organic producers either through a fee instituted on each trade or through an auction mechanism. These mechanisms would ensure that there were no profit motives in the trade of organic quotas. New entrants would be accommodated based upon demand for organic eggs and organic quotas for new entrants would be issued by BCEP in accordance with this demand as well as through some initial allocation at the outset.

Given an equal footing in the ability to purchase quota on the open market, through an appropriate pricing structure, organic producers would have the ability to increase the size of their production units (during the time in which their organic quotas are valid) by purchasing quota on the open market. Once purchased, quota held by the organic producer would be freely tradable across any sector (conventional or specialty). Standard board levies, including those for surplus removal, would then apply to the quota held and at the current board rate. In time, and as organic licenses expire, prices would begin to reflect the cost of the standard board levy on quota held. Minimum threshold levels for the number of layers with exemption would be dictated at the time of the initial allocation of organic quotas as we have outlined previously. The disadvantage of such a system is that while the

profit motive is removed for the timeframe in which the organic licenses are valid, there is no mechanism available to remove the profit motive from quota that is freely tradable across sectors. The advantage of such a system is that it allows the organic sector time to grow, mature and adjust without large capital outlays at the outset. By allowing prices to ensure profitability and by levelling the playing field between organic and conventional producers, there is a reasonable chance for organic producers to acquire conventional quota. The present structure of the TRLQ system and the present price structure is seemingly inadequate for such purposes.

Appendix D - Model for Organic Supply-managed Turkey Production

Prepared by S.Kassam/R. Barichello Feb 25, 2004

Executive Summary

Unlike egg and chicken production, our analysis of the turkey sector has uncovered an industry where demand has been stable for some time and where current industry concerns over health and disease will have a significant impact upon how the industry evolves.

The turkey industry in British Columbia is characterized by 50 conventional producers with an annual eviscerated production of conventional turkeys in the amount of 17 million kilograms. We are aware of only one 'large' organic turkey producer and approximately six other very small organic producers. We have been unable to garner an estimate on the production of organic turkey largely due to an expression of fear on the part of the organic producers that were interviewed. For the same reason and due to the small number and scale of organic producers, we have been unable to uncover the nature of differential costs between organic and conventional turkey production. This is unfortunate because the nature of these differential costs was extremely helpful in our analysis of the egg, chicken, and dairy sectors. Given our inability to uncover these differential costs, we have taken a slightly different route in our analysis of the turkey sector.

We begin by analyzing the grower vendor program that has been initiated by the Turkey Marketing Board as a scheme for allowing the currently unregistered producers into the supply management program. We highlight several important implications of the scheme and suggest that the Turkey Board review some of the policy details in order to make the scheme clear, transparent and workable. We also suggest that the COABC review its own certification standards with respect to turkey production so as to ensure that organic turkey production is a viable enterprise in British Columbia. The latter suggestion is offered given conventional industry concerns over Blackhead disease as well as other recent health concerns in the feather industry. These concerns are likely to result in an industry where organic turkey production is conducted at a level that is either under the current threshold level (50 turkeys per year for domestic consumption) or at some modest scale where organic turkey production is the sole production activity.

In suggesting that quota purchase is likely inevitable for a modest sized organic turkey producer, we note that the fee structure for the grower vendor programme is not in line with current market borrowing rates and that the Turkey board may want to revisit the size of this fee in order to attract both new and existing producers into the programme. The choice of fee is somewhat arbitrary, but based upon our interviews, the currently high fee may partly explain why none of the organic producers or would be producers have availed themselves of the programme. We further suggest that it would be desirable for any organic producer within the scheme to (a) have the flexibility of sending his or her organic product to both processors and distributors of their choice and (b) be equally entitled to all of the services that are provided to the conventional producer who pays the same levy.

Grower-Vendor programme policies

We begin by analyzing the current policies that are in place by the B.C. Turkey Marketing Board (hereafter "Board"). In particular, we seek to highlight some of the clauses within the Turkey Marketing Scheme, specifically those that are detailed in the Board's publication "Quota Regulation 2003/2005" and which relate to the Grower-Vendor Quota program. We will argue that these clauses are 'strong' in their language and that when taken cumulatively, these clauses may disqualify most of the smaller organic turkey producers that currently produce outside the supply management scheme. Where applicable, we make some suggestions with the aim of making the scheme more attractive to the current 'small' organic grower.

Clause 35 (a): *"restricted to growers licensed as grower-vendors who only market regulated product direct to consumers"*

As in the chicken sector, the current organic turkey producers provide a number of services in addition to their role as primary producers of turkey. Unlike conventional producers, current organic turkey producers also custom process, distribute and sell directly to retailers or to the end consumer. The language of this clause would suggest that under the grower-vendor scheme, organic producers would no longer be able to sell directly to a distributor or a retailer. This would mean that all products would have to be sold at the farm gate. We have, however, been advised by the Turkey Board that this was not the intent of the clause and that the intent was to stop the possibility of what is appropriately termed 'leakage'. Direct sales to retailers would be allowed, but that sales to distributors would be prohibited. The fear on the part of the Board is apparently as follows. Organic turkey producers currently ship their turkeys to processors for custom processing runs and have the 'dressed' birds shipped back to the farm for storage and further distribution to the retailer, distributor or end consumer. Under some circumstances, it is possible that producers may not be able to directly sell their entire supply into the market and would thus contract with the processor (who would likely be a distributor as well) to resell their organic turkeys on the conventional market. This situation is problematic for the conventional producers in at least two ways. Firstly, the Turkey Board claims that there may be significant health implications of this transfer of turkey back to the processor from the farmer that could result from storage problems. Any health 'scare' affects the whole industry regardless of whether the health risk came about from an organic or conventional producer. But this is a health and safety issue that can surely be dealt with through the enforcement of standards monitoring and inspection mechanisms without having to restrict the distribution channels for organic turkey.

Secondly, there is some fear that if there were a reversion of product from the organic farmer back to the processor, conventional turkey sales would be impacted negatively by surplus organic turkey flooding the market. Our surveys in other supply-managed commodities provide us with enough of an insight to conjecture that the price of organic turkeys at the retail level is very unlikely to be set at the same price level as conventional turkey. Differentials in feed costs, labour costs and processing costs will ensure that stiff price competition between organic and conventional turkey is not possible in the short to medium term.

Perhaps of greatest importance is the notion of equal service for equal pay. Under the grower vendor scheme, participants are obliged to pay the standard board levy in addition to the programme fee. Given that one aspect of the standard board levy is a guaranteed sale to a processor, grower vendors should be equally allowed to avail themselves of this guaranteed sale if they wish to involve themselves in the programme. We see no

reasonable argument why grower vendors should be excluded from selling their products through a distributor.

Clause 35 (c): *"restricted to production to meet specific market requirements"*
Clause 35 (d): *"issued on a yearly basis, from May to April, and shall be reissued if the vendor does not violate any of the Board's orders or regulations"*

We are unclear as to what 'specific' means and there is no detail given as to what an example of specific would entail. Moreover, in conjunction with 35(d), is it possible that a specific market requirement in one year is not a specific market requirement in another year, thereby raising the possibility of the grower vendor quota not being reissued in any year within the 12 years of the programme? It would be highly desirable if the level of production were fixed over the 12 years so as to provide security in the benefits that should accrue from the investment in quota.

In response to recent health scares, there is a move within the industry to restrict the production of turkey as a sole activity. This has serious implications for organic production. Citing 'Blackhead' as a disease affecting turkeys and one that is transmitted directly from chickens, the conventional industry is currently arguing against the coexistence of chickens (laying and broiler) on the same production unit with turkeys. There have also been suggestions that the organic certification boards review their standards in light of these concerns. In short, it seems likely that the organic production of turkey may, in the future, be the sole activity of any farmer wishing to produce organic turkey. If this is the case, some assurance of production levels under the grower vendor scheme is desirable and necessary particularly given the fee structure currently in place. We discuss this fee structure and its implications in our section entitled 'Analysis of Fees under the Grower Vendor Scheme'.

Clause 35 (e): *"restricted to persons who do not hold quota issued by the Board or any other supply-managed board and who have not held such quota in the past, and who are not associated with persons who do, or have in the past, held such quota"*

It is our understanding that this clause was enacted to ensure that current quota holders do not benefit from the sale of quota and subsequent application under the grower vendor scheme. A scheme that ensures mechanisms for entry of new producers is certainly desirable, as we have argued in the case of other supply-managed commodities. Yet, despite the intention to restrict current quota holders from appropriating the benefits of this programme, we suggest that this clause is highly restrictive for the current 'small' organic producer as well as many other small backyard producers. There has been a recent push by all of the supply managed commodity boards to bring in all unlicensed backyard producers under the umbrella of supply management. Given the current threshold levels for exemption under each of the supply management boards, most small organic farmers would likely be required to obtain quota from more than one supply management board. These quotas would be tiny in comparison to the quotas held by conventional producers within each sector. Without a mechanism such as the grower vendor programme, it is unlikely that a small organic producer would be successful in gaining access to small units of turkey quota. More importantly, however, given holdings of small units of quota for other supply managed commodities, entry into the grower vendor programme would be prohibited for most small organic producers.

We suggest, therefore, that the Turkey Board consider an exemption to this clause to recognize this potential problem. One possible suggestion would be to place a threshold limit on the numbers of quota that have previously been held so as to recognize the nature of small organic production. It would also be desirable to allow new entrant producers who may have been affiliated with a quota producer at some period of fixed time entry into the grower vendor programme. For example, should a new entrant whose father sold egg quota twenty years ago and who has not been involved in an agricultural activity requiring marketing board quota, be excluded from the grower vendor quota? Surely, he should not.

Clause 37: *"The Board may convert Grower-Vendor Quota to Primary Quota after twelve consecutive years, provided that the grower-vendor has not shipped any turkeys to a licensed processing plant other than as "custom kill", unless permitted to do so by the Board"*

We highlight two potential problems with this clause, both of which relate to uncertainty. First, it is reasonable to surmise that a grower-vendor who has remained within the scheme for twelve consecutive years has complied with all board regulations. Therefore, if all of the turkeys have been shipped to a licensed processing plant, as "custom kill, the phrase "may convert" would suggest that the decision to convert the grower-vendor quota remains an arbitrary decision that rests entirely with the Board. Moreover, there is no indication of the criteria for approving this conversion. In the event that producer production under this scheme varies from year to year, it is reasonable for would be entrants to understand clearly the nature of the conversion from grower vendor quota to primary quota at the end of the twelfth consecutive year.

Secondly, there is seemingly no reasonable argument for restricting grower-vendors from shipping turkeys to licensed processing plants for onward distribution. The Turkey Board has informed us that clause 35(a) was largely enacted in order to mitigate the possibility of a health outbreak through potential mishandling of product. Specifically, the potential shipping of product from the processor to the farmer and back to the processor is seen to be a cause of concern in matters related to health. This being the case, it would seem reasonable that, for issues related to health, the direct distribution of product from the processor to the retailer would be welcomed. But, even where issues of health are not the primary motive for this restriction, mechanisms may exist for distinguishing organic or other specialty turkeys from conventional turkeys. If direct price competition is of concern to conventional producers, a differential Board mandated price based upon cost of production, or some minimum price premium that could be charged for organic turkey, would help to alleviate any concern over direct price competition.

Our point is that prohibition from available marketing distribution channels actively discourages organic and specialty turkey production. In recognizing that the demand for conventional turkey has been stagnant over the past decade, restrictions that discourage growth in organic and specialty turkey production are difficult to understand. Moreover, given that participants within the scheme are obliged to pay the standard board levy in addition to the programme fee suggests that access to market and to processors is a clear right for organic producers who choose to be under this programme. Organic producers and other producers under the grower vendor programme should rightfully claim their right to the same access given equal payment of the standard board levy.

Grower Vendor programme fee structure

Under the current grower vendor programme, producers are required to pay 23 cents per kg of live weight (at maturity) in addition to the standard board levy of 3.5 cents per kg of live weight. We have been informed that current market rates for quota are on the order of $1.25 per kg of live weight. Based upon this value for quota, a simple calculation reveals that the implicit interest rate on this investment that is faced by a potential entrant is 15% per annum. We have previously argued in our analysis of the chicken sector that it would be highly desirable for the fee to be indicative of current market borrowing rates so as to provide an incentive for entry by the current organic and 'backyard' producers. Our argument is perhaps more applicable and more important for the turkey sector.

In stark contrast to the chicken sector, the demand for turkey has been stable over the past decade. Moreover, unlike the chicken sector, allocations from the National board are based upon a 'top-down' allocation whereby allocations to the provinces are dictated by the national board. These provincial allocations have been stable or decreasing over the past decade. Therefore, any allocations under the grower vendor programme must naturally come directly from decreases in the quota allocation to conventional quota holders. Indeed, under current regulations, any provincial production over its allotment is met with a fine of 23 cents per kg by the national board, and a subsequent cut in the following years allocation. The cut in allocation is in an amount equal to the overproduction. The rudiments of the grower vendor programme would therefore suggest that potential entrants into the scheme implicitly 'lease to own' quota from conventional producers through a programme administered by the Turkey Board. Assuming that the demand for turkey remains stable over the next twelve years, and given that the standard board levies cover the administration and management of the supply management scheme, the accrual of funds from the programme fee, under such conditions, reverts to the conventional producers. Implicitly, therefore, conventional producers are, under certain conditions, compensated for any decreased allocation in their quota holdings.

We are hesitant to comment upon whether 23 cents is a reasonable or appropriate fee for this 'lease to own' option. A well functioning market for quota leasing would provide some insight on the fee. However, it is our impression that a thin market exists for quota rental. Indeed, none of the conventional producers that we talked to could provide us with current information on quota rentals.
Therefore, it would be desirable if the fee for the programme were based upon consultation with would be programme entrants and if the fee reflected current borrowing rates as well as profitability.

Summary

Based upon our analysis of the grower vendor scheme, we suggest that the rules for the program must be made clearer and more transparent in order to attract the current small organic producer. We have also highlighted several areas of concern from the perspective of the small organic producer. Our main conclusion is that the production of organic turkeys will likely be an exclusive production category. That is, there is a trend within the industry that seeks to restrict the co-production of turkey with other supply managed commodities, and particularly chicken. Of the seven certified organic producers (COABC) we note that only three of the seven do not co-produce chicken or eggs with their turkey production. Of these three, only one is an exclusive turkey producer on a seemingly large scale. We have been unable to obtain accurate figures on the size of production for this producer. The remaining two producers supplement their turkey production with vegetable, fruit or

livestock production and generally only raise turkeys for the holiday season. It would seem, therefore, that any growth in organic turkey production would have to come from operations that are of some significant scale. It would also seem that, given current industry trends, small organic producers not wishing to avail themselves of the small growers programme, or those not willing to purchase turkey quota, will be forced to remain under the current threshold level of 50 turkeys per year (domestic consumption only).

We also suggest that the COABC reconsider current certification standards in light of the concerns raised by the industry with respect to Blackhead disease. The same review of certification standards should also address whether organic producers wishing to produce turkey at some significant scale have the ability to compete with conventional producers for the purchase of quota. Given that we have not been able to determine the cost differential for organic turkey production, we are not in a position to recommend block allocation of quota for the organic turkey sector. The size of the organic turkey industry will, therefore, likely depend heavily upon the fee structure for entry, which we argue should reflect current market borrowing rates.

Lastly, we argue that if grower vendors are obligated to pay the standard board levies in addition to the programme fees, that they be accorded all of the benefits that accrue from the payment of the standard board levy. One of these benefits is a guaranteed sale through a processor and the ability to distribute their product through a distributor. This notion of fairness in available services is further strengthened by the fact that entrants into the grower vendor scheme do not take away quota allocation from existing conventional producers without compensation for the same. Equal access to services for equal payment is a reasonable request.

Appendix E - Nurturing Organic Growth in BC's Supply Managed System

Certified Organic Associations of BC Position Paper

Prepared by the COABC Growing the Organic Supply-managed Sector Project Team
2005/05/24

Introduction

This document describes COABC's vision for the future of organic supply managed products. It describes a broad vision for all organic supply managed commodities, in all marketing boards. Specific plans (using the principles described in this paper) will be developed in response to each marketing board proposal.

COABC begins by accepting the premise that supply management is the law, and all producers of supply managed product should be registered (or recorded) with the appropriate Marketing Board.

1. The Market

The market for organic supply managed product is a mix of direct-from-the-farm (box delivery, farm gate) small graders/processors supplying local stores, and large graders/processors supplying chain stores, and export markets (inter-provincial) as well as a untapped industrial market willing to pay full market price. There is also an existing amount of on-farm processing--there is potential for much growth in this sector.

Some producers serve a number of different markets. As for the market potential, the organic market is growing at 20-35 % per year. There is no reason to think that the organic supply managed market will grow at a slower rate.

The COABC database currently lists:

- 36 producers of organic eggs for sale (some producers will not supply this information)--4 of these listings could be considered of commercial size.
- 4 turkey producers - 1 of commercial size
- 11 chicken producers - 1 of commercial size
- 4 cow milk producers - all of commercial size

There has been an ongoing request from organic producers for access to increased amounts of supply managed production. The principles of organic farming include the concept of moving toward 'closed-loop' systems, where the nutrients for ground crops are supplied from on-farm livestock production. A typical example is a 10 acre market garden with 500 year-round layers and 500 seasonal broilers. The manure and bedding (composted) from the poultry operation supplies the garden with all its nutritional requirements. Anecdotally, many more organic farms would include supply managed production if they could do so without the enormous cost of quota purchase.

2. Definition of Specialty

In keeping with the Leroux Report, "Specialty product definitions should reflect substantive farm level differentiation, 3rd party certification, and identity preservation through to the

consumer." Certified organic currently meets this criteria and it is the COABC assertion that other specialty products must meet the same conditions. See Appendix B for details on the definition of specialty.

3. Certified Organic

An operator (enterprise) is considered organic if they hold a valid certificate from a certification body that is accredited by the COABC under the Agri-Food Choice and Quality Act (BC). An operator who holds a valid certificate from a CB that is accredited by the Standards Council of Canada to the National Organic Standard of Canada is also considered organic.

4. Food Safety

As with all government regulations, COABC producers are required to follow government imposed food-safety protocols. Many supply managed commodities have developed national on-farm food-safety practices without input from the organic sector. COABC suggests that organic producers be given the opportunity to design more appropriate (but compliant) on-farm food-safety protocols.

5. Biosecurity

COABC producers will follow government rules. Organic producers require the opportunity to develop bio-security standards that also comply with organic management standards (such as access to outdoors).

6. Registration

The COABC requires that all producers of supply managed commodities be registered (or recorded) with the appropriate marketing board. COABC has the potential to play a role in this requirement if agreements can be made with marketing boards. For instance, COABC could provide the board with a list (annually) of operators who are producing below the exemption limit--including the level of production. COABC could even assist with registering these producers.

7. Quota

The COABC needs with respect to quota are that the demand for organic product is supplied by BC organic producers, that BC organic producers are encouraged to expand to meet market growth, and that production allocation that has been assigned to an organic business has the potential to be transferred to the subsequent owner of that business.

In order to meet the needs (above) of organic producers, the COABC has described a system that:

1. Provides needed production allocation within the existing marketing board schemes
2. Allows for market growth, including new entrants
3. Allows for the transfer of production allocation upon the sale of the organic business, but does not allow sale of production allocation on its own

COABC suggests that the marketing boards issue production allocation (annual licenses) for all organic operators producing over the exemption limit. It is understood that some marketing boards are constrained by national allocation. In these cases, specific numbers will be agreed upon, and the COABC will work closely with the marketing board to secure increased national allocation.

Licensed producers have to be registered with the appropriate marketing board and will report their production volumes. If needed, COABC Verification Officers can confirm production numbers. Initial licensed producers are those currently producing (over the exemption limit) as of January 2005. Producer allocations will include a 10% 'sleeve' to allow for some flexibility in the market.

Growth in production will be allocated from 'speciality pools' (granted from the national agency) managed by the Speciality Producers Advisory Committee. When speciality pools need replenishing, the COABC will co-operate with the marketing boards to procure extra allocation from national agencies.

Annual renewal of licence allocation will be managed by the Speciality Producers Advisory Committee (SPAC). Licensed producers will be asked to submit their requests (numbers) for the coming year. Based on confidential reports from the certification bodies, the SPAC can ascertain which producers have produced to their allocation the preceding year and may provide increased (or decreased) allocation accordingly. Annual renewal of production licences requires:

- Report from CB confirming production volumes and sales
- Confirmation of current valid certification

The COABC feels that this proposal for organic production allocation 'licences' will provide an allocation that is provided to a specific producer for a specific product for as long as that product is produced. This licence or allocation has no paper value and it is not attached to an 'owner', rather to the product the operator produces. It is renewed annually and its renewal is conditional only upon the previous year's production numbers, and a current organic certificate.

This plan for production allocation complies with existing marketing board schemes--if they choose to, marketing boards have the ability to develop orders that will enact the COABC proposal.

8. Transferability

The needs of COABC organic producers with respect to transferability are that farmers need to be able to sell their business, and the business has little value if the purchaser cannot produce the product.

The COABC recognises there is concern from marketing boards and government of the potential for 'windfall' profits if producers are given quota. Yet the notion of providing non-transferable quota (to remove the potential for profit from quota transfer) is not a reasonable solution for producers. It is not reasonable to expect a farmer to develop a business that has no potential for sale (without production allocation attached).

Accordingly, the COABC has striven to find a balance to meet the needs of organic producers, while respecting mainstream producers historical use of quota. The best compromise is to allow the transfer of production allocation, but put restrictions on the transfer to limit its value. The COABC suggests that an organic producer is provided with production allocation in the form of annual licence. The production allocation is not transferable (outside of this provision), but when an organic business is sold, the purchaser has the right (first refusal) to that allocation should they meet the required criteria:

1. Valid organic certification
2. Production capacity

3. Must not have sold a business (producing the same commodity) in the previous ten years
4. The previous owner must have been a license holder for three years previous to the sale

The holder of a licence may not sell the allocation--the purchaser of an organic business must apply to the SPAC and prove to them that they meet the required criteria. If the purchaser meets the criteria, they will be provided the same production allocation as the previous owner. When an organic business changes hands, the purchaser has the opportunity to acquire the production allocation of the seller, but this right is contingent upon the purchaser meeting the required criteria on a year-to-year basis. This system ensures the direct connection of the production allocation to the actual market.

In this case, an organic business means the business name and related marketing materials and goodwill associated with the business as well as established markets--it does not necessarily mean the physical production plant (farm).

An organic licence holder who sells their business may not produce that product (be issued a licence) for ten years following the sale.

9. Transfer Assessment

Once the organic market matures, the COABC suggests a transfer assessment of 10% (production allocation) on the transfer of organic licences. This 10% will revert to the speciality (organic) allocation pool.

10. Exemptions

The COABC suggests that exemption levels should be increased as follows:

- Chicken - 6,000 kg/yr
- Layers - 499
- Milk - 100 litres/day
- Turkey - 6,000 kg/yr

Having realistic exemption levels will remove the burden of enforcement from the marketing boards and will allow small producers the opportunity to market a modest amount of locally produced product without fear of legal consequences. Workable exemption levels allow small producers to experiment with new products and new markets before approaching the marketing boards as new entrants.

10.1. Food Safety and Exemptions

The COABC strongly suggests that food-safety issues cannot be tied to exemption levels. All producers must follow food safety protocols (the law) regardless of their level of production. To infer that a producer will circumvent food safety laws because they are small shows an unfounded bias that is not legally defensible.

11. Allocation

The COABC understands that supply management means that production must be regulated to meet market demand. The COABC intends to work with individual boards firstly to determine the level of demand for particular products. The SPAC will then decide how to provide allocation to meet that demand.

Some boards have a restricted share of a national allocation--specific numbers need to be assigned in these cases. Where the marketing board has discretion regarding allocation, the organic market will be monitored in its growth.

The COABC suggests the use of specialty (organic) allocation pools that will be used as reservoirs for increased market demand. When speciality pools need replenishing, the COABC will co-operate with the marketing boards to procure extra allocation from national agencies.

The SPAC may decide to split the speciality pool into one allocation for market growth, and another for new entrants.

12. Product Integrity

Producers, processors, and graders will be required to keep organic product separate from non-organic product (as required in COABC organic standards), and to market organic product only as certified organic unless otherwise approved by the Board. COABC organic certification throughout the marketing channel (audit trail) has the ability to ensure product integrity.

13. Production Switching

COABC suggests that Mainstream quota holders may apply to the Board (Specialty committee) to produce certified organic product. Quota holders must be certified organic for the level of production requested. Mainstream quota holders cannot move in and out of organic production, as this would be disruptive (not orderly). COABC suggests that once a mainstream quota holder is allowed to produce organic product, then they must give three years notice of their intention to move from organic back to mainstream. This criterion is meant to protect the stability of both organic and mainstream markets.

14. Permits

See section 7, Quota.

15. Permit Conversion

Some marketing boards have established permit systems for organic production. The COABC suggests that existing permit holders may be accommodated under licences as suggested in Section 7.

16. Pricing

The COABC feels that the market should be allowed to determine the price of organic product.

17. Levies

COABC organic producers are willing to pay levies associated with administration of specialty production and other initiatives as determined by the SPAC.

18. New Entrants

New entrants will be accommodated from allocation in the speciality (organic) pool. Once the initial applicants (as of January 2005) have been serviced from the pool, the remaining allocation will be available for new entrants and for increased market needs of existing organic producers.

As there is no guaranteed sale for organic products, new entrants should receive a modest allocation (determined by each SPAC) to begin their production. During the yearly licence renewal, new entrants may request additional allocation for review by the SPAC.

It may be in the interest of marketing boards (and the public good) to encourage production in specific regions of the province. In this case, the new entrant allocation could be directed toward certain regions. For instance, there could be new entrant allocation available for production in the Central Interior, but not in the Fraser Valley.

19. Eligibility

All producers of organic product must hold a valid organic certificate for the specific commodity--certificates are renewed annually. As stated in section 8, an organic producer who sells their business will be restricted from producing the same commodity for ten years following the sale.

20. Waiting Lists

The COABC understands there may be a need for waiting lists. In this case, the waiting list should be managed by a third party and overseen by the SPAC. There should be separate waiting lists for organic producers.

The specialty committee may wish to include a regional bias in the waiting list.

21. Speciality Committee Representation

The COABC supports the recommendation of the Leroux Report that a specialty committee will be established. Specialty committees will be comprised solely of representatives registered speciality producers, processors, distributors, designated agencies and recognised certification bodies. The chair of the specialty committee should be appointed by the FIRB.

The specialty committee should be charged with monitoring the performance of the specialty programs and providing policy and procedure input to the Board concerning the management and administration of the Specialty programs. The COABC will work with individual boards to determine specific policy and procedures for each speciality committee.

The COABC has provided specific details regarding the structure and function of the SPAC--see Appendix 1.

22. Transparency

In order to ensure transparency in the administration of an organic supply managed program, the COABC suggests that the following measures will be instituted by the marketing boards:

1. The Board will use a 3rd party to manage waiting lists.
2. The chair of the specialty committee should be appointed by the FIRB.
3. Third party certification programs will be employed to provide verification of production numbers and other information as required.
4. Proprietary information made available to marketing boards should be restricted only to specific marketing board officers--it should not be available to the entire Board.

Appendix 1 - Speciality Producers Advisory Committee Terms of Reference

COMMITTEE NAME

The Committee shall be referred to as the Speciality Producers Advisory Committee--(by commodity).

PREAMBLE

British Columbian's desire a prosperous agriculture industry that is environmentally and economically sustainable. They expect that the agricultural industry will provide a level of food security for the citizens of the province. Supply management has a premier role to play in ensuring food security--speciality production is one aspect of the supply managed system in BC.

In order to ensure a strong and adaptive speciality sector (within the supply managed system) close co-operation is required between marketing boards, mainstream producers, speciality producers, processors, distributors, retailers, certifiers, and government. In this way, speciality and mainstream producers will be provided with market share and fair pricing, the trade will have the product they need, and consumers will have choice in the market.

The responsibility to administer a respective scheme rests solely with the marketing board (overseen by FIRB). SPACs may make recommendations to marketing boards, but the work of the SPACs will be redundant unless a climate of trust and willingness is established between marketing boards and speciality producers.

COMMITTEE'S VISION

The SPAC (commodity specific) will strive towards a prosperous specialty sector that provides fair returns for producers and the choice demanded by consumers in the marketplace.

Committee Mandate

The purpose of the SPAC is to monitor the performance of the specialty program and to provide policy and procedure input to the respective Marketing Board concerning the management and administration of the Specialty program.

GUIDING PRINCIPLES

- **Economic Sustainability:** SPAC policies and initiatives will consider the economic sustainability of the speciality sector.
- **Environmental Conservation and Protection:** SPAC policies and initiatives will be conducted in a manner that protects and conserves the environment.
- **Animal Welfare:** SPAC policies and initiatives will ensure the health and welfare of animals in the care of speciality producers.
- **Consultation:** The SPAC and its constituents (both specialty and mainstream) will consult with one another in a timely, inclusive, and transparent manner.
- **Cooperation and Consensus:** The SPAC and the (specific) marketing board will work in a cooperative manner and seek consensus on joint initiatives and solutions.

- **Regulatory Certainty and Equitability:** Marketing board (SPAC) regulations (regarding speciality product) will be fair, consistent, and predictable and will be administered in an equitable manner for all classes of producers.
- **Administration:** SPAC procedures and management must be fair, transparent, effective, accountable, flexible, and timely.
- **Impartiality:** SPAC members will act independently of personal commercial interests and will consider the greater good of the global environment and the citizens of British Columbia.
- **Confidentiality and Conflict of Interest:** SPAC members will respect confidential information and will declare all potential conflict of interest situations.
- **Province-wide Program:** SPAC policies and initiatives will consider the greater good of the entire province and its citizens regarding issues such as:
  - mitigating the environmental impact of intensive agriculture, and;
  - Enhancing economic sustainability in certain regions of BC.

OBJECTIVES

- **Communication:** To foster effective communication between the speciality sector and marketing boards and, as appropriate, with other interested parties.
- **Consultation:** To serve as the primary forum for consultation on current and emerging issues affecting the speciality agriculture sector.
- **Information:** To collect and record market information (from all market channel members) and where appropriate, to distribute that information.
- **Solutions:** To find and promote workable solutions to issues affecting the speciality sector.
- **Accountability:** To represent the entire speciality sector in a fair and balanced manner.
- **Coordination:** To provide coordination to the actions of industry, government, and communities to resolve speciality production issues.
- **Timeliness:** To ensure issues are resolved and solutions implemented in a timely manner.

MEMBERSHIP

Membership in SPACs shall include representatives:

- 1 - commercial speciality producer
- 1 - small speciality producer (below exemption limit)
- 1 - speciality processor
- 1 - speciality trader (wholesale or retail)
- 1 - certification body
- 1 - marketing board official
- 1 - independent chair appointed by FIRB

Wherever possible, members of the SPAC will be appointed through a democratic process within the sector they represent. The SPAC will respect such processes; allowing direct appointments from those sectors. For other sectors, the current SPAC will call for nominations for members from that sector, and will decide on the appropriate candidate.

SPAC members will serve for two-year terms, and for a maximum of 3 consecutive terms. SPACs will endeavour to stagger the appointment of new members.

REPORTING

The SPAC will report publicly to the FIRB and to the appropriate marketing board annually, and will be accountable for providing clear measures of progress towards objectives. Approved minutes of Committee meetings will be posted on the website of the appropriate marketing board and other member websites as appropriate, and will otherwise be made publicly available (this does not include in-camera minutes).

COMMITTEE PROTOCOL

Chair: Responsibility for chairing the meetings of the Committee will be provided by a chair, appointed by the FIRB. The chair will be subject to the same term of office as other SPAC members.

Decisions: The Committee will strive for consensus based decisions, which will be recorded in the meeting minutes. Members can abstain from any decisions due to lack of mandate or any other legitimate reasons. Where consensus agreements cannot be reached, the committee may choose to vote--in this case, a simple majority is required (the chair does not have a vote).

Task Groups: The Committee may form task groups to deal with a range of issues. Once formed, task groups may be requested to develop a terms of reference for approval by the Committee.

Authority of Committee Members: To the extent possible, the sectors represented will authorize their Committee representatives to make decisions on their behalf during the Committee meetings. Where a representative is unable to make such a decision they will so inform the Committee during the meeting.

Conferring with Others: The committee representatives may need to confer with others in their respective organizations before being able to provide the Committee with an official position. The Committee members are responsible for conferring with others and reporting to the Committee in a timely manner.

Annual Work Plan: The Committee will produce and monitor throughout the year an annual work plan that will specify priority issues, activities, deliverables, and performance measures for the work of the Committee and its task groups.

Communications and Outreach: Members will be responsible for communicating the work of the Committee within their agency and/or constituent organizations and to their associated stakeholders, and will also consider what additional communications and outreach activities that may be necessary to achieve the Committee's objectives.

Confidentiality and Conflict of Interest: Members will be required to sign a confidentiality and conflict of interest undertaking. This document will specify the type of information that is considered confidential. The document will also describe the conditions when a committee member may be in a conflict of interest situation.

Secretariat and Funding: Secretarial services and expenses for the SPACs will be provided by the respective marketing boards. A dollar amount will be allocated in annual budgets.

Appendix 2 - Definition of Specialty

The definition of what is specialty is critical to the success of any new programs. The standard must be high to protect the mainstream system and abuse of the specialty system. 3rd party certification, recognition of a provincial, national, or international standard and achieving three of 6 test points is suggested.

Test points should be:

1. BREED,
2. FEED,
3. LIVING CONDITIONS,
4. COST OF PRODUCTION,
5. ANIMAL HUSBANDRY and;
6. IDENTIFIED CONSUMER.

Just changing one of these items is not good enough. Existing production that doesn't meet the set out criteria should be given 2 years to get a system in place.

Test Point Details

BREED - the breed must be distinct from birds used on mainstream farms. Less then 5% of mainstream industry can be using them to qualify as a specialty breed. This will encourage new breed development and will allow for heritage breeds to develop a market. It will also encourage diversity in breeding stock.

FEED - must be different in more then just, 'no animal by-products'. Differentiated feed may be a combination of no animal by-products no medications in feed or water. There must be an inspection process with strict protocols to insure the integrity of the feed and of the claim. It has been brought up in the media that claims of no animal by-products are false in any cases so to protect the public an audit program and 3rd party inspections of the feed plant would be mandatory.

LIVING CONDITIONS - would be a big part of any part of a specialty program. It is also one of the things that would affect the cost of producing a specialty bird and one of the areas that would need to be inspected most rigorously. Examples of living conditions that would make a bird special would be:

- Free Range which would be defined as the birds having free access to the out doors on natural earth and or green space given that the climate conditions and threat from predators do not put the birds health at risk.
- Significantly lower densities in the barn. At a minimum the densities should be 4.4 lb per sq ft (for comparison organics is 2.75 lb per square foot and conventional is 5.8 lb per square foot).
- NO CAGE SYSTEMS and no system that keeps the birds on artificial surfaces all of the time. I.e. all slat floors would not be allowed.
- Natural lighting program which allows for natural light throughout the life of the bird.

COST OF PRODUCTION - this should be significantly higher then mainstream. If a farmer is following all or some of the mentioned systems the cost would have to be higher. It should be noted that unlike mainstream systems that work on a least cost basis, a specialty system has strict guidelines that must be met first before trying to reduce costs. As an example if

you reduce your density, it will affect your capital cost allowance per bird. If the feed can't contain animal by products, antibiotics etc, this will affect your feed conversion.

ANIMAL HUSBANDRY - could include things like no artificial lighting beyond a total of your areas natural longest day.

- Perches in the barns.
- Natural remedies for animal treatment.
- Barn conditions like free range and square footage.
- 2 leg catches for chicken.
- Mixed flocks (male female together).

Full and complete farm records must be maintained and a tracking system for flocks and animals right to the consumer must be kept.

IDENTAFIABLE CONSUMER - is an obvious distinction. Your product must be something that your consumer wants and no other product can replace it. The product must be clearly identifiable to the consumer.

Appendix F - COABC Review of BC Chicken Marketing Board Proposed Specialty Program

Prepared by the COABC Growing the Organic Supply-Managed Sector Project Team
2005/05/31

Introduction

This document represents results of consultations within the BC organic sector and meetings with the Chicken Marketing Board, the BC Ministry of Agriculture, Food and Fisheries, the Farm Industry Review Board, and independent contractors (hired by the FIRB), Kathleen Gibson and George Leroux. The COABC has reviewed the final proposal from the BC Chicken Marketing Board (BCCMB) *"Review of Speciality Production and New Entrant Programs - Improving Access to the Supply Management System"* (May 04, 2005) and has developed this document in response to the BCCMB proposal.

The COABC appreciates the effort expended by the BCCMB in developing their proposal. The BCCMB proposal is comprehensive, logical, and sincere. In many instances, the COABC agrees with the proposals of the BCCMB--for other instances, we have offered alternate suggestions.

The numbering in this document corresponds with the numbering in the BCCMB proposal.

Current Market Organisation

The current market for organic chicken is being served by COABC producers. In the current system, production is tied very closely to the market--it is market responsive. Any system devised by the BCCMB should be similarly tied to the demands of the market. COABC suggests an orderly system of allocating production and growth based on market demand.

COABC suggests that growth in organic chicken production should be served by a national allocation pool for specialty production (aprox. 920,000 kg).

General Principles

5 - The COABC suggests that organic producers be given the opportunity to design more appropriate (but compliant) on-farm food-safety protocols. Regarding Bio-security, COABC producers will follow government rules. Organic producers require the opportunity to develop bio-security standards that also comply with organic management standards (such as access to outdoors).

Definitions

Speciality

(2) - The COABC agrees that Asian chicken may be considered a specialty product, once third party certification is developed.

Personal Exemption

The COABC feels that the personal exemption limit for organic producers should be raised to 6,000 kg/yr and that this amount may be sold (meat inspection regulations must be followed). Exempted producers must still be registered with the BCCMB.

Method and formula for the funding New Entrant Grower Programs

Proposed funding method and formula

The notion of an 'estate tax' on persons leaving the business is in line with the expectations of the Minister of Agriculture and the Leroux Report. The COABC suggests that the BCCMB proposal is more of a 'production tax' on persons staying in the business and is not consistent with the Leroux Report.

The COABC suggests that once the organic market matures (the organic market will be considered mature when it reaches 5% of the entire chicken market), a transfer assessment of 10% (production allocation) on the transfer of organic licences. This 10% will revert to the speciality (organic) allocation pool.

Specialty advisory committee

The COABC has specific recommendations regarding the SPAC. Please see appendix A.

Applying for quota as a New Entrant

Discussion of quota types

For organic production needs, the COABC suggests that the BCCMB issue production allocation (annual licenses) for all organic operators producing over the exemption limit.

Licensed organic producers will have to be registered with the BCCMB and will report their production volumes. If needed, COABC Verification Officers can confirm production numbers. Initial licensed producers are those currently producing (over the exemption limit) as of January 2005. Producer allocations should include a 10% 'sleeve' to allow for some flexibility in the market.

Growth in production will be allocated from a 'speciality pool' (granted from the national agency) managed by the Speciality Producers Advisory Committee. When the speciality pool needs replenishing, the COABC will co-operate with the marketing boards to procure extra allocation from the Chicken Farmers of Canada.

Annual renewal of licence allocation will be managed by the SPAC. Licensed producers will be asked to submit their requests (numbers) for the coming year. Based on confidential reports from the certification bodies, the SPAC can ascertain which producers have produced to their allocation the preceding year and may provide increased (or decreased) allocation accordingly. Annual renewal of production licences requires:

- Report from CB confirming production volumes and sales
- Confirmation of current valid certification

The COABC feels that this proposal for organic production allocation 'licences' will provide an allocation that is provided to a specific producer for a specific product for as long as that product is produced. This licence or allocation has no paper value and it is not attached to an 'owner', rather to the product the operator produces. It is renewed annually and its renewal is conditional only upon the previous year's production numbers, and a current organic certificate.

Application for an organic licence

The COABC suggests criteria for new entrants for Organic Production Licences:

1. Initially, those certified organic producers (over the exemption limit) as of January 1, 2005. Thereafter;
2. A business plan and a processor signature that is acceptable to the SPAC.
3. Proof of land ownership commensurate to the amount of production allocation requested.
4. Leasing of organic production allocation (licences) is not allowed.
5. Initially, 250 birds/week - audited by third-party agency after 6 months - further growth subject to SPAC approval
6. Transferable only on the sale of the business--the purchaser has the first refusal right to apply for the previous owner's production allocation.
7. An organic licence may not be transferred (to a new owner) for 3 years following the initial granting of the licence.
8. A licence holder who has sold a business (including transfer of the licence) is not eligible for an organic licence (for that commodity) for ten years following the sale.
9. Mainstream quota may be used for organic production upon approval of the SPAC (demonstrate need/market). Once a mainstream quota holder is in organic production, they must give three years notice of their intention to revert to mainstream production.
10. OFSAP and bio-security protocol to be determined by SPAC.
11. No penalties , however producers who produce under their allocation lose that amount of allocation for the next year
12. COABC suggests that organic operators will pay the same marketing levies and licence fees as non-organic operators. Suggest that 1/4 cent/kilo should go to a generic organic marketing fund.
13. 1 organic licence per person (or entity) per property.
14. Valid organic certification for chicken production.
15. Organic licence allocation will be included in the CFC allocation.
16. SPAC may consider minimum price if needed.
17. Organic licences may be transferred to new premises under the same operator.

Differences between programs

1. The COABC suggests a program that provides organic producers with the right to produce, and allows for the eventual sale of the business. The restrictions on the transfer of allocation will limit the value of that allocation.

Waiting Lists

The COABC is pleased to see the level of detail in this section. If enacted, this proposal should eliminate distrust with regards waiting lists, and encourage organic chicken production around the province.

Permit Production

Though the COABC has suggested the personal exemption limit be raised to 6,000 kg/yr, we realise there is little difference between using the term "exemption" but requiring registration, and the proposal (for permit) put forward by the BCCMB (not including the differences in production volumes). Whether it is called permit or exemption, a 6,000 kg/yr allowance for small growers would allow for some local production for local markets and would encourage small growers to become larger growers.

Appendix G - COABC Review of BC Egg Producers Specialty Egg Plan

Prepared by the COABC Growing the Organic Supply-managed Sector Project Team
2005/05/31

Introduction

This document represents final results of consultations within the BC organic sector and meetings with the BC Egg Producers, the BC Ministry of Agriculture, Food and Fisheries, the Farm Industry Review Board, and independent contractors (hired by the FIRB), Kathleen Gibson and George Leroux. The COABC has reviewed the final proposal from the BC Egg Producers (BCEP) *"Specialty Egg Plan"* (May 18, 2005) and has developed this document in response to the BCEP proposal.

The COABC appreciates the sincere effort of the BCEP to accommodate organic egg producers under BC's supply managed system. Much of the detail in the BCEP plan meets the needs of COABC organic egg producers. Therefore, this review document only describes those areas where the COABC and the BCEP differ.

Specialty Production Program

The COABC suggests a simpler and more inclusive speciality production program that will provide annually renewable licences to organic producers (over the exemption limit). Allocation for organic licences will come from a speciality allocation pool. Licensed organic producers will have to be registered with the BCEP and will report their production volumes. If needed, COABC Verification Officers can confirm production numbers. Initial licensed producers are those currently producing (over the exemption limit) as of January 2005. Producer allocations should include a 10% 'sleeve' to allow for some flexibility in the market.

Growth in production will be allocated from a 'speciality pool' (provided from MRAP and transfer assessments) managed by the Speciality Producers Advisory Committee. When the speciality pool needs replenishing, the COABC will collaborate with BCEP to procure extra allocation from CEMA.

Annual renewal of licence allocation will be managed by the SPAC. Licensed producers will be asked to submit their requests (numbers) for the coming year. Based on confidential reports from the certification bodies, the SPAC can ascertain which producers have produced to their allocation the preceding year and may provide increased (or decreased) allocation accordingly. Annual renewal of production licences requires:

- Report from CB confirming production volumes and sales
- Confirmation of current valid certification

The COABC feels that this proposal for organic production allocation 'licences' will provide an allocation that is provided to a specific producer for a specific product for as long as that product is produced. This licence or allocation has no paper value and it is not attached to an 'owner', rather to the product the operator produces. It is renewed annually and its renewal is conditional only upon the previous year's production numbers, and a current organic certificate.

Transferability

The COABC suggests that transfer of organic allocation (specialty licences) be allowed, but there should be restrictions on the transfer to limit its value. The COABC suggests that an organic producer is provided with production allocation in the form of annual licence. The production allocation is not transferable (outside of this provision), but when an organic business is sold, the purchaser has the right (first refusal) to that allocation should they meet the required criteria:

1. Valid organic certification
2. Production capacity
3. Must not have sold a business (producing the same commodity) in the previous ten years
4. The previous owner must have been a license holder for three years previous to the sale

Organic licences cannot be leased, nor can they be exchanged or traded for mainstream quota.

New Entrants

New entrants will be accommodated from allocation in the speciality (organic) pool. Once the initial applicants (as of January 2005) have been serviced from the pool, the remaining allocation will be available for new entrants and for increased market needs of existing organic producers.

As there is no guaranteed sale for organic products, new entrants should receive a modest allocation of 1,000 layers. During the yearly licence renewal, new entrants may request additional allocation for review by the SPAC.

It may be in the interest of BCEP (and the public good) to encourage production in specific regions of the province. In this case, the new entrant allocation could be directed toward certain regions. For instance, there could be new entrant allocation available for production in the Central Interior, but not in the Fraser Valley.

Criteria for new entrants:

1. Certified organic holding
2. Do not hold mainstream quota for any commodity
3. Have not sold an organic business (including transfer of organic licence) for the previous 10 years

Production Switching

COABC suggests that Mainstream quota holders may apply to the Board (Specialty committee) to produce certified organic product. Quota holders must be certified organic for the level of production requested. Mainstream quota holders cannot move in and out of organic production, as this would be disruptive (not orderly). COABC suggests that once a mainstream quota holder is allowed to produce organic product, then they must give three years notice of their intention to move from organic back to mainstream. This criterion is meant to protect the stability of both organic and mainstream markets.

Speciality Producers Advisory Committee

The COABC has specific recommendations regarding the SPAC. Please see appendix A.

Exemptions

The COABC is pleased to see the proposal from BCEP for an increased exemption limit for certified organic producers under the Certified Small Flock Program. The COABC suggests that an upper limit of 499 birds is a reasonable amount for a small mixed farm. The suggested 10,000 bird allocation is reasonable.

Levies

Organic producers will pay levies for services used and are not interested in paying for mainstream surplus removal costs. Organic producers would like the opportunity to develop an organic industrial egg market.

Transfer Assessment

Once the organic market matures (5% of total allocation), the COABC suggests a transfer assessment of 10% (production allocation) on the transfer of organic licences. This 10% will revert to the speciality (organic) allocation pool.

Appenidix H - COABC Review of BC Milk Marketing Board Proposed Specialty Program

Prepared by the COABC Growing the Organic Supply-managed Sector Project Team
2005/05/31

Introduction

This document represents results of consultations within the BC Organic Sector and meetings with the BC Ministry of Agriculture, the Farm Industry Review Board (FIRB) and independent consultants- Kathleen Gibson & George Leroux. Unfortunately, the BC Milk Marketing Board (BCMMB) has chosen not to participate in any final reviews with the organic sector or the COABC Consultation Team. The BCMMB has seen fit not to avail itself of further consultation since the preparation of the initial Dairy Draft (dated 31 March 2005).

Following the initial Dairy Draft the COABC team has reviewed the BCMMB responses to the FIRB enquiry letter (18 APR 2005) and have had consultative meetings within the organic sector, have had public comment, and have developed this document in response to the BCMMB draft proposal.

The COABC appreciates the initial effort expended by the BCMMB in developing their proposal early on in this process. There are several areas where the COABC agrees with the BCMMB; however, the basis of their proposal is, in our opinion neither in keeping with the intent nor in keeping with the guidelines as presented by the Minister and the Farm Industry Review Board.

The numbering of this document corresponds with the BCMMB draft (04 MAR2005)

Background

The BCMMB in their preamble lays out a set of programs that they have identified as designed to meet the needs of the specialty marketplace. These programs are:

1. the Organic premium (price) ,
2. the Cottage Industry Program (CIP),
3. the Domestic Dairy Products Innovation Program (DDPIP) and
4. the Graduated Entry Program (GEP)

The BCMMB has set these programs out as the flagship of their proposal to meet the needs of the Organic sector. The only new program is the Organic Premium pricing; the remaining programs are all existing programs that have been verbalized to adapt to the directions set out by FIRB.

Specialty Production – Organic Milk

The COABC IT has no difficulty with the recognition of Certified Organic Milk (COM) as the only current recognized specialty product. The Board claims they initiated specialty production with their program in 1998 by subsidizing (2) producers to transition through to Organic certification. In fact, BC's first organic milk production started on-farm in April 1995 in Grand Forks. The Board’s position with on-farm processing is that this must be managed in the CIP and production allocations are obtained from CDC under the DDPIP program. The Board states that DDPIP cannot be based on organic as a criterion for 'innovation' status. However, this is exactly where and how organic production should be supported. CDC currently utilizes less than 50% of the milk allocation set aside for this

program--with support and direction from the Province for organic this is a prime means by which B.C. could expand it's processing and organic production capabilities.

Existing Organic sector

Currently the organic market place is being serviced by (4) producers: 2 on-farm producer/processor and 2 producers shipping to processors under contract (shipper relationships). The current processors are of the opinion that that the fluid market is being adequately serviced, and the processed products markets such as yogurt are similarly well met.

Specialty processed markets (such as cheese) are not being met currently by domestic processors due to import competition and restrictive Board allocations of new products (i.e. DDPIP not recognizing organic as a criterion for the program).

The BCMMB proposes to 'claw-back' existing DDPIP allocations at the end of current 'Undertaking & Declarations' forced upon existing DDPIP producers. These allocations would then be disbursed among new producers (see table 1, pg 4, BCMMB proposal). This type of conventional 'claw-back' (temporary allocation relationship) on production allocation is not in keeping with the Leroux recommendations – nor is this supportive of orderly marketing within the organic market. Removing DDPIP allocations would clearly have the opposite effect by disrupting existing production--there would be shortages in the market as new producers would need to be transitioned to organic production.

The BCMMB suggests the clawed-back allocations be used to fund the GEP. However, the BCMMB has only (1) list. The interested parties on this list have not made claim to any commitment to organic transition, nor could they, as the current waiting list has a 28 year queue.

The current waiting list does not recognize regionalism within BC and does not fast-track producer/processor relationships for contractual production. The BCMMB rather would have new producers (GEP or Mainstream) subsidized through transition by existing pool members. Unfortunately, this does not service the marketplace and further disrupts the orderly management of specialty production.

The COABC in its position paper (24 MAY 2005) has addressed this issue by supporting existing organic production, and with use of an annual permit/license these existing producers and new entrants would make use of the phased permit system to react to the market demand based on a business proposal submitted to the SPAC for approval. This program would serve the market in an orderly and efficient manner without asking for subsidies and without windfall quota gains.

The BCMMB has an old program called the "5/2/2". They use this in their mainstream GEP, whereby a new entrant would be provided with 5000kg of non-transferable quota and then a further 2000kgs of quota would be matched for the purchase of another 2000kgs of quota from the mainstream quota exchange. The producer would ultimately have 9000 kg of quota or in practical terms about 650 litres of milk a day. This is about 50% of what a small commercial farm unit needs to exist today (even in organic production).

Given this, a new entrant (presumably, a young new farmer) would need to purchase approximately 12,000 kg of TPQ and the Board would provide 7000 kg. The cost to a new farmer would be well over 1.3 million dollars and they would still need a farm and cows. Clearly, this program is solely designed to support the existing quota system and its unrealistic and unsustainable quota values.

In contrast, the COABC supports the use of an annual permit/license phased in over several years – based on SPAC approval after establishing the market needs, confirming that there is an established plan of sustainability for each situation and product entering the market.

Cottage Industry Program

The COABC proposes a program that would eliminate the need for the CIP – which again is just another quota-based program ultimately requiring entrants to buy quota at unrealistic & most certainly unsustainable values.

Cottage Industry, or on-farm production and processing, is a responsive and market-based strategy by the organic sector. Most of these producer/processors are regionally outside of the Fraser Valley providing the organic sector with diversity and environmental sustainability. The sales are predominantly direct to consumer sales adding to the product a valued-added component. The phased permit/license proposal would further work well in this situation.

As this proposed license is renewed annually, it allows for sustainability, responsiveness to the local market demand, and presents no 'windfall' gains. The license (although transferable with the production) cannot be sold, traded, or leased. The organic product determines the value of the business and the license stays firmly associated with the production of the product. This further provides for orderly marketing of the specialty product.

General Exemptions:

The BCMMB in their response to FIRB (20MAY 2005) question 5, on the question of increases to exemptions, claims that they have a 1500 kg TPQ minimum quota holding and that there are no exemptions. They support this by stating that it would be, "…not conducive to economic viability", to produce less than 1500 TPQ (about 5-6 cows production). Further, they claim that at this level of production a producer would be unable to fulfill the Ministry requirements for safe handling of milk.

The COABC takes issue with both of the BCMMB positions. Clearly, this position of "no exemptions" relates more to protection of existing quota regimes and their values and not to recognition & promotion of specialty production. There are currently 2-3 organic producer / processors that produce seasonally at these levels, meet all the Ministry regulations, and find themselves economically viable.

Given seasonal production in the interior of the province or direct to consumer value-added products for tourism and remote market places there is ample justification for small exemption of up to 100 litres/day (about 700 kg TPQ). Production levels beyond that would send the producer to SPAC with a marketing plan and into the annual licence/permit program. Exemption limits allow for innovation and small scale research into niche markets; we should promote this, not prohibit it.

Graduated Entry Program

Further to discussions on this above, the BCMMB has incorporated a waiting list that currently stands at a 26-28 years queue. Then, once entered into the program, the new entrant is provided the previously discussed 5/2/2 quota allotment. Unfortunately, this program is more designed to support the existing quota regime than it is to respond to the market place demands for organic products. The BCMMB has not adapted any new or

innovative issues for specialty production – this proposal is just an adaptation of an old existing program.

The proposed COABC permit/phase system does not require waiting lists; rather a potential entrant into organic production must submit to SPAC a business/marketing plan demonstrating first a need, then a production schedule and a defined market place that doesn't hurt existing production; similar to the test for DDPIP approval.

Quota Management

As the COABC position would have an annual allocation/permit, any CDC/Provincial allocation associated with the product would be assessed 10% of production upon transfer to a new producer. There would be no exemptions. There would be no quota, and consequently no quota exchange.

General Quota Allotment (Provincial)

The COABC permit/license proposal suggests that production allocation would come from the National system (CMSMC) based on domestic specialty requirements. It will be up to FIRB & the BCMMB to obtain and allocate the production to the license holders. The allocations will be classed as "specialty *allocation milk* ".

Organic Milk Premium

The BCMMB currently has a $.30/litre organic premium. This was based on research at the time (1998) and should be reviewed annually by the SPAC. There should be no pooling of organic price premiums, as this would be disruptive to normal market influences--making organic production and processing unresponsive to market demands. Pooling of any sort would be counter productive and must be avoided. This is private enterprise and should be reflective of normal business practices.

Certification

The COABC has no issues with this section.

Transportation

COABC suggests that the costs of transportation are to be borne by a contractual relationship between the processor & the producer. There must be no pooling of transportation costs. The Board must stay at arms length of this issue.

Regionality

The BCMMB, in its address on this issue clearly promotes further expansion of organic production in the Fraser Valley – stating, "…regionally producer milk must be viewed in context of dedicated bulk milk transporters for segregated delivery to processors. "
The BCCMMB further states that, "…the loss of a regional processor could result in the Certified Organic milk producer paying the incremental transportation cost to bring the specialty product to another region. "

The BCMMB is claiming here that due to the risk of a processor failing, the cost of shipping milk would be non-viable for a producer. On the contrary, there are currently several milk producer/processors in the interior that already transport their own milk under license of the BCMAFF, and there are others that would if the BCMMB permitted them. This is not an issue

for specialty producers who currently would rather look after their own – and as such would be responsible for all costs. There should be no pooling of transportation costs.

Regionality presents all sorts of opportunities for specialty production. Look at the Island(s) with numerous cheese plants producing specialty products. In the interior, there are numerous cheese plants recently opened. This all flies in the face of the Fraser Valley where most of the dairy industry is concentrated; practically all dairy production including organic is processed in conventional shipper/processor arrangements. Shipper/processor arrangements work in most cases but could spell disaster if a major processor sells or moves to another province. Regionality offers diversity throughout the province. Encouraging production outside of the Fraser Valley is one solution to the issues of sustainability and environmental degradation in the growing Vancouver/Fraser Valley region.

Special Products Advisory Committee

The COABC has provided specific details regarding the structure and function of the SPAC – see Appendix E

Action Plan

1. The BCMMB proposes to allocate existing producers operating under DDPIP allocations a 5/2/2 allocation (previously discussed). This allocation would be non-transferable and once the producer chooses to sell/retire, the production allocation is lost, and the production and availability of the product is disrupted, possibly for three years.

The COABC proposal of permit/annual license does not restrict production allocation; rather it is based on an approved marketing plan authorized by SPAC annually. Upon retirement or sale of the business, the allocation license would follow with the production. This allows for continuation of the production and availability of the product, i.e. orderly marketing.

2. The Cottage Industry Plan would be **scrapped** under the COABC proposal – in lieu of the annual license.

3. Cottage Industry producer/processor operating under DDPIP allocations would also be under a COABC proposed annual license.

4. The COABC structured SPAC will approve and manage allocation recommendations to the Board for administration.

5. The BCMMB incentive plan to encourage mainstream producers into specialty production is laid out as subsidized payments during three years of transition and incentive quota allocations. The producer would be provided 5/2/2 quota. Given that these are currently operating producers (with quota); this incentive quota would allow them to sell 7000kgs of their TTPQ (valued at about $800,000.00) and then produce on the new quota at their existing levels with the addition of three years of subsidized organic milk premiums during transition.

This incentive plan could turn into an extreme example of “windfall gains “and would not be popular with other existing producers (who must subsidize it), nor the public. It would be disruptive in the marketplace as there is no requirement of a business/marketing plan to prevent poaching or the take-over by the big processors. This is just a further polishing of the existing quota regime.

The COABC annual license allocation will not establish value beyond that of a business being a “going concern“, selling for its marketability value in the marketplace. Production allocations cannot be sold in any 'paper' form.

Appendix I - COABC Review of BC Turkey Marketing Board Specialty Production and New Entrant Programs

Prepared by the COABC Growing the Organic Supply-Managed Sector Project Team
2005/05/31

Introduction

This document represents the results of consultations within the BC organic sector and meetings with the Turkey Marketing Board, the BC Ministry of Agriculture, Food and Fisheries, the Farm Industry Review Board, and independent contractors (hired by the FIRB), Kathleen Gibson and George Leroux. The COABC has reviewed the proposal from the BC Turkey Marketing Board "*Speciality Production and New Entrant Programs"* (May 18, 2005) and has developed this document in response to the BCTMB proposal.

The COABC appreciates the effort expended by the BCTMB in developing their proposal. The BCTMB has researched the issues and offered a workable to solution to the issue of specialty turkey production. In many instances, the COABC agrees with the proposals of the BCTMB--for other instances, we have offered alternate suggestions.

Specialty Production Program

The COABC suggests a simpler and more inclusive speciality production program that will provide annually renewable licences to organic producers (over the exemption limit). Allocation for organic licences will come from the speciality allocation pool. Licensed organic producers will have to be registered with the BCTMB and will report their production volumes. If needed, COABC Verification Officers can confirm production numbers. Producer allocations should include a 10% 'sleeve' to allow for some flexibility in the market.

Growth in production will be allocated from a 'speciality pool' managed by the Speciality Producers Advisory Committee. When the speciality pool needs replenishing, the COABC will collaborate with BCTMB to procure extra allocation from the Canadian Turkey Marketing Agency.

Annual renewal of licence allocation will be managed by the SPAC. Licensed producers will be asked to submit their requests (numbers) for the coming year. Based on confidential reports from the certification bodies, the SPAC can ascertain which producers have produced to their allocation the preceding year and may provide increased (or decreased) allocation accordingly. Annual renewal of production licences requires:

- Report from CB confirming production volumes and sales
- Confirmation of current valid certification

The COABC feels that this proposal for organic production allocation 'licences' will provide an allocation that is provided to a specific producer for a specific product for as long as that product is produced. This licence or allocation has no paper value and it is not attached to an 'owner', rather to the product the operator produces. It is renewed annually and its renewal is conditional only upon the previous year's production numbers, and a current organic certificate.

Transferability

The COABC suggests that transfer of organic allocation (specialty licences) be allowed, but there should be restrictions on the transfer to limit its value. The COABC suggests that an organic producer is provided with production allocation in the form of annual licence. The production allocation is not transferable (outside of this provision), but when an organic business is sold, the purchaser has the right (first refusal) to that allocation should they meet the required criteria:

1. Valid organic certification
2. Production capacity
3. Must not have sold a business (producing the same commodity) in the previous ten years
4. The previous owner must have been a license holder for three years previous to the sale

Organic licences cannot be leased, nor can they be exchanged or traded for mainstream quota.

New Entrants

New entrants will be accommodated from allocation in the speciality (organic) pool. Once the initial applicants (as of January 2005) have been serviced from the pool, the remaining allocation will be available for new entrants and for increased market needs of existing organic producers.

As there is no guaranteed sale for organic products, new entrants should receive a modest allocation (15,000 kg). During the yearly licence renewal, new entrants may request additional allocation for review by the SPAC.

It may be in the interest of BCTMB (and the public good) to encourage production in specific regions of the province. In this case, the new entrant allocation could be directed toward certain regions. For instance, there could be new entrant allocation available for production in the Central Interior, but not in the Fraser Valley.

Criteria for new entrants:

1. Certified organic holding
2. Do not hold mainstream quota for any commodity
3. Have not sold an organic business (including transfer of organic licence) for the previous 10 years

Production Switching

COABC suggests that Mainstream quota holders may apply to the BCTMB (Specialty committee) to produce certified organic product. Quota holders must be certified organic for the level of production requested. Mainstream quota holders cannot move in and out of organic production, as this would be disruptive (not orderly). COABC suggests that once a mainstream quota holder is allowed to produce organic product, then they must give three years notice of their intention to move from organic back to mainstream. This criterion is meant to protect the stability of both organic and mainstream markets.

Speciality Producers Advisory Committee

The COABC understands that specialty producers are needed before the BCTMB can constitute a SPAC. However, a properly operating specialty committee is necessary for the functioning of the specialty program. The COABC has developed specific recommendations for SPACs (see Appendix A) and would be happy to work with the BCTMB to fill appointments in the meantime.

Food Safety

As with all government regulations, COABC producers are required to follow government imposed food-safety protocols. Many supply managed commodities have developed national on-farm food-safety practices without input from the organic sector. COABC suggests that organic turkey producers be given the opportunity to design more appropriate (but compliant) on-farm food-safety protocols.

Biosecurity

COABC producers will follow government rules. Organic turkey producers require the opportunity to develop bio-security standards that also comply with organic management standards (such as access to outdoors).

Waiting Lists

The COABC understands there may be a need for waiting lists. In this case, the waiting list should be managed by a third party and overseen by the SPAC. There should be separate waiting lists for organic producers. The COABC is pleased to see the concept of a regional bias for the waiting list included in the BCTMB proposal.

Appendix J - Organic Production and the BC Broiler Hatching Egg Commission - COABC Response

Prepared by the COABC Growing the Organic Supply-Managed Sector Project Team
2005/05/31

The COABC is disappointed to learn that the BCBHEC has not developed a proposal for specialty (organic) production of hatching eggs. The COABC suggests that there is an interest in the production of organic hatching eggs and that action by the BCBHEC in this regard could provide incentive for an expanding industry.

The Canada Organic Standard has been in revision for the last three years and is now close to completion. The standard requires that organic slaughter animals shall be raised under organic management from at least the last trimester of gestation (of the dam). As slaughter animals, broiler chickens are now the only exemption to this requirement. The standard committee (Canadian General Standards Board) is fully aware of this exemption and wishes to move the standard away from exemptions whenever possible. The existence of a certified organic hatching egg producer may provide the incentive to remove or limit the exemption. Historically, organic producers complain when exemptions are removed if there are no alternatives--organic chicks must be available before their use will be legislated. Again, the COABC feels there is an unmet market for organic hatching eggs for the organic broiler industry.

The market for organic chicks will probably be realised (and acted upon) by an existing organic producer. The commission has a role to play to enable a new specialty producer to develop a new market for organic hatching eggs. The COABC is willing to work with the commission to develop an organic program for organic hatching eggs should the commission be persuaded to change its view on this matter.