Farm Products Council of Canada | Conseil des produits agricoles du Canada

2015-2016 ANNUAL REPORT

FARM PRODUCTS COUNCIL OF CANADA

Canada

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Chairman's Message

Hard at work. That was the Farm Products Council of Canada (FPCC or Council) in 2015-2016, the busiest year in corporate memory. Here is some of what we accomplished over the past year.

FPCC received, from the Canadian Pork Council, a proposal to establish a Canadian Pork Promotion and Research Agency (PRA) to be funded by levies. FPCC accordingly organized public hearings in Calgary (January 2016) and in Montreal (February 2016), presided over by a panel of Council members. This panel fielded input from a wide range of hearing participants, and compiled its advice on the pork industry application for Council's consideration.

FPCC will report on the application to the Minister of Agriculture and Agri-Food. The Minister, where he sees fit, is empowered to recommend the establishment of a new PRA to the Governor in Council.

FPCC additionally provided guidance to both supply management agencies and a number of other agricultural commodities groups that are exploring the PRA model.

On top of that, FPCC received a record four complaints between July 8 and September 17, 2015, from provincial boards against their respective national marketing agencies. As detailed in this report, the Agri-Food Council of Saskatchewan submitted a complaint against the Chicken Farmers of Canada; the Ontario Broiler Hatching Egg and Chick Commission submitted a complaint against the Canadian Hatching Egg Producers (CHEP); the Turkey Farmers of Ontario submitted a complaint against the Turkey Farmers of Canada (TFC); and the *Syndicat des producteurs d'oeufs d'incubation du Québec* issued a complaint against the CHEP.

Handling a complaint is no small task. When a complaint is received, as Chairman of FPCC, I hold informal discussions with the parties involved. The next step in the complaint process is to nominate Council members to a complaint committee, which oversees the complaint process and, typically, holds examinations. Other complaint committee tasks include setting timelines, scheduling examinations, and establishing rules for the submission of

information – for all complaints these tasks were completed within a month or less, in line with FPCC's Interim Complaint Guidelines. Such was the organization and efficiency of these FPCC committees that, in all cases, the parties to the complaints requested extensions to their timelines for processing their complaints.

This work on complaints and applications for PRAs comes, it should be noted, on top of the core work of FPCC in considering national agencies' periodic requests for quota, levy or other regulatory amendments. It comes in addition to Council members' communications role and their information-gathering among those involved in supply management in their home provinces and regions, and in addition to their respective duties as Council representatives to particular national agencies. It comes, indeed, over and above Vice-Chairman Mike Pickard's important work on the Egg Farmers of Canada's Cost of Production (COP) Committee, or Council members' many discussions with industry players such as the Canadian Poultry and Egg Processors Council, the Further Poultry Processors Association of Canada, the Canadian Association of Importers and Exporters, and Restaurants Canada. These and other FPCC activities are highlighted in this annual report, my sixth since I assumed the Chairmanship.

How to account for this unusually busy year for FPCC? The increase in complaints in 2015-2016 was not just an anomaly, because certain issues that the supply management system faced – such as frictions around inter-provincial marketing and relative market shares – are systemic in nature, not overnight events. My sense is that the increased demands on FPCC this past year reflect some deeper changes to the supply management system, changes that have been both reflected in and, to some extent, prompted by the launch of FPCC's 2015-2018 Strategic Plan.

For instance, FPCC engaged agencies on their responsibilities to review their legal and governance frameworks, including the Federal-Provincial Agreements (FPAs), which in some areas have gradually diverged from legislated authorities, such as the *Farm Products Agencies Act* (FPAA) or the agencies' proclamations. The approach in our new Strategic Plan – in calling for updates to the FPAs – has not been, out-of-hand, to call into question agencies' current practices, since agreed-upon modes of operation have built up rationally in response to changing economic circumstances over time. However, these measures for dealing with supply management challenges have combined gradually, in some areas, to diverge from the original intents of certain FPAs. So, in some instances, the agencies have reached a point where a prudential and collaborative restatement of common goals and issues has become necessary. FPCC will continue to work with all parties within the system, and especially with the provincial supervisory boards and the agencies themselves, to ensure that the system's legal framework, including the FPAs, is up-to-date and reflects current business practices and policies.

In parallel with this, FPCC is reemphasizing the need for the agencies to find an acceptable balance among their objects, as these are detailed in the FPAA and their proclamations. FPCC has already begun to collaborate with the agencies in building measures of comparative advantage of production into their respective allocation-setting approaches. This renewal in allocation-setting has not been without its challenges, as it has raised the expectations of some provincial partners while eliciting certain reservations among others. This is to be expected, and evidence that the system is in a transitional stage in which all participants must work for an updated agreement on common goals and issues.

I believe the outburst of activity in 2015-2016 reflects at once FPCC's role as an agent of change and guarantor of accountability in the supply management system, and the agencies' own determination to improve their work and the industries they represent. I believe that the agencies have taken to heart FPCC's message that supply management is a privilege and not a right. They are clearly, by their incremental but relentless improvements, working to justify Canadians' confidence in supply management.

Here, at FPCC, it is the experience and expertise of Council members which underlie public faith in the supply management system. These qualities were exemplified by Brent Montgomery, our friend and former colleague, who, until his retirement in the spring of 2015, served as Vice-Chairman of Council. As a former Chair of TFC, Brent brought his vast knowledge of supply management to all our discussions. I would like to thank him for his many contributions to FPCC and his years of service to Canadian agriculture.

I also want to thank Tim O'Connor, who served on Council from 2011 until his departure in June 2015. Tim brought compelling insights to Council's deliberations. He was deeply engaged in all of FPCC's files, renowned for his fairmindedness in supporting in all parts of the regulated industries, and exemplary in his defence of the public interest and of the integrity of Canada's supply management systems.

I am very happy with the addition of two new members to FPCC in 2015, Maryse Dubé and Kimberley Hill. Each has impressive credentials and valuable experience. The Canadian public will see that it is well served by its representatives at FPCC.

Given the excellent performance of our organization this year, and our achievements to date on our 2015-2018 Strategic Plan, I am confident that we can expect continued successes in 2016-2017.

Laurent Pellerin
Chairman and Deputy Head

Bringing Good Management to Market

From left to right: *Kimberley Hill, Maryse Dubé, Mike Pickard, Laurent Pellerin, Debbie Etsell* and *Chantelle Donahue.*

The FPCC helps ensure that all Canadians have affordable and continuous access to the foods they need, and helps maintain fair market prices for farmers.

The FPCC is a public interest oversight body that reports to the Parliament of Canada through the Minister of Agriculture and Agri-Food. It oversees the national marketing systems for poultry and eggs, and supervises the activities of national promotion and research agencies (PRAs) for farm products. It provides the Minister with advice and recommendations, collaborates with provincial supervisory boards, and works with other federal organizations.

The FPCC administers two federal laws, the *Farm Products Agencies Act* (FPAA) and the *Agricultural Products Marketing Act* (APMA). The FPAA provides for the creation and oversight both of national marketing agencies, which are not subject to the *Competition Act*, and of PRAs. The APMA authorizes the delegation of federal authorities over interprovincial and export trade to provincial commodity boards.

Under the FPAA, the FPCC is also responsible for hearing complaints lodged by such parties as may deem themselves unfairly affected by the operations of one of the five agencies – Egg Farmers of Canada (EFC), Chicken Farmers of Canada (CFC), Turkey Farmers of Canada (TFC), Canadian Hatching Egg Producers (CHEP) or Canada Beef.

FPCC Profile

Mission

FPCC is an active participant in ensuring that all Canadians benefit from the marketing, promotion and research of agricultural products.

Vision

FPCC is known for its leadership in maintaining and promoting efficient and competitive agricultural industries.

Organizational Commitments

Collaboration: working constructively with stakeholders in a manner that is reflective of the spirit in which Canada's agricultural marketing systems and its promotion and research systems were created.

Innovation: fostering innovative thinking so that these marketing systems, along with the promotion and research systems, continuously improve their efficiency and have the flexibility needed to address current and future challenges.

Fairness and Respect: conducting FPCC's work without bias or favouritism so as to recognize the contributions of all stakeholders within the agricultural marketing systems and promotion and research systems, while respecting each stakeholder's jurisdiction.

Transparency: conducting all FPCC activities, processes, programs, and reporting activities in an open and verifiable manner, and fostering this approach throughout both the agricultural marketing systems and the promotion and research systems.

Value Proposition

FPCC provides guidance and support to each sector in developing the Canadian market in a creative and competitive spirit.

FPCC is a transparent and independent body providing a broader perspective on the impacts of both the marketing systems and the promotion and research systems on all Canadians.

FPCC has an in-depth knowledge of the Government of Canada, which facilitates regulatory processes.

FPCC draws on its experience with agencies to provide creative solutions.

Council's Ongoing Strategic Priorities

FPCC's strategic priorities, as itemized in its *2015-2018 Strategic Plan*, help both Canada's agricultural marketing systems and its promotion and research systems seize economic opportunities and respond to challenges as they arise.

Knowledge and information-sharing among stakeholders and the FPCC remain key features of the plan. In particular, FPCC aims to help national agencies and provincial boards ensure that they abide by their respective legislative roles and responsibilities. Another priority is the promotion and establishment of PRAs. More generally, FPCC prioritizes efficient,

transparent and responsible management within both the national marketing systems and the promotion and research systems.

The FPCC is furthermore responsible for ensuring that the national agencies meet the requirements of the *Statutory Instruments Act*. In addition, it has been tasked with administering the APMA. This Act allows the federal government to delegate its authorities over interprovincial and export trade to provincial commodity boards on a wide range of farm products.

Duties, Powers and Responsibilities

The FPCC's duties, powers and responsibilities are described in the FPAA as follows:

- Make recommendations to the Minister on all matters relating to the establishment and operation of national agencies under the FPAA with a view to maintaining and promoting efficient and competitive industries;
- Review the national agencies' operations with a view to ensuring that they carry on these operations in accordance with their objects;
- Consider for approval quota regulations and levies orders, licensing regulations and certain by-law provisions;
- Work with national agencies in promoting more effective marketing of farm products;
- Collaborate and maintain relationships with supervisory boards and the governments of all provinces and territories in matters related to the operations of the national agencies, as well as when new agencies are proposed;
- Investigate and take action, within its powers, on any complaints related to national agency operations; and
- Hold public hearings when necessary, such as when new agencies are proposed.

Beyond these responsibilities, the Chairman is responsible for the administration of the FPCC, as Deputy Head of this public interest oversight body operating within the federal government. As Deputy Head, he is guided by a set of government statutes, policies and procedures that must be followed. The Deputy Head ensures due process in all of FPCC's operations, and that all organizational requirements relating to performance and financial matters are met. The Deputy Head maintains relationships with key federal government departments and central agencies, such as the Treasury Board of Canada Secretariat, the Privy Council Office, the Department of Justice, the Office of the Auditor General of Canada, and the Public Service Commission of Canada. Ultimately, the FPCC is accountable to the Minister, Parliament and to Canadians.

The FPCC's Chairman works closely with heads of provincial supervisory boards across the country. He participates in their coordinating body, the National Association of Agri-Food Supervisory Agencies, makes presentations at provincial meetings, and engages provincial government counterparts in advancing the supply managed industries and their issues. This work with provincial supervisory bodies is part and parcel of a broader approach of deep engagement with provinces and territories across the agriculture and agri-food portfolio, an approach conducted in collaboration with and encouraged by Agriculture and Agri-Food Canada (AAFC).

FPCC Governance

Left to right: *Maryse Dubé, Debbie Etsell, Kimberley Hill, Steve Welsh, Hélène Devost, Pierre Bigras, Marc Chamaillard, Mike Pickard* and *Laurent Pellerin.*

Within this framework, the Minister of Agriculture and Agri-Food provides the Chairman with a written mandate directing work to be done and his expectations for FPCC.

The Council is composed of at least three members, and, including the Chairman, may number as many as seven. At least half of the members must be primary producers at the time of their appointment. All members are Governor in Council (GIC) appointments, and serve terms of varying lengths. The Chairman is currently the only full-time Council member.

Members

Laurent Pellerin is a cereal producer in Bécancour, Québec, and has been farming since 1972. In addition to holding a Bachelor's degree in group management, he was President of the Canadian Federation of Agriculture (2008-2010), the *Union des producteurs agricoles* (1993-2007), the *Fédération des producteurs de porcs du Québec* (1985-1993), and Agricord, a network of agricultural associations dedicated to international development. In 2005, he was awarded the *Ordre National du Québec* in recognition of his contributions to agriculture.

Debbie Etsell has been in the agriculture industry for approximately 25 years. Ms. Etsell is a director with Coligny Hill Farms Ltd., an Abbotsford, British Columbia (B.C.) farm where she, along with her husband and two sons, produces turkeys, hay and wine grapes. Ms. Etsell's passion for agriculture has led her to work with various farm organizations. She has been with the B.C. Blueberry Council since 2007 and is currently its Executive Director. Ms. Etsell has also worked for the B.C. Agriculture Council and the Raspberry Industry Development Council.

Mike Pickard is a resident of Saskatoon, Saskatchewan. Formerly the owner of a broiler chicken operation, Mr. Pickard also served as a director both with the Chicken Farmers of Saskatchewan (2007-2013) and CFC (2008-2013). He served both on CFC's Finance Committee and on its Consumer Relations Committee. Originally from Saint John, New Brunswick, he and his wife Jana have three children.

Chantelle Donahue is from Biggar, Saskatchewan, where she is co-owner of a family grain and oilseed farm. She is also Vice-President of Corporate Affairs for Cargill Limited. Ms. Donahue currently sits on a number of agricultural steering committees, boards and associations. She currently serves as the Chair, or in some cases the Co-Chair or Vice-Chair, of several grain associations and Canadian roundtables. Ms. Donahue holds a Bachelor of Commerce (Cooperative Program) from the University of Alberta.

Kimberley Hill is the President of Bridge Strategies, Inc., a consulting firm in Saskatchewan, which provides a variety of management services to companies and organizations in the agribusiness sector. Over the last few years, she has played an integral part in growing businesses and organizations through business incubation. Mrs. Hill has extensive experience in the value-added food industry, having worked with the Saskatchewan Food Processors Association, as Program Director/Controller. In that capacity, she was the key driver of the Saskatchewan Made Program in the early 2000s. Prior to her work at the Saskatchewan Food Processors Association, she managed a food processing plant located in rural Saskatchewan. Mrs. Hill resides in Saskatoon with her husband Bob. They have two children.

Maryse Dubé completed her law degree at Laval University in 1996 and was admitted to the Quebec Bar in 1997. As a lawyer and a partner of *Sylvestre & Associés* since 2004, Mrs. Dubé works in commercial and food law representing several financial institutions. She also represents small- to medium-sized enterprises in security law, bankruptcy, commercial litigation and corporate law (manufacturing and agricultural components). Mrs. Dubé is active in her economic and social milieu and serves on numerous corporate boards and community organizations. She was President of the Bar of the Richelieu Division in 2014 and currently serves on the Executive Committee of the Quebec Bar.

FPCC staff

Front row, left to right: *Pierre Bigras, Hélène Devost, Reg Milne, Lise Turcotte, Chantal Lafontaine, Marc Chamaillard, Laurent Pellerin, Nathalie Vanasse, Dominique Levesque, Lise Leduc, Céline Tremblay* and *Chantal Turcotte.* **Back row, left to right:** *Mélanie Pruneau, Joanne Forget-Chayko, Steve Welsh, Bill Edwardson, Nancy Fournier, Mike Iwaskow, Thomas Bergbusch* and *Maguessa Morel-Laforce.*

Monitoring Activities of Agencies

Regulatory Framework

Part II of the FPAA provides that the Governor in Council (GIC) may, by proclamation, establish a national marketing agency where it is satisfied that a majority of producers in Canada favour such action. A proclamation is a federal regulation that outlines how this agency is to be constituted (i.e., membership, means of appointment, location of the agency's head office, etc.).

The marketing plan, which the national marketing agency is authorized to implement, is set out in a schedule to the proclamation. Typically, the marketing plan would describe the quota, licencing and levy systems to be implemented, provisions for review of the marketing plan, and other general items specific to the regulated commodity in question.

The FPAA allows the Minister of Agriculture and Agri-Food, with GIC (Cabinet) approval, to enter into an agreement with any province or territory so that a national marketing agency can perform functions on behalf of that province (i.e., receive delegated authority from a province). This is known as a Federal-Provincial Agreement (FPA).[1] In addition, most provincial legislation requires an agreement to delegate authority from such an agency to a corresponding provincial commodity board.

An FPA typically has schedules attached, which include the proclamation and national marketing plan, provincial marketing plans and the original proposal used during the public hearing process.

Signatories to the current FPAs include the federal and provincial ministers of agriculture, the FPCC (for the egg and turkey FPAs), provincial supervisory bodies, provincial commodity boards, and, for all but turkey, the national agency. In Alberta and Quebec, the Ministers of Intergovernmental Affairs are also signatories.

Legally, the FPAA is subordinate to the Constitution; the proclamation and marketing plan are subordinate to the FPAA; and agency orders and regulations are subordinate to the proclamation and marketing plan. Subordinate legal instruments cannot exceed the authority of a superior instrument. For example, an agency cannot derive authority from an FPA that has not been specified in its proclamation.

The FPAA and Powers of National Marketing Agencies

The objects of an agency, as set out in section 21 of the FPAA, are as follows:

a) to promote a strong efficient and competitive production and marketing industry, and

b) to have due regard to the interest of producers and consumers.

In the pursuit of these goals, agencies are vested, through their proclamations, with the powers set out in section 22 of the FPAA, including the powers to:

- Undertake and assist in the promotion of the consumption of the regulated product;
- Advertise, promote and do research into new markets;

[1] As the Northwest Territories is a member of EFC; the EFC agreement is referred to as the Federal- Provincial-Territorial Agreement.

- Set production quotas and collect levies;
- Purchase, lease or otherwise acquire and hold a mortgage of a property; and
- Invest any money in its possession in securities that are guaranteed by the Government of Canada.

Under section 27 of the FPAA, an agency has an obligation to conduct its operations on a self-sustaining financial basis. Section 29 provides that the accounts and financial transactions of each agency are to be audited annually by an auditor appointed by the GIC, and detailed in a report made to the agency, FPCC and the Minister of Agriculture and Agri-Food. Pursuant to section 30 of the FPAA, each agency is also required to submit an annual report to FPCC and the Minister. Section 32 of the FPAA provides that any contract, agreement or other arrangement between an agency and any person engaged in the production or marketing of the regulated product is exempt from the *Competition Act*.

The agencies establish, enact and implement regulations for various purposes including setting quota allocations and collecting levies. It is within those designated areas that FPCC's direct involvement is necessary since an agency requires statutory authority to implement the terms of its marketing plan.

Each time an agency requests an amendment to an order or regulation, Council members must review the rationale for the amendment. This involves considering market and financial statistics as well as the agency's budget.

When approving an agency order or regulation, Council members must be satisfied that the order or regulation is in accordance with and necessary for the implementation of the agency's marketing plan. Agencies typically review their quota allocations and the levy amount on an annual basis. CFC is the exception, as it sets quota allocations more frequently, and these allocations require FPCC's approval several times per year.

THE EGG AGENCY

The Egg Farmers of Canada

Egg Farmers of Canada (EFC) is the national agency responsible for the orderly marketing of eggs in Canada. EFC was legally established as the Canadian Egg Marketing Agency in 1972 under the *Farm Products Marketing Agencies Act* (FPMAA), further to an agreement of the federal government, provincial agricultural ministers (and supervisory boards), and table egg producers in member provinces. In 1993, the title of the FPMAA was amended to *Farm Products Agencies Act* (FPAA).

EFC is made up of 11 member provinces and territories: British Columbia, Alberta, Northwest Territories, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Prince Edward Island, Nova Scotia, and Newfoundland and Labrador. Each member province and territory elects a delegate to sit on the agency's board of directors. The Board also has delegates from other industry stakeholders: one appointed by the Consumers' Association of Canada; one by the Canadian Hatchery Federation; and two by the Canadian Poultry and Egg Processors Council (CPEPC), representing the egg-grading and the processing sectors. Once a chairperson is elected from among appointed delegates, a replacement from his or her commodity board of origin is added as a temporary substitute member, to bring board membership to 16.

EFC's Board of Directors meets several times per year to plan and manage egg production and marketing. The Board's primary responsibility is to set quota allocations and make any changes to levies orders necessary for EFC to cover its operating costs. For any changes to take effect, EFC requires FPCC approval of amendments to the *Canadian Egg Marketing Agency Quota Regulations* or to the *Canadian Egg Marketing Levies Order*. All approved levies are included in the price that consumers pay for table eggs.

Egg Production in Canada

Producers either raise their own pullets until they are 19 weeks old, or purchase pullets at that age. At that point, the pullets become laying hens. Farmers then keep them for about one year, during which time the hens lay eggs on a daily basis. These eggs, known as table eggs, are collected and sent to grading stations before being shipped to wholesalers, retailers, and the hotel, institutional and restaurant trade. As egg production is continuous, while market demand fluctuates both seasonally and in response to other factors, EFC operates its Industrial Products Program (IPP) to sell off table eggs produced in excess of table demand. Where possible, these surplus eggs are sold as table eggs in other provinces where supply is short.

Otherwise they are sold to processing companies as eggs for breaking. These "breaker eggs" are processed and used, or sold to other companies, for use as ingredients in foods such as bakery products, mayonnaise, frozen omelets, and various other products.

Quota Allocation

EFC has established an allocation system which sets out, by agreement with provincial counterparts, the total number of dozens of eggs to be produced in a province and authorized to be marketed either in intraprovincial trade (as assigned by each provincial commodity board) or in interprovincial and export trade. Under the *Canadian Egg Marketing Quota Regulations*, EFC currently administers five distinct allocations, as follows:

Federal Allocation: shell eggs allocated under the Federal Allocation are produced for the table market. Eggs surplus to the table market are purchased by EFC at the lower of the provincial producer price or the provincial cost of production, plus an administration and handling fee, and resold to egg processors at the Canadian processor price, under the IPP.

Special Temporary Market Requirement Quota (STMRQ): EFC introduced the STMRQ to help Canadian egg processors cope with higher import prices caused by the 2015 avian influenza (AI) crisis in the U.S. This quota provides for additional production of eggs by layers at the end of what would be their usual lay cycle under the Federal Allocation.[2] Under the STMRQ, egg farmers are authorized to sell their eggs at the Canadian processor price. The STMRQ will be phased out once the average Urner Barry price (a commercial, reference price for breaker eggs in the U.S.) equals or declines below the 2014

[2] Layers are either soft moulted or have their production cycle extended to meet STMRQ requirements.

average of US$0.91 per dozen, for five consecutive periods of four weeks.

Eggs for Processing (EFP) Allocation: to complement the IPP, several provinces administer an EFP quota, which is used to supply processing companies within a province.

Export Market Development Allocation: this allocation resides in Manitoba and the eggs produced under this allocation must be exported.

Vaccine Egg Allocation: fertilized eggs are produced under this allocation and sold to pharmaceutical companies for the production of vaccines in Canada.

FPCC's Work with EFC

Amendments to Levies Order

EFC funds itself through a levy raised on each marketable dozen eggs produced out of the Federal Allocation for table eggs by a registered egg producer. The number of laying hens to be placed by producers is based on a national rate-of-lay number. This number is set by EFC further to its cost of production survey, and requires Council's approval. Actual collection of levies (provincial and national combined) is handled by provincial commodity boards, according to distinct rules in each province. Commodity boards transfer the national levy funds collected to EFC.

All EFC levies have to be approved by Council. An important consideration for Council members is that the interests of consumers be taken into account in the setting of levies. The FPCC seeks to ensure that levies are proportionate to EFC's operating costs and the funding requirements of the IPP.

Revenues from the national levy are administered through a number of separate funds. One, the Administration Fund, is used to provision EFC's day-to-day work. Another is the Restricted Research Fund. The third is the Risk Management Fund for producers.

The fourth and largest fund is the Pooled Income Fund (PIF), which is used for EFC's purchase of excess table eggs from provincial commodity boards under the IPP. Grading stations sell excess eggs of provincial or territorial commodity boards. EFC buys these excess eggs and sells them to egg processors based on U.S. processor prices. As U.S. processor prices are typically lower than prices set by provincial commodity boards, EFC charges levies to make up the difference between the processor price and the price it pays to provincial boards. These levies are included in producers' cost of production, and are passed on to consumers.

A fifth and final fund, created in late 2014, is the Service Fee fund. EFC charges a service fee on every new bird allocated to producers under the Federal Allocation (i.e., on every hen which lays eggs for the table market). The Service Fee fund serves as a reserve out of which contributions can be made to the PIF, but this fund can only be tapped when the surplus in table eggs rises above 23% of the estimated demand for table eggs.

In 2015-2016, the PIF's contribution to support the IPP declined, as the difference between the processor price and the price paid to provincial boards narrowed due to a combination of higher breaker import prices and lower buy back prices for production in excess of domestic demand. As international reference prices (i.e. Urner Barry breaker prices) were unusually high due to avian influenza, there was a shortage of breaker

eggs in the U.S. At the same time, domestic demand for table eggs in Canada continued to increase faster than production, which led to a lower number of surplus table eggs.

The combination of a lower surplus in table eggs in 2015-2016 and higher breaker prices in the U.S. contributed to three consecutive decreases in the PIF levy. These decreases resulted in a combined reduction in the levy of eight cents since December 2014, as detailed in Table 1.

Table 1: 2015-2016 Levy Amendments to the *Canadian Egg Marketing Levies Order*

FPCC Decision Date:	Total EFC Levy ($/dozen)	Details
Dec. 2014	0.2675	In effect for the period from January 25, 2015 to May 16, 2015.
Apr. 2015	0.2575	In effect for the period from May 17, 2015 to January 23, 2016.
Dec. 2015	0.1875	In effect for the period from January 24, 2016 to March 31, 2017.

Source: FPCC compilation

The 2015-2016 levy is broken down in Table 2.

Table 2: 2015-2016 EFC Total Levy

Fund	2016 Levy Effective January 24, 2016 to March 31, 2017 ($/dozen)
Pooled Income	0.1540
Risk Management	0.0010
Administration	0.0300
Restricted Research	0.0025
Total EFC Levy	**0.1875**

Source: EFC and FPCC compilation

Quota Allocation and Production Threshold

The 2015-2016 fiscal year was complicated by the challenge, for EFC and FPCC, of responding simultaneously to the continuing effects of the avian influenza crisis in the U.S., and to more common, but no less serious, concerns about an impending market shortage.

EFC undertook a number of measures to respond to the effects of the crisis, which had necessitated the culling of 36 million hens in the U.S. To mitigate anticipated losses to Canadian processors due to high prices for imported processing eggs, EFC and the CPEPC signed the High-Low Prices (HLP) initiative in May 2015.

This initiative provided financial support to processors out of the PIF to, in effect, reduce processors' purchase price for breaker eggs. EFC diverted $45 million out of the PIF for the HLP, and pledged to repay that amount over a two-year period, starting in the fall of 2015. Another EFC measure designed to alleviate high prices arising from the AI crisis in the U.S. was the addition of 900,000 layers, or 8,806,153 dozens of eggs, under the STMRQ. These additional layers were approved by FPCC on September 29, 2015.

FPCC's concerns about an anticipated market shortage arose, in part, from a difference with EFC on how best to assess market demand, whether through previous years' demand (EFC's then approach) or through an anticipated market need assessment. Additional production was brought on-stream once EFC included a new forward-looking element to its quota allocation methodology. This new measure was included in EFC's April 2015 quota amendment request to Council.

FPCC viewed this as a constructive step, and approved it on April 20, 2015. EFC indicated that additional investigation, assessments and due diligence needed to be completed prior to incorporating a forward-looking aspect to the quota allocation methodology on an ongoing basis. At the November 2015 meeting of the EFC Board, the forward-looking element was made a permanent feature of the allocation process. EFC now works with CPEPC to develop a joint market growth forecast of Canadian table egg disappearance (i.e. total domestic table egg consumption).

A separate strategy to alleviate the market shortage was proposed by Council Chairman Pellerin, just prior to the onset of the fiscal year. At his advice, EFC's Board of Directors voted to rescind EFC's 97% cap on allocations already approved by FPCC. This cap, or Quota Utilization Threshold, had been put in place following overproduction in 1974, when EFC was forced to destroy 28 million dozens of eggs. In 1976, for the seven largest provinces, the cap was set at 95% (and raised by two percentage points in 1984). In 2015-2016, in a context of market shortages, FPCC recognized a need to change or remove the cap. This policy change was approved by EFC's Board on December 2015 and led to the additional placement of 661,000 layers previously held "in reserve". The total number of regulated layers approved by Council by the start of 2015-2016 amounted to 22,791,927. By March 22, 2016, this number rose to 24,970,427.

Amendments to Combined Federal, Eggs for Processing, and Export Market Development Allocations[3]

In April 2015, Council members approved EFC's request for an increase in the combined allocations for the new fiscal year. As indicated in Table 3, three subsequent amendments to the combined allocations were submitted by EFC, but only one of these was approved, in December 2015.

Table 3: FPCC Decisions on EFC Amendments to 2015-2016 Allocations (combined)

FPCC Decision	Status	Period of Effect	Approved Changes (dozens)	Comments
Apr. 20, 2015	Approved	May 17, 2015 to Dec. 26, 2015	629,666,811	An allocation increase, due to shortages in table eggs, based on new forward-looking quota allocation methodology.
Aug. 11, 2015	Decision Postponed	n/a	647,638,746	FPCC deferred decision pending reconciliation of the requested quota with forward-looking data.
Dec. 08, 2015	Approved	Dec. 27, 2015 to Apr. 16, 2016	648,188,402	An increase in line with forward-looking quota allocation methodology.
Mar. 22, 2016	Decision Postponed	n/a	665,967,552	FPCC sought clarification of table egg market shortage.

Source: FPCC compilation

[3] All allocations – federal, EFP, Export Market Development, STMRQ, and Vaccine – are adopted under the *Canadian Egg Marketing Agency Quota Regulations, 1986*.

Vaccine Egg Allocation

On November 4, 2015, Council members approved an amendment to the *Canadian Egg Marketing Agency Quota Regulations* authorizing maintenance of the existing quota of eggs for vaccine production during the period from December 27, 2015, to December 31, 2016. The total vaccine allocation remained unchanged from the 2015 level of 13,335,840 dozen eggs, of which 10,674,000 dozen were allocated in Quebec and 2,661,750 dozen in Ontario.

FPCC's Ongoing Priorities

FPCC Vice-Chairman Mike Pickard and FPCC staff attended all of EFC's open board of directors meetings, and participated in meetings and teleconferences of EFC's Cost of Production Committee as observers. Council members met on several occasions with the EFC Chairperson and Executive Committee to discuss issues of immediate importance. In September 2015 and February 2016, Council members met with the complete EFC Board, to discuss a range of issues, such as the table egg allocation methodology and how best to supply both the table and processing markets with Canadian eggs. With the table egg market now on its way to being appropriately provisioned, FPCC will continue to engage producers, processors and graders in considering solutions to the domestic egg for processing market shortage.

In October 2015, EFC and FPCC agreed to develop a PIF management policy. The aim is to define the process that EFC and FPCC will use to assess whether levy changes are required for the PIF. Currently, EFC uses fund balances of $20 million and $40 million as its lower and upper trigger points for levy changes. FPCC has suggested that these trigger points be replaced by a policy target rate (or "pivot point") designed to allow EFC to maintain the PIF at reasonable level while providing sufficient funds to finance the IPP.

THE TURKEY AGENCY

The Turkey Farmers of Canada

The Turkey Farmers of Canada (TFC) is the national agency responsible for the orderly production and marketing of turkeys and turkey meat in Canada. Legally known as the Canadian Turkey Marketing Agency, TFC was established in 1974 under the then *Farm Products Marketing Agencies Act* (FPMAA) further to a federal-provincial agreement (FPA) among the Government of Canada, provincial agricultural ministers (and provincial supervisory boards), and turkey producers in member provinces. In 1993, the title of the FPMAA was amended to *Farm Products Agencies Act* (FPAA).

Eight provinces are members of TFC: British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia. Each province elects a representative to TFC's Board of Directors, which also includes three appointees from turkey industry stakeholders: two named by the CPEPC representing primary processors; and one, by the Further Poultry Processors Association of Canada (FPPAC), representing companies which use turkey as an ingredient in their products. TFC's Board of Directors meets quarterly to plan and manage turkey production and marketing. This mainly involves setting or adjusting production quota, and setting a national levy which covers the marketing and administration costs both of TFC and provincial commodity boards (see more on levies below). Quota or levy amendments proposed by TFC require Council members' approval.

Canadian Turkey Value Chain

Turkey farmers purchase vaccinated, day-old turkeys (poults) from hatcheries. Poults are raised in climate-controlled barns. Once they reach market weight (between 11 and 17 weeks of age), and depending on market requirements, they are transported to processing plants. Hens (females) are normally grown for the whole bird market, while toms (males) are typically grown for the further processed market. At the processing plants, the birds are eviscerated, to be sold fresh or in frozen form to the foodservice, restaurant or retail sectors, or to a processor for further processing (for use in frozen dinners, sliced meats, meat pies, etc.).

FPCC's Work with TFC

Levies Orders

TFC, like all national marketing agencies, imposes levies on producers to cover its marketing and administration costs. Each provincial board has similar authority to fund itself through levies paid by producers on the products they market. The provincial boards do the actual collection of these two types of levies, the *national levy* and the *provincial levies*.

TFC's *annual levy*, as approved by FPCC, combines the national levy and provincial levies. This combined levy is included in the price that consumers pay for turkey, but represents less than 1% of the live price of turkey and has little impact on consumer prices or consumption. Levy amendments proposed by TFC require FPCC's approval.

As part of an administrative review, FPCC staff noticed in 2015 that the *Canada Turkey Marketing Levies Order* (C.R.C.c.658), which expired on December 31, 2001, had never been revoked and was still listed in the order registry of Justice Canada. TFC was consulted and agreed that this order should be repealed. The current order governing collection of the levy in the turkey industry – the *Canada Turkey Marketing Producers Levy Order* (SOR/2002-142) – has been in effect since 2002. To correct the situation, at their meeting on November 4, 2015, Council members approved the revocation of the expired *Canada Turkey Marketing Levies Order* (C.R.C.c.658).

Amendment to the Levies Order

To fund its planned expenditures, TFC sought to increase its revenues in 2016 through an increase in its levy. Therefore, at its December meeting, Council members approved TFC's proposal to increase the national component of the annual levy. This national levy change, the first since 2003, was included in the annual levy, which then rose to 1.8 cents from 1.6 cents per kg (live weight), from the date of registration until March 31, 2017.

Amendments to Quota Regulations

In the turkey sector, quota allocation covers production over a control period that runs from around May 1 to April 30. This control period is designed to bridge calendar years to include production planning for the peak festive markets of Thanksgiving, Christmas and Easter. TFC administers four quota allocation policies in partnership with the provincial boards:

National Commercial Allocation Policy: two separate quotas, one for production of whole birds, and another for birds produced for cuts or further processing.

Export Policy: quota allocated to replace birds already exported, and to allow sufficient production to cover planned exports (of processed, further processed or live turkey).

Multiplier Breeder Policy: quota for birds that are needed to produce turkey eggs and poults for the industry.

Primary Breeder Policy: quota of birds marketed as primary breeding stock[4].

[4] Older breeders that are no longer in production.

TFC's directors agree on an initial "global" quota for each control period. This equals the total value of all categories of quota set out under the four policies. Next, TFC requests its Board members to approve both this initial global quota and each subordinate category of quota that it covers. TFC then seeks Council members' approval of an amendment to the *Canadian Turkey Marketing Quota Regulations*, which presets the provincial allocation and the total global quota.

As the production year advances, changes in stocks, production and sales may suggest that adjustments are needed to this global quota. When adjustments are required, TFC's Board requests Council members' approval of an amendment to the quota regulation. Once the control period has ended and full production data is available, a final audit determines if any quota levels have been exceeded, so that adjustments can be made in the next control period and penalties charged for over-marketing, where warranted.

FPCC approved an initial 2015-2016 global quota of 185.3 million kilograms (eviscerated weight) at its March 2015 meeting. In 2015-2016, FPCC then approved four quota amendments requested by TFC, as itemized in Table 4.

Committee members for the complaint by Turkey Farmers of Ontario, Kimberley Hill, as Committee member and Mike Pickard, as Chair.

Given a need for further assessment of projected export growth, TFC's initial quota for 2016-2017 (last row of Table 4) did not include an amendment to the Export Policy quota (to be considered by FPCC in the new fiscal year). TFC sought prior approval of this initial 2016-2017 quota to ensure that quota regulations were in place at the end of the control period ending April 30, 2016.

Complaint by the Turkey Farmers of Ontario Against TFC

On July 10, 2015, FPCC received a complaint from the Turkey Farmers of Ontario (TFO) against TFC, arising from TFC's decision, on June 11, 2015, to impose penalties on TFO because of over-marketing. These penalties included liquidated damages payable to TFC and a reduction in the volume of quota allocated to Ontario.

FPCC members Mick Pickard and Kimberley Hill were appointed as Chair and member of a complaint committee tasked with examining TFO's complaint. However, at the request of both parties to the complaint, FPCC granted a stay of proceedings while the parties underwent a binding arbitration process. On March 2, 2016, a three-member arbitration panel issued a unanimous decision confirming the enforceability of the Turkey Promotion Agreement as an essential aspect of the Federal-Provincial Agreement for Turkey. The panel thereby upheld the legitimacy of TFC's decision to impose penalties on TFO. Two central elements of the related arbitration award included:

- Liquidated damages payable to TFC in the amount of $1,696,555.09; and
- A marketing reduction in the amount of 2,274,796 kilograms (live weight).

The unanimous decision of the arbitration panel was released by TFC in a public statement on March 14, 2016. At its meeting of March 22, 2016, Council accepted TFO's withdrawal of its complaint on the recommendation of the Complaint Committee.

FPCC's Ongoing Priorities

Council members Mike Pickard and Kimberley Hill, accompanied by FPCC staff, combined to attend all of TFC's 2015-2016 Board of Directors' meetings and teleconferences, as observers. Over the year, FPCC's Chairman spoke at a number of meetings both of the TFC Board and provincial boards. An annual meeting between Council members and TFC executives was held in April 2015.

Through such regular contacts, FPCC engaged with TFC on important issues, notably ones related to its breeder policies, or changes in export demand. FPCC encouraged TFC to explore the potential for a promotion and research agency (under Part III of the FPAA), as a means to facilitate research and promote increased turkey consumption in Canada and abroad. In general, Council members and staff worked to deepen their understanding of how TFC itself conceives, applies and monitors its allocation policies.

Table 4: Approved Turkey Quota Allocations and Amendments in 2015-2016

Quota Allocations	FPCC Approval Date	Million kg (Mkg) (eviscerated weight)	Rationale
Initial Quota 2015-2016	Mar. 2015	185.3	Advance approval of the initial global quota for the 2015-2016 control period.
1st quota amendment	Jun. 2015	184.3	A 0.5% decrease in the March 2015 initial quota allocation, prompted by a 1.0 Mkg decrease in the whole bird allocation due to updates to the domestic market forecast, stock levels, and a related administrative adjustment in the Multiplier Breeder Allocation.
2nd quota amendment	Oct. 2015	184.6	A 0.17% increase over the June allocation, in response to a 0.3 Mkg increase in demand for birds for further processing in Western Canada.
3rd quota amendment	Nov. 2015	186.6	A 1.1% increase over the October allocation, due to increased domestic demand (2.0 Mkg) for meat from birds for further processing (given high U.S. breast meat prices and supply shortages following the 2015 avian Influenza outbreak.)
4th quota amendment	Dec. 2015	192.8	A 3.3% increase over the November allocation, as 2015-2016 quota was adjusted in line with both reconciliation of 2014-2015 control period marketings, and increased export policy allocations in the current control period.
Initial Quota 2016-2017	Mar. 2016	186.4	A 3.3% decrease in the December 2015 allocation, due to a decrease in multiplier and primary breeder allocations, partly offset by an increase in the further processing allocation.

Source: FPCC compilation

THE CHICKEN AGENCY

The Chicken Farmers of Canada

The Chicken Farmers of Canada (CFC) is the national agency responsible for the orderly marketing of chicken in Canada. Originally known as the Canadian Chicken Marketing Agency, CFC was proclaimed by the Government of Canada in 1978 under the *Farm Products Marketing Agencies Act* (FPMAA), which was officially renamed the *Farm Products Agencies Act* (FPAA) in 1993. Implementation of CFC's proclamation was enabled by a federal-provincial agreement (FPA) between the federal government, provincial agricultural ministers, and chicken producers in member provinces.

Currently, all provinces but Alberta are members of the Agency. Each elects a member to CFC's Board of Directors. The Agency also has two representatives appointed by the CPEPC, one representative from the FPPAC, and one from Restaurants Canada. The Board meets every eight weeks to discuss subjects such as quota allocation, on-farm food safety, animal welfare and regulatory issues.

In 2015-2016, Council Chairman Laurent Pellerin and FPCC staff attended all CFC's Board of Directors meetings as observers. The Chairman and staff from FPCC also met on several occasions with CFC's Chair and Executive Committee to discuss priority issues, notably CFC's ongoing work to amend Schedule B of the FPA, the Operating Agreement.

Canadian Chicken Value Chain

The chicken value chain is essentially organized as follows: CFC chicken farmers purchase day-old chicks that have been vaccinated to prevent illness from hatcheries. The chicks are placed in climate-controlled trucks and delivered to chicken farmers. After five or more weeks in the barns, depending on market requirements, the chickens are transported to processing plants. At the processing plants, the chickens are eviscerated and sold to the foodservice, restaurant and retail sectors, or to a processor for further processing (such as the preparation of frozen dinners, chicken nuggets, meat pies, etc.).

FPCC's Work with CFC

Amendments to Levies Order

Provincial commodity boards and CFC each charge levies to chicken producers to defray their respective administrative and operating costs. National and provincial levies are combined into a single levy charged by CFC on interprovincial and export marketing. Council members' approval is required for any changes in national or provincial levies.

In 2015-2016, CFC maintained its national levy at 0.53 cents per kilogram (live weight), a level which

Council members deemed sufficient to cover CFC's administrative and marketing costs. Council members also approved an amendment extending the expiry date of the *Canadian Chicken Marketing Levies Order*, from March 31, 2016 to March 31, 2017.

There were no amendments to provincial levies throughout the 2015-2016 period.

Amendments to Quota Regulations

CFC's allocation period is eight weeks in length. In 2015, CFC began setting two consecutive eight-week allocations at each of its allocation meetings. CFC thus now asks Council members to consider amendments to the *Canadian Chicken Marketing Quota Regulations* three times per year. Both the total and provincial allocations set by CFC and approved by Council members grew in 2015-2016. The total allocation increased by 4.8% over the previous year. Within that total, the domestic allocation grew by 4.5%, the market development allocation rose by 4.6%, and the Specialty Chicken Allocation increased by 63.4%.

FPCC's Support for a Long-term Allocation Agreement for Chicken

Memorandum of Understanding on a Long-Term Allocation Agreement

On November 20, 2014, an agreement on long-term allocation was formalized through a memorandum of understanding (MOU) between CFC and provincial commodity boards to incorporate some measure of differential growth, also known as comparative advantage of production (CAP), into the national quota allocation process. Differential growth refers to the allocation to provinces, based upon some measures of competitiveness, of different shares of domestic quota. Prior to the MOU, quota had been allocated on the basis of provinces' historical market shares, which meant the shares of various provinces diverged over time from their actual productive capacity and retail market shares. Prior to the MOU, Alberta had, as a result, withdrawn from the FPA, but it signaled its intent to rejoin the FPA once the MOU received unanimous support from the CFC Board.

Table 5: 2015-2016 Quota Periods Approved by FPCC

Quota Periods	From	To	Total Allocation (kg, live weight)
A-131	Jun. 14, 2015	Aug. 08, 2015	230,699,527
A-132	Aug. 09, 2015	Oct. 03, 2015	230,562,848
A-133	Oct. 04, 2015	Nov. 28, 2015	233,592,190
A-134	Nov. 29, 2015	Jan. 23, 2016	229,057,298
A-135	Jan. 24, 2016	Mar. 19, 2016	237,605,448
A-136	Mar. 20, 2016	May. 14, 2016	244,166,202
A-137	May. 15, 2016	Jul. 09, 2016	244,764,570
A-138	Jul. 10, 2016	Sep. 03, 2016	243,538,273

Source: CFC

The MOU now guides CFC allocations, and will do so going forward. After the initial provincial allocations have been determined, as per the MOU, Ontario receives an additional ("discrete") allocation that is supplied from the allocation of every other province, excluding Alberta. This additional allocation will be recalculated every six periods, with the goal of allocating 14,184,786 kilograms by the end of 66 periods following the signing of the agreement. However, this volume will not be allocated if the allocation is set at or below the national allocation base. Nor is Ontario to receive the full discrete volume if, during any allocation, another province's allocation would be set lower than its provincial base.

The new agreement also includes the Atlantic Canada Safeguard Agreement. This limits the volume of allocation that the four Atlantic provinces may be required to cede when comparing the long-term allocation agreement with the pro rata methodology (i.e., "historical share") previously employed. If the national allocation is set at or below base, the distribution among provinces reflects the provincial shares of the national base allocation for that period.

If the national allocation is set above base, the remaining allocation above base is to be allotted according to a formula based on eight factors, as shown in Table 6.

Appeals by Processors in Three Provinces to Provincial Supervisory Boards

At the onset of the 2015-2016 fiscal year, certain processors in British Columbia (B.C.), Saskatchewan and Manitoba had outstanding appeals already lodged with their respective provincial supervisory boards regarding the MOU for the Long-term Chicken Allocation Agreement. These processors' appeals contended that the MOU would affect them adversely while unduly favouring Ontario processors (through the discrete allocation that Ontario is to receive for the duration of the MOU). The Manitoba and Saskatchewan appellants subsequently withdrew their complaints. In B.C., the B.C. Farm Industry Review Board launched a review of the B.C. Chicken Marketing Board's request for approval to sign the amended Operating Agreement.

Table 6: Factors in Allocating Additional Quota Above the Base

Factor	Percentage	Details
Pro-rata	45.00%	Extrapolation of historical market shares.
Supply Share	5.00%	Threshold of 90% production/population ratio.
Population Growth	7.50%	Growth in provincial population.
Income-based GDP	7.50%	Standardized with market share.
CPI	7.50%	Standardized with market share.
Farm Input Price Index	10.00%	Standardized with market share.
Quota Utilization Variance	7.50%	Based on six-month periods.
Further Processing	10.00%	Based on Global Affairs Canada data.

Source: CFC

Included in this review will be an examination of issues raised by the Primary Poultry Processors Association of B.C. regarding Ontario's discrete allocation. Alberta has indicated its willingness, once all appeals are resolved, to sign the new long-term allocation agreement.

In addition, in early February 2016, the *Régie des marchés agricoles et alimentaires du Québec* (the Régie) heard conflicting assertions from provincial producers and processors in Quebec regarding new methods proposed by CFC for calculating differential growth. The Régie therefore undertook a formal process for evaluating each party's claims and concerns.

Complaint Regarding the A-133 Allocation

On July 14, 2015, FPCC received a complaint against CFC from the Agri-Food Council (AFC) of Saskatchewan. This complaint contested the methodology employed by CFC in setting the allocation for the A-133 period. AFC's complaint was centered on two objections. The first was related to the process by which CFC, in setting the allocation for A-133, approved the use of a new growth quota distribution mechanism to distribute growth quota to provinces. AFC asserted that CFC had required, but failed to obtain, the support of all 20 signatories to Schedule B of the FPA for Chicken (generally referred to as the Operating Agreement). AFC's second objection was that CFC did not appear to have in place any written, formal allocation protocols for setting national allocations.

AFC held that this lack of formal protocols, from Saskatchewan's perspective, impaired the transparency and legitimacy of the allocation process. AFC also asserted, more generally, that if the proposed allocation for A-133 were approved by the FPCC, Saskatchewan would incur economic loss in the form of lost chicken production and an undersupplied processing sector.

An FPCC complaint committee was established, with Council members Maryse Dubé and Debbie Etsell serving respectively as Chair and committee member. The committee found that there was insufficient merit to the complaint to justify the committee making any new recommendation to Council members. Council members dismissed the complaint.

Committee members for the complaint by the Agri-Food Council of Saskatchewan, Maryse Dubé, as Chair and Debbie Etsell, as Committee member.

Amending Schedule B of the Federal-Provincial Agreement for Chicken

In 2015, CFC and the provincial boards agreed on refinements to the further processing component of the differential growth model adopted in 2014. By way of example, this means that, for period A-135 (January 24, 2016 – March 19, 2016), the further processing component will be distributed as follows:

British Columbia	**14.0690%**
Alberta	**4.9999%**
Saskatchewan	**1.0012%**
Manitoba	**1.0013%**
Ontario	**47.7063%**
Quebec	**28.6500%**
New Brunswick	**1.0000%**
Nova Scotia	**1.0000%**
Prince Edward Island	**0.1200%**
Newfoundland and Labrador	**0.4523%**

However, not all CFC members agreed with these distributions. CFC therefore decided to hire a consultant to conceive a long-term solution to the further processing component contained in the allocation methodology. A steering committee was struck by the board to oversee the consultant's contract and work. Pending the results of the study, the distribution will remain as given above. Changes

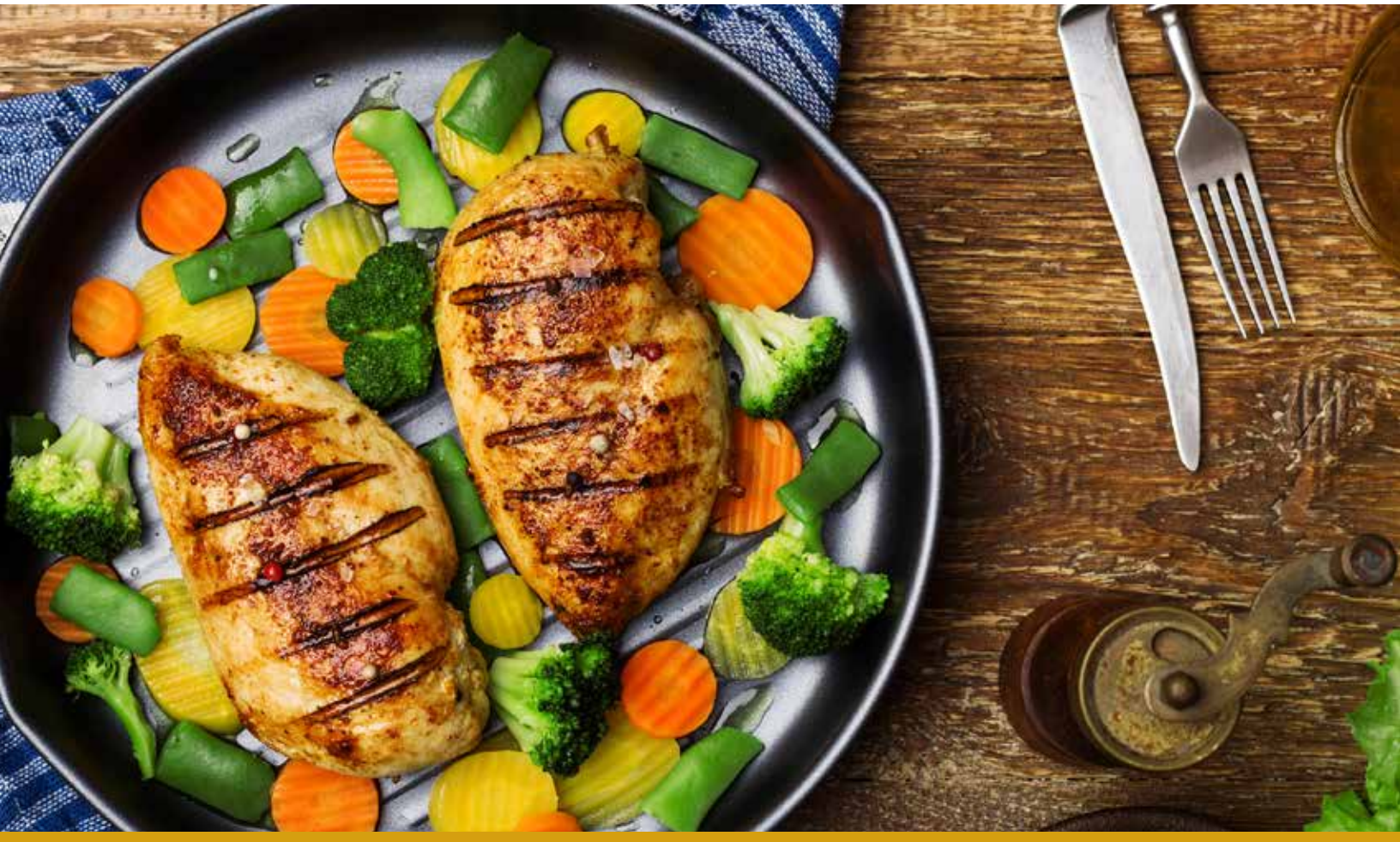
to this distribution can only be approved by a special vote of the CFC Board. For a motion to pass by a special vote, all provincial commodity board members present have to vote in favour of the motion.

FPCC's Ongoing Priorities

Amendments to Schedule* "B" *of the FPA – the Operating Agreement

CFC has recognized that the MOU on a Long-term Chicken Allocation Agreement will need to be accompanied by amendments to Schedule "B" of the FPA (the Operating Agreement) and, in 2015, struck a committee to draft the necessary amendments. These amendments will require the unanimous consent of provincial supervisory boards, provincial commodity boards and CFC.

Prior to implementation, FPCC will review the amendments to the Operating Agreement to determine whether they require the approval of the Governor in Council. Although the FPCC is not a signatory to the FPA for Chicken, the FPCC must nonetheless review the amendments to ensure that they are consistent with section 9.03 of the FPA for chicken.



THE HATCHING EGG AGENCY

The Canadian Hatching Egg Producers

The Canadian Hatching Egg Producers (CHEP) is the national agency responsible for the orderly marketing of broiler hatching eggs in Canada. Originally known as the Canadian Broiler Hatching Egg Marketing Agency, CHEP was established in 1986 under the *Farm Products Marketing Agencies Act* (FPMAA) further to an agreement among the Government of Canada, provincial agricultural ministers, and broiler hatching egg producers in member provinces. Since 1993, this Act has been legally known as the *Farm Products Agencies Act* (FPAA).

Commodity boards in six provinces – British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec – are party to the FOA for Broiler Hatching Eggs:. Producers in each of these provinces elect a representative to sit on CHEP's Board of Directors. Two additional representatives are appointed by the Canadian Hatchery Federation.

CHEP is subject to regular FPCC oversight. In 2015-2016, Council member Debbie Etsell supported by FPCC staff, attended CHEP's Board of Directors meetings as an observer.

Canada's Hatching Egg Industry

Fertilized broiler hatching eggs are sent to hatcheries where they are placed in incubators to hatch, 21 days later, as broiler chicks. The hatcheries sell these chicks to chicken farmers, who grow them into chickens for human consumption.

FPCC's Work with CHEP

Amendments to Levies Order

CHEP collects two levies to defray its administrative and operating costs: a national levy charged to all hatching egg producers in the regulated system; and a non-signatory levy charged to any party that markets broiler hatching eggs from an unregulated area into a regulated area. For 2015-2016, Council members twice approved CHEP's amendments to the *Canadian Broiler Hatching Egg Marketing Levies Order*. FPCC was also asked to consider an increase in the Quebec Provincial Levy. The initial levies for 2015-2016 were set in February 2015, as shown in Table 7.

After reviewing the amendments to the national, provincial, and non-signatory levies orders, Council members were satisfied that each increase was necessary for the implementation of CHEP's marketing plan.

At their November 2015 meeting, Council members approved, at the request of the Standing Joint Committee for the Scrutiny of Regulations, an amendment by CHEP to the *Canadian Broiler Hatching Egg Marketing Levies Order*.

Table 7: 2015-2016 Amendments to the *Canadian Broiler Hatching Egg Marketing Levies Order*

Levy Type	Date		Details
	Feb. 2015	Apr. 2015	
2015-16 National Levy	0.0032	0.0032	National levy remained unchanged in 2015-16, to expire June 2016.
Non-Signatory Levy ($/broiler hatching egg)	0.01126	0.011406	Amendment to the non-signatory levy came into force on April 26, 2015 and will expire on June 26, 2016.
QC Provincial Levy ($/broiler hatching egg)	0.0066	0.0075	Amendment to the Quebec provincial levy came into force on April 26, 2015 and will expire on June 26, 2016.

Source: FPCC compilation

This amendment removed subsection 1(2) of the *Levies Order,* which read as follows: "Unless otherwise provided, the definitions in section 1 of the schedule to the *Canadian Hatching Egg Producers Proclamation* apply in this Order." The committee held that this subsection was not necessary, as section 16 of the *Interpretation Act* states that: "Where an enactment confers power to make regulations, expressions used in the regulations have the same respective meanings as in the enactment conferring the power."

Amendments to Quota Regulations

Within the broiler hatching egg market, supply comes from two sources: domestic production and imports from the U.S. Under a 1990 bilateral agreement, pursuant to Article XXII of the *1947 General Agreement on Tariffs and Trade*, U.S. broiler hatching egg producers are granted access to the Canadian market in amounts equal to 21.1% of the anticipated domestic production for the current year. This access is split into separate commitments for broiler hatching eggs and chicks, of 17.4% and 3.7% respectively.

Domestic production levels are established by quota allocations. Every year at its July Board meeting, CHEP sets two allocations: the final allocation for the current year, and a preliminary allocation for the coming year. Further to verification that allocations have been respected (i.e., whether over-marketing penalties should be assessed), a final allocation is set for hatching egg production for the current period. The ensuing preliminary allocation gives an indication of the total production of hatching eggs needed for the chicken sector in the coming year (including a breakdown by province).

At their September 2015 meeting, Council members reviewed the 2015 final and 2016 preliminary allocations. Council members approved both allocations, shown in Table 8, deeming them necessary for the implementation of CHEP's marketing plan.

Table 8: 2015-2016 Amendments to the *Canadian Hatching Egg Producers Quota Regulations*

Council Members' 2015-2016 Allocation Approvals	
Allocation Type	**Number of Broiler Hatching Eggs**
2015 Final Allocation	646,130,042
2016 Preliminary Allocation	665,439,122

Source: FPCC compilation

Complaints Regarding CHEP's Application of Schedule 'B'

FPCC received two complaints in 2015-2016 with respect to divergences from Schedule "B" (or Operating Agreement) to the FPA for Boiler Hatching Eggs, which outlines the allocation methodology employed by CHEP in allotting quota to provinces. First, in July 2015, FPCC received a complaint from the Ontario Broiler Hatching Egg and Chick Commission (OBHECC) against CHEP. The complaint alleged that CHEP had allowed over-marketing of hatching eggs into Ontario from other parts of the country, while, in addition, failing to establish an up-to-date system under which compensatory damages (liquidated damages assessment or LDA) could be assessed against the commodity boards of those provinces where overproduction of hatching eggs was taking place. OBHECC asserted that this over-marketing had displaced part of Ontario's broiler hatching egg allocation.

Second, in September 2015, FPCC received a second complaint against CHEP, from the *Syndicat des producteurs d'œufs d'incubation du Québec* (SPOIQ). SPOIQ claimed that, since the 2012 allocations, CHEP had failed to apply Schedule "B" correctly, in particular by not taking into account the "other factors which CHEP is required by law to consider", such as:

- processors' needs;
- the evolution of the interprovincial chick market;
- the ability of a province to produce its allocation of hatching eggs; and
- the needs of producers, including their proximity to hatcheries, their supply of chicks, and whether it is easy to communicate with them.[5]

The last point relates in particular to the needs of producers whose operations are located near provincial borders, and who thus naturally supply hatcheries in neighbouring provinces.

FPCC established two complaint committees, one for each complaint. The Complaint Committee assigned to inquire into the complaint by OBHECC consisted

Committee members for the complaint by OBHECC, Maryse Dubé, as Committee member and Kimberley Hill, as Chair.

[5] Extract from CHEP translation of *Syndicat des producteurs d'œufs d'incubation du Québec* to CHEP, "Complaint Under Paragraphs 7(1)(d) and 7(1)(f) of the *Farm Products Agencies Act*, R.S.C. 1985, c. F-4," 11 Sept. 2015, (Longueil, 2015), 15.

Committee members for the complaint by SPOIQ, Debbie Etsell, as Chair and Mike Pickard, as Committee member.

of Council member Debbie Etsell, as Chair, and Mike Pickard, the Vice-Chairman of FPCC, as Committee member. For the complaint lodged by SPOIQ, Council member Kimberley Hill served as Chair, and Ms. Maryse Dubé as Committee member.

The informal meeting for the OBHECC/CHEP complaint was scheduled for late October 2015. However, all parties to the two complaints (OBHECC, SPOIQ and CHEP) requested a stay of proceedings while the parties attempted to resolve their differences through mediation. A mediation session was held on October 26 and 27, 2015, and included the three parties, as well as other representatives of the broiler hatcheries in Ontario and Quebec. The mediation session was successful. A resultant memorandum of understanding was reviewed and approved by CHEP member provinces' respective broiler hatching egg commodity boards, as well as by CHEP's Board of Directors. Core elements of the agreement include provisions that, for five years, beginning with the 2016 allocation year:

- OBHECC will lease to SPOIQ, for allotment to Quebec producers, a volume of quota equal to 3,200,000 broiler hatching eggs; and

- Quebec hatcheries will purchase an amount of broiler hatching egg tariff rate quota equal to half the volume of the previous year's interprovincial movement of chicks from Quebec into Ontario.

FPCC's Ongoing Priorities

Review of Schedule "B" of the Federal-Provincial Agreement

While the MOU asserts that the agreement between the parties does not entail any changes to Schedule "B" of the FPA for Boiler Hatching Eggs, FPCC may undertake a review of Schedule "B" and its implementation, given that both complaints centred on CHEP's application of it.

A New Liquated Damages Assessment Agreement

Further to the MOU on the agreement between parties to the two complaints, CHEP and the provincial commodity boards will require a new LDA agreement. As stated in paragraph 12. (3)(a) of CHEP's FPA, Council members must approve this agreement before it can be enacted by the agency.

THE BEEF AGENCY

Canada Beef

The Canadian Beef Cattle Research Market Development and Promotion Agency was established by proclamation in 2002 under Part III of the *Farm Products Agencies Act* (FPAA). In July 2011, this agency merged with the Canadian Beef Export Federation and the Beef Information Centre. It now operates under the name of Canada Beef.

Canada Beef has authority to promote the marketing and production of beef cattle, beef and beef products for the purposes of interprovincial, export and import trade, and to conduct and promote research activities related to beef and beef products. Every person who sells beef cattle in interprovincial trade must pay Canada Beef a levy of $1 per head of beef cattle sold. Each importer must pay Canada Beef $1 per head of imported beef cattle or the equivalent of $1 per head for imported beef and imported beef products. Provinces collect the levies on intra-provincial marketings, while Canada Beef itself collects the levy on imports and interprovincial marketings.

The national levy and provincial levies are combined into a total levy on beef sales, which is monitored by Council.

Amendments to Levies Order

At its April 2015 meeting, Council approved amendments to the Beef Cattle Research, Market Development and Promotion Levies Order that extended the expiry date of the levy from June 27, 2015, to June 30, 2016. The value of the levy was maintained at $1 per head for cattle traded interprovincially, and at $1 per head equivalent on imported cattle, beef and beef products.

FPCC's Work with Canada Beef

In 2015-2016, FPCC staff attended a number of Canada Beef meetings as observers. FPCC's Chairman, Council member Chantelle Donahue, and FPCC staff also met the Canada Beef Chair, along with Canada Beef's Governance Committee Chair and staff, to assist them in amending the *Canadian Beef Cattle Research, Market Development and Promotion Agency Proclamation*. Amendments to the Proclamation clarified rules for electing board members, and modified the composition of Canada Beef's Board, to render it more representative of the beef supply chain. The revised proclamation came into effect on July 22, 2015.

Under Canada Beef's amended proclamation, the Board is still composed of cattle producers, importers, beef processors and other downstream stakeholders, but the apportionment of seats has changed. Producers are represented on the Board by one member per province, except for Alberta,

which receives two seats. In addition, industry packers and processors now hold four seats, while a representative from the retail and food service sector is elected by delegates at Canada Beef's annual forum (its annual general meeting). Finally, the Proclamation also provides for the Canadian Association of Importers and Exporters Inc. to nominate one representative.

At the behest of provincial members, Canada Beef also revised its internal organization, creating a new general manager position to increase the transparency of its management.

FPCC expects the Canada Beef, among other tasks, to review its memorandum of understanding with the provinces in light of a potential levy increase. This review was requested by delegates at the annual forum in September 2015.

Other FPCC Activities

Other FPCC Activities

Regulatory Affairs

The FPCC kept the office of the Minister of Agriculture and Agri-Food (AAFC) informed on regulatory matters related to the administration of the FPAA and the APMA. The FPCC provided technical regulatory advice and assistance to national agencies, supervisory boards, and provincial commodity boards in relation to these two acts.

The FPCC continued to act as the regulatory liaison for the national agencies and provincial boards with several departments and agencies of the Government of Canada, such as the Department of Justice Canada, the Treasury Board of Canada Secretariat, and the Privy Council Office.

The FPCC furthermore provided technical advice and facilitated business processes for the Parliamentary Standing Joint Committee for the Scrutiny of Regulations.

Canada's regulatory system is recognized internationally as a mature, well-functioning system. The 2015–2017 Forward Regulatory Plan sets out the Government of Canada's targets for ensuring greater transparency and predictability with respect to regulations. The FPCC provides ongoing input to this overarching plan as necessary. Details about these updates are posted on FPCC's Web site, on the Acts and Regulations page.

In its capacity as administrator of the APMA, the FPCC continued to collaborate with AAFC on a comprehensive administrative review of the APMA. In 2015-2016, this review progressed as planned, with the cooperation and support of 84 provincial agricultural producer boards, and in collaboration with AAFC, Treasury Board of Canada Secretariat, and Industry Canada.

The integrity of FPCC's regulatory functions is a matter of public interest. Providing the public with clear and up-to-date information on FPCC's regulatory activities is essential for transparent regulation. In ensuring the proper application of regulations to regulated agricultural industries, FPCC contributes to the whole-of-government regulatory process established by the Treasury Board of Canada Secretariat. In so doing, FPCC helps limit unwarranted delays in the entry into force of amendments to orders and regulations that affect either marketing quota allocations or the raising of levies (whether by PRAs or the national marketing agencies).

Promotion and Research Agencies

Regulatory Framework

In 1993, the FPAA was amended to include Part III, which states that the Governor in Council may, by proclamation, establish an agency for the promotion

and research of a farm product where it is satisfied that a majority of producers and importers, when applicable, support such action. A proclamation is a federal regulation that outlines the powers granted to an agency and how the agency is to be constituted (i.e. membership, means of appointment, location of the agency's head office, etc.).

The FPAA and Powers of a Promotion and Research Agency

A PRA created under the FPAA has the authority to collect a levy on domestic production, on exports, and on imports of the regulated product when conditions of national treatment are met. A PRA has no authority to regulate production, but it can develop a promotion and research plan funded by the collection of the levy described above.

As set out in section 41 of the FPAA, the object of an agency is to promote a strong, efficient and competitive industry for the regulated product. This may be accomplished by promoting its sale and consumption, and by conducting research activities.

Left to right: *Marc Chamaillard, Laurent Pellerin* and *Nathalie Vanasse.*

Request for Agency Status Under Part III

FPCC received applications for the creation of PRAs in 2012 and in 2013. The first was submitted by the Raspberry Industry Development Council. The following year an application was received from the *Association des producteurs de fraises et framboises du Québec*. Based on inquiries into these two applications by an FPCC panel, Council submitted a report to the Minister of Agriculture and Agri-Food.

In July 2015, the Canadian Pork Council submitted a proposal for the establishment of a PRA for hogs and pork products, with authority to collect levies on domestic live hogs and imported pork and pork products. The FPCC Chairman set up a panel of two Council members, Vice-Chairman Mike Pickard and Maryse Dubé, to inquire into the merits of the proposal.

Panel members Mike Pickard, as Chair and Maryse Dubé, as member, to inquire into the merits of the Pork PRA proposal.

This included a period for public submissions, and two public hearings, one in Calgary, Alberta on January 19, 2016, and another in Montreal, Quebec on February 16, 2016. By fiscal year's end, the panel was in the process of preparing a report on its findings and a recommendation for the consideration of Council in the near future. FPCC will thereafter make its own recommendation to the Minister, based on the panel's report.

It is a strategic priority of the FPCC under its *2015-2018 Strategic Plan* to work towards the creation of PRAs. FPCC continues to provide technical guidance to a range of commodity groups interested in the PRA model.

Communications

This year, the FPCC adapted its communications objectives and outreach activities to the aims of the *2015-2018 Strategic Plan*. FPCC adjusted its communications products and tools to better explain its work and business aims, and to increase collaboration with stakeholders.

In 2015, three issues of the *FOCUS Newsletter* were produced and distributed. The newsletter was streamlined and reconceived in January 2016, to make it more user-friendly. For instance, it now provides, via links to FPCC's Web site, updates on Council business and decisions, latest news and publications. This updated format allows it to be distributed by embedded email and remains available on the FPCC's Web site.

In addition, FPCC significantly restructured the Promotion and Research section on its Web site, both to ease access to information and to raise awareness of the creation of PRAs. As part of its commitment to ever greater transparency, FPCC continued its practice, initiated in 2014-2015, of posting its

decisions on its Web site. Thus, the Complaints and Public Hearings sections of the site were regularly updated with information on complaints received against national agencies, as well as details on the processes for considering the establishment of a Canadian Pork Promotion and Research Agency.

The FPCC is committed to sharing information and increasing transparency, and, consequently, launched a new "Industry Statistical Data" section on its Web site. This new page aims at reducing FPCC's carbon footprint by replacing the long-used Data Handbook, formerly published in print. In its place, online tables introduce data obtained from both government and industry sources. The statistics and information provided relate to the regulated industries under FPCC's oversight – namely the egg, turkey, chicken and hatching egg industries. Posted data include, among other items, the number of producers and quantities of production, farm cash receipts, and producer prices.

Furthermore, in line with current Web standards for the Government of Canada and the Canada.ca Web Renewal Initiative, FPCC has posted a link to its "Institutional Profile" on the Canada.ca Departments and Agencies listing at https://www.canada.ca/content/canadasite/en/government/dept.html.

Left to right: *Maryse Dubé, Debbie Etsell* and *Kimberley Hill.*

Studies and Analysis

In line with strategic objectives around increasing transparency of the supply management systems and the promotion and research systems, FPCC commenced a reflection on its own governance tools, such as its by-laws, governance manual, and guidelines. As a related measure, FPCC initiated a review of the FPAA to clarify the interpretation or interpretations of each clause of the Act. The aim of this review is to increase the overall transparency and responsiveness of the systems by building a shared understanding of the correct application of the FPAA.

FPCC completed a historical study of the original policy rationale for the addition of Part III to the FPAA. The study examines how the adoption of the PRA model, promulgated by Canadian beef farmers and certain other commodity groups, arose from a mix of pressures in the 1970s and 1980s, including: producer groups' desire for reciprocal treatment in the U.S. and Canada; the influence of multilateral trade negotiations; anticipated (if ultimately unrealized) variability in research funding; and a general preference among policy-makers for increased non-governmental funding and oversight of research and promotion in the agriculture and agri-food sector.

With a more immediate view to increasing public transparency, FPCC has started to publish statistics on the regulated industries on its Web site. These data, which replace FPCC's defunct data handbook, are compiled from a number of public information sources and are updated on a regular basis.

FPCC continues to collaborate with AAFC in examining how better to employ diverse departmental data sources to model and assess costs of production in the regulated industries. FPCC has similarly been working with Statistics Canada to get a better understanding of the value chain in the chicken industry. FPCC has also initiated an in-house feasibility study into options for valuing and monitoring the exchange of quotas nationally.

In the coming year, FPCC will deepen its analysis of the growing Canadian egg market. It will continue to consider how the needs of both the table and processing sectors can best be met. To that end, analysis may include a review of egg production practices internationally, and an assessment of methods by which the production of Grade A large eggs can be maximized.

Left to right: *Mike Pickard* and *Laurent Pellerin.*

Glossary

AFC	Saskatchewan Agri-Food Council
AAFC	Agriculture and Agri-Food Canada
ACP	Alberta Chicken Producers
APMA	*Agricultural Products Marketing Act*
CAP	Comparative Advantage of Production
CBEF	Canadian Beef Export Federation
CFC	Chicken Farmers of Canada
CHEP	Canadian Hatching Egg Producers
CHF	Canadian Hatchery Federation
CoP	Cost of Production
CPEPC	Canadian Poultry and Egg Processors Council
EFC	Egg Farmers of Canada
FPA	Federal-Provincial Agreement
FPAA	*Farm Products Agencies Act*
FPCC	Farm Products Council of Canada
FPPAC	Further Poultry Processors Association of Canada
GATT	*General Agreement on Tariffs and Trade*
GIC	Governor in Council
IPP	Industrial Products Program
LDAA	Liquidated Damages Assessment Agreement
Mkg	Million kilograms
OBHECC	Ontario Broiler Hatching Egg and Chick Commission
PIF	Pooled Income Fund
PRA	Promotion and Research Agency
Régie	*Régie des marchés agricoles et alimentaires du Québec*
SPOIQ	*Syndicat des producteurs d'œufs d'incubation du Québec*
STMRQ	Special Temporary Market Requirement Quota
TFC	Turkey Farmers of Canada
TFO	Turkey Farmers of Ontario