



Quota Transfer System Consultation

This information is being provided as part of the consultation process to review the Quota Transfer System (QTS).

Further to the October 9, 2018 memo, Egg Farmers of Ontario's (EFO's) QT-4-2018 session will continue as originally scheduled, with a price, set by the EFO Board, of \$295/unit for layers and \$25/unit for pullets. The Board is committed to ensuring transparency and accessibility of EFO's Quota Transfer System.

In addition, the Board made the following policy change: Effective QT-4-2018, all whole farm sales (i.e. sale of quota with land) will be required to place 10% of the quota as a sell bid on the QTS.

As part of the review of the QTS already in progress, egg and pullet quota holders were encouraged to bring forth ideas and proposals outlining potential changes for the QTS, to be effective in 2019.

The information below outlines how the QTS currently operates in Ontario and Quebec.

EFO Quota Transfer System:

- 2014 to QT-2-2018 operated with the equilibrium price established and confirmed by third party verification.
- QT-4-2018 currently operating with Board approved set prices as per above.

Quebec Quota Transfer System Model:

- 1 QTS per year
- Set price
- 2 pools split 40/60:
 - 40% of quota offered for sale divided amongst farmers below 28,000 birds requesting to purchase quota; and
 - 60% of quota offered for sale divided amongst all farmers requesting to purchase quota

Example:

- 100 birds offered for sale
- 4 farmers purchasing are below 28,000 birds
- 6 farmers purchasing are above 28,000 birds

Pool A: 40% of 100 birds = 40 birds / 4 farmers = 10 birds each

Pool B: 60% of 100 birds = 60 birds / 10 farmers = 6 birds each

Results:

4 farmers below 28,000 birds receive 16 birds each

6 farmers above 28,000 birds receive 6 birds each

The following are proposals submitted to EFO to be considered as part of the QTS review.

Farmer Proposal A:

Current Quota Transfer System (QTS) Challenges:

- Demand far exceeds supply
- Unpredictable acquisition of quota due to limited supply and unpredictable pricing poses challenges for growing and/or start up operations
- The requirement to bid for maximum quota volume allowed in order to obtain a fraction of the targeted quota volume, artificially inflates the demand further
- Financial risk associated with the need to bid for more than the targeted quota volume
- High amount of administration for EFO staff

Quota Transfer System (QTS) Recommendations:

Recommendation #1

Fix the price of a unit of quota to \$295.00.

Rationale:

The current QTS structure was designed to establish a fair trading price, while applying downward pressure to the equilibrium price. We have seen a 0.1% decrease in the price over the last 2 years and as a result the price has been left virtually unmoved.

Advantages:

- More predictable acquisition of quota for buyers by taking out the variable of equilibrium price
- More certainty of timing and price for sellers by knowing the price they will be receiving for quota
- Natural transition away from the current structure, which determined the equilibrium price, to the recommended structure (fixed price) carrying on a similar price
- Eliminates any thoughts of potential collusion after a sudden price drop, whereby one or two bidders may succeed in obtaining more quota than the remaining bidders

Recommendation #2 (working in conjunction with recommendation #1)

Distribute the quota by farm AND on a pro rata basis, by having 50% of the available volume distributed evenly amongst all qualified bidders and the remaining 50% distributed on a pro rata basis.

For example: QTS layer quota available on XYZ session is 1000 units with 3 qualified buyers:

Farmer #1: Bids for 5000 units

Farmer #2: Bids for 1000 units

Farmer #3: Bids for 300 units

Total units requested to buy: 6,300

50% *1000 = 500 available, which is distributed evenly amongst the 3 farmers. Each farmer will receive 166 units.

50% *1000 = 500 available and distributed on a pro rata basis as follows:

| | Bid Volume | % of Total | Multiply 500 by "% of Total" | Other 50% | Total |
|-----------|------------|------------|------------------------------|-----------|-------|
| Farmer #1 | 5000 | 79% | 395 | 166 | 561 |
| Farmer #2 | 1000 | 16% | 80 | 166 | 246 |
| Farmer #3 | 300 | 5% | 25 | 166 | 191 |
| Total | 6300 | 100% | 500 | 498* | 998* |

*Did not round up

Farmer Proposal A Continued

Rationale:

The current QTS structure struggles to move bidders on and off the exchange and encourages all bidders to bid for the maximum allowable volume for repeated QTS sessions. Changing the distribution method could reduce the demand significantly and move bidders on and off the exchange sooner. In the above example it's likely that Farmer #3 is only going to bid for a small amount the next time and then will not bid after that --- not having to inflate the bid or take on unnecessary financial risk.

Advantages:

- More predictable acquisition of targeted quota volumes
- More bidders will move on and off the exchange as a result of more even distribution
- Less financial risk than the current structure
- Helps bring demand closer to the actual quota demand as not all bidders will be motivated to bid for the maximum allowable volume

Consideration could also be given to maximum bid volumes. For example, capping the maximum allowable bid volume at 3000 units.

Farmer Proposal B:

Propose the Egg Farmers of Ontario Quota Transfer System continue in a modified system consisting of two quota pools:

- The total Number of Quota Units for Sale in each QTS be divided equally into two Quota Pools, New Entrant Pool A and Quota Holder Pool B
- New Entrant Pool A – Eligible to New Entrants that have never previously been a registered Quota holder, and who presently own less than 5,000 Quota Units
- Quota Holder Pool B – Eligible to ALL registered Quota holders at each QTS, regardless of the number of Quota Units owned
- After a period of 5 years, or upon successfully purchasing up to 5,000 Quota Units, New Entrants would now be moved to Quota Holder Pool B when bidding for Quota in future QTS
- The EFO Board may consider individual requests in writing to allow New Entrants to remain in New Entrant Pool A past the maximum 5 year period, if they demonstrate sufficient rationale as to why they were unable to obtain 5,000 Quota Units
- The Equilibrium price determined from Quota Holder Pool B will be the Equilibrium Price also applied to New Entrant Pool A. There should only be one equilibrium price that is the same for both Pool A and Pool B
- If a New Entrant categorized into New Entrant Pool A, demonstrates that they are not actively bidding in the QTS, they will be removed from Pool A into Quota Holder Pool B. Active bidding can be defined as bidding in at least one QTS per calendar year

Propose that EFO issue a temporary moratorium on New Entrants participating in the QTS program until such a time as present registered New Entrants, who have to date been unsuccessful in purchasing sufficient Quota to become operational & viable, are able to purchase up to 5,000 units. Current New Entrants in our industry will be identified by EFO staff and qualified into New Entrant Pool A.

Furthermore, propose that EFO subsequently limit the number of New Entrants to a maximum of 5 per year, with eligibility determined by the submission of a viable business plan, and final selection by a 'lottery system' draw. If unsuccessful in the 'lottery draw' qualified individuals would be entered into two subsequent years of 'lottery draws' before being required to resubmit.

- New Entrants would be required to pay a 'Business Plan Submission Fee & Deposit' – this is proposed at \$10,000.00 (Same as DFO)
- The \$10,000 Fee will then be credited towards the first Quota purchase on the assigned QTS
- The \$10,000 Fee will not be returned if the New Entrant decides to withdraw from the QTS New Entrant Quota Pool A queue, is determined to be not actively bidding in the QTS, or does not begin to produce and market eggs within 5 years of acquiring Quota

EFO Board may consider additional criteria for application of New Entrants into New Entrant Quota Pool A, such as these points from the DFO Program:

- A New Entrant applicant must be at least 18 years of age at the time of application
- A New Entrant can only submit one application or be listed on one application
- A New Entrant applicant is not eligible for the QTS New Entrant Pool A if they and/or their spouse hold quota
- A New Entrant applicant is not eligible for the QTS New Entrant Pool A if they and/or their spouse was a registered Quota holder in Canada in the previous 5 years
- A New Entrant applicant is not eligible for the QTS New Entrant Pool A if they are starting on a farm (registered property) on which a parent or parent-in-law held Quota in the previous 5 years

Finally, propose that any registered New Entrant that has purchased SOME Quota, but not enough Quota to become operational and viable, be permitted to lease their Quota Units (Under EFO approval) to another registered Egg Farmer for a period of up to 5 years (the maximum time permitted to bid on the QTS and purchase up to 5,000 Quota Units in New Entrant Pool A).

Farmer Proposal B Continued

The following represents a summary of the QTS from 2016-2018 YTD, along with numbers resulting from the assumption that the Quota Pool system was in effect since 2016, with a maximum number of 15 New Entrants at any given time in New Entrant Pool A.

QTS Session 2-2018: May 25, 2018

Number of Buyers: 111
Assume 15 New Entrant Bidders
Leaves 96 Current Quota Holder Bidders
Number of Units of Quota for Sale: 19,799
Equilibrium Price: \$295.00
Assume 50% to QTS Pool A: 9,899
659 Units
Assume 50% to QTS Pool B: 9,900
103 Units

QTS Session 1-2018: March 5, 2018

Number of Buyers: 112
Assume 15 New Entrant Bidders
97 Current Quota Holder Bidders
Number of Units of Quota for Sale: 15,131
Equilibrium Price \$295.00
Assume 50% to QTS Pool A: 7,565
504 Units
Assume 50% to QTS Pool B: 7,566
78 Units each

QTS Session 4-2017: December 4, 2017

Number of Buyers: 88
Assume 15 New Entrant Bidders
73 Current Quota Holder Bidders
Number of Units of Quota for Sale: 11,130
Equilibrium Price: \$295.25
Assume 50% to QTS Pool A: 5,565
371 Units
Assume 50% to QTS Pool B: 5,565
76 Units each

QTS Session 3-2017: August 30, 2017

Number of Buyers: 66
Assume 15 New Entrant Bidders
51 Current Quota Holder Bidders
Number of Units of Quota for Sale: 24,814
Equilibrium Price: \$295.25
Assume 50% to QTS Pool A: 12,407
827 Units
Assume 50% to QTS Pool B: 12,407
243 Units each

QTS Session 2-2017: May 24, 2017

Number of Buyers: 60
Assume 15 New Entrant Bidders
45 Current Quota Holder Bidders
Number of Units of Quota for Sale: 33,015
Equilibrium Price: \$295.25
Assume 50% to QTS Pool A: 16,507
1,100 Units
Assume 50% to QTS Pool B: 16,508
366 Units each

QTS Session 1-2017: Mar 3, 2017

Number of Buyers: 58
Assume 15 New Entrant Bidders
43 Current Quota Holder Bidders
Number of Units of Quota for Sale: 55,208
Equilibrium Price: \$295.25
Assume 50% to QTS Pool A: 27,604
1840 Units
Assume 50% to QTS Pool B: 27,604
641 Units each

QTS Session 4-2016: Nov 29, 2016

Number of Buyers: 42
Assume 15 New Entrant Bidders
27 Current Quota Holder Bidders
Number of Units of Quota for Sale: 15,957
Equilibrium Price: \$295.25
Assume 50% to QTS Pool A: 7,978
531 Units
Assume 50% to QTS Pool B: 7,979
295 Units each

QTS Session 3-2016: Aug 30, 2016

Number of Buyers: 41
Assume 15 New Entrant Bidders
26 Current Quota Holder Bidders
Number of Units of Quota for Sale: 33,696
Equilibrium Price: \$295.25
Assume 50% to QTS Pool A: 16,848
1,123 Units
Assume 50% to QTS Pool B: 16,848
648 Units each

Farmer Proposal B Continued

QTS Session 2-2016: May 27, 2016

Number of Buyers: 31
 Assume 15 New Entrant Bidders
 16 Current Quota Holder Bidders
Number of Units of Quota for Sale: 15,830
Equilibrium Price: \$295.25
 Assume 50% to QTS Pool A: 7,915
 527 Units
 Assume 50% to QTS Pool B: 7,915
 494 Units each

QTS Session 1-2016: May 27, 2016

Number of Buyers: 25
 Assume 15 New Entrant Bidders
 10 Current Quota Holder Bidders
Number of Units of Quota for Sale: 20,255
Equilibrium Price: \$295.23
 Assume 50% to QTS Pool A: 10,127
 675 Units
 Assume 50% to QTS Pool B: 10,128
 1,012 Units each

Summary

*2018 Quota per Pool: 17,464 Units (34,930 Total Units for Sale)
 *2018 in Two Exchanges: 1,163 Units/New Entrant (6.7%)
 *2018 in Two Exchanges: 181 Units/Quota Holder (1.0%)

2017 Quota per Pool: 62,083 Units (124,166 Total Units for Sale)
 2017 in Four Exchanges: 4,138 Units/New Entrant (3.3%)
 2017 in Four Exchanges: 1,326 Units/Quota Holder (2.1%)

2016 Quota per Pool: 42,869 Units (85,738 Total Units for Sale)
 2016 in Four Exchanges: 2,856 Units/New Entrant (3.6%)
 2016 in Four Exchanges: 2,449 Units/Quota Holder (3.1%)

- Had the 'Quota Pool A&B' system been in place since 2016, the approximate time for a New Entrant to purchase units and move out of New Entrant Pool A in:
 - 2016 - would have been 1.5 Years or 6 QTS (Up to 5,796 Units for 2016 + QTS #1+2 2017)
 - 2017 - would have been 1.5 Years or 6 QTS (Up to 5,301 Units for 2017 + 2018 YTD)

- Based on trends/patterns with number of Quota Units requested to Sell and the number of Buyers per exchange, the average time projected for a New Entrant to purchase 5,000 units and move out of New Entrant Pool A in:
 - 2018 - would be 3 Years / 9 QTS
 - This is why we propose New Entrants, with less than 5,000 Quota Units, be eligible to bid in New Entrant Pool A
 - Had this system been in place since 2016, there would now be approximately 30 New Entrants (15 in 2016/2017, and 15 in 2017/2018) that have moved through New Entrant Pool A into Quota Holder Pool B and now be operational & viable with at least 7,300 hens in production (5000 Units Purchased + 1,800 Units Leased + Program Quota)

- There has been less quota available on the QTS in 2018 and there are more Buyers bidding on the QTS in 2018; therefore we project it will now take a minimum of 3 years for a New Entrant to purchase enough quota to graduate out of New Entrant Pool A into Quota Holder Pool B.

