CPTPP Mitigation Update

Background
On November 28, 2020 Minister Bibeau announced $691 million towards investment programs and market development initiatives to offset the impact of market losses from the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) for the poultry and egg sectors.

At the same time, the federal government committed that the industry will have an opportunity to contribute to the design of the programs to ensure that they deliver on the needs of poultry and egg farmers. A kick off meeting was held late in December 2020 and a small working group made up of senior officials from Agriculture and Agri-Food Canada and SM4 staff representatives started weekly meetings on January 6 to work on the development of the investments and market development programs. EFC was represented by Judi Bundrock and Colby Ludwig.

The SM4 and the working group considered a number of elements including but not limited to the following:

- Funding per sector;
- Funding per program;
- Cost-share ratio and percentage of allowable total government funding;
- Program parameters;
- Farmers eligibility;
- Eligible investments;
- Ventilation of funds;
- Other (retroactivity / intergenerational whole farm transfers / redistribution of unused funds, etc…)

The Poultry and Egg On-Farm Investment Program (PEFIP) aims to help supply-managed poultry and egg producers adapt to market changes resulting from the implementation of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). It will support on-farm investments in:

- Modernizing operations,
- Increasing efficiency, biosecurity, environmental sustainability, and
- Meeting changing consumer demands (e.g. improved animal welfare, cage-free, organic, etc.).

In other words, projects activities that meet the program objectives will be funded.

Funding per sector and per program

With respect to funding per sector, the EFC share of the total envelope of $691 announced by Minister Bibeau in November 2020 will be $134 million.

Sector	2020 Announcement ($millions)	Percentage of total
Chicken	372.28	54%
Turkey	96.15	14%
Eggs	**134**	19%
Broiler Hatching Eggs	88.57	13%
Total	691	

The envelope allocated to the egg sector will be divided by producer based on their percent share of the provincial quota. Those funds will be available to eligible applicants for the period of the program (approximately 10 years).

Announcement and Program Timing

On May 31, 2021, details of the Poultry and Egg On-Farm Investment Program (PEFIP) were released, which was outlined by Minister Bibeau in the April 13, 2021 announcement of new programs to deliver CPTPP mitigation. The PEFIP provides funding for Canada's 4,800 chicken, egg, broiler hatching egg, and turkey farmers to make ongoing improvements to their operations and enhance the long-term efficiency and sustainability of their farms.

English: https://www.canada.ca/en/agriculture-agri-food/news/2021/05/poultry-and-egg-producers-can-now-apply-for-compensation-funds-to-boost-competitiveness.html

French: https://www.canada.ca/fr/agriculture-agroalimentaire/nouvelles/2021/05/les-producteurs-de-volaille-et-dufs-peuvent-maintenant-demander-des-fonds-dindemnisation-pour-stimuler-la-competitivite.html

This PEFIP announcement comes after recommendations brought forward to Agriculture and Agri-Food Canada (AAFC) by the national poultry and egg agencies (SM4). The focus of the poultry and egg sectors was on allowing Canadian farmers to increase their investment in their operations to improve productivity, biosecurity, and sustainability, while better responding to consumer preferences of Canadian-raised poultry and eggs.

$647 million is available to poultry and egg producers over 10 years:

- Producer allotments are based on quota holdings or shares of provincial production as of January 1, 2021.
- Funding is available over a ten-year period. The program is a ten-year program, which will end March 31, 2031. Producers have until March 31, 2031 to complete project activities. Program applications must be submitted by March 31, 2030.
- Each producer’s share is set aside, so funding is available when the producer applies.

- Farmers are encouraged to register now, however, funding will be available and can be submitted over the full ten-year period.

Application Guide:

1. *Producer Registration*: producer should register with the Poultry and Egg On-Farm Investment Program Online System (PEFIPOS) using their license information. Upon validation, producers will see their maximum funding amount to plan their project.

2. *Submit an application*: producers can submit their project application(s) over the ten-year period for their on-farm investments. More information on eligible activities and the project process can be found in the program guide.

Examples of projects include new barn construction or upgrades to equipment such as feeding, watering, lighting, ventilation, heating, and comfort systems.

Eligible project costs are normally shared between the program and the applicant as follows: 70% PEFIP / 30% applicant – however, PEFIP's share will not exceed the applicant's maximum funding amount. The program may provide up to 85% of eligible project costs for Young Producer(s) who were 35 years old or younger on January 1, 2021.

Applicants can seek funding for eligible applications that start on or after March 19, 2019.

Sustainability Report and the leadership of Canadian egg farmers

Overview

As egg farmers, we're committed to sustainability. From how we treat our animals, to how we work with our community, to how we care for the environment, sustainability colours every decision we make.

Our approach to sustainability, which is outlined in the EFC Sustainability Report, is built around five pillars that inform our actions:

- Animal care and welfare: Protecting the health and welfare of our hens by pressing forward with world-class standards and continuous improvements
- Product quality, safety and nutrition: Delivering safe, high-quality eggs to Canadians by maintaining already high standards
- Environmental impact: Finding new ways to make egg production more environmentally sound and improving the efficiency of our operations
- Enhancing the well-being of others: Advocating for farmers, meeting consumer demand for local food through the system of supply management, and engaging in partnerships to reduce hunger in Canada and around the world
- Labour, health and safety: Empowering our people to make decisions that make a difference while nurturing the next generation of leaders in our industry

The sustainability issues discussed in this report were identified through a comprehensive materiality assessment. This process allowed us to develop a sustainability framework that corresponds to the areas of greatest significance to Canadian egg farmers and our network of stakeholders.

Currently EFC is promoting the Sustainability Report and the leadership of Canadian egg farmers to decision-makers in the egg value chain, reminding them that choosing Canadian eggs means choosing sustainability through a national advertising campaign.

The Sustainability Report is evaluable on eggfarmers.ca HERE.

Key messages on sustainability and egg farming

- With the widespread and growing uses of eggs comes the responsibility to produce eggs sustainably. We view this as an important part of the social contract we have with Canadians.

- We take a holistic approach to sustainability. These actions include the ability to act responsibly towards animals, the land and the environment, and supporting our communities. It is part of the work we do to foster trust in the eggs we produce, to give back, and to continuously improve our products and processes.

- Not only are egg farmers committed to a holistic approach (which includes animal welfare and food safety standards, environmental work and social sustainability efforts), we're recognized as world-leaders in the sustainable agriculture movement. Through our engagement in the International Egg Commission's Environmental Sustainability Expert Group, we are sharing Canadian best practices with our global peers.

- In order for framers to invest in these initiatives, they must be profitable and see a future in the sector. This is why supply management is so important. It gives farmers the confidence to reinvest in their operations and to support research and innovation that advances the entire sector.

- A holistic approach to sustainability also means ensuring our farmers receive a fair return—allowing them to not only invest in their operations, but also their industry and communities.

- Our investment in research is shaping the future of egg farming in Canada. We are committed to research, through grants, partnerships, and through our four Research Chairs in economics, poultry welfare, public policy, and sustainability, at top universities across the country.

- Innovative practices and new efficiencies have allowed Canadian egg farmers to reduce their environmental footprint while still meeting Canada's growing demand for local eggs.

    - In just 50 years, we have reduced the environmental impact of egg production by 68% in terms of greenhouse gas emissions, 69% in terms of water use, 81% in land use and 41% in energy—a record we are proud of.

    - The World Resources Institute ranks eggs as a low-impact source of protein, alongside rice, fish and beans.

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JULY 20, 2021 – EFO SUMMER MEETINGS

Natural Overrun Fee Program

Current Situation:

- There is no Natural Overrun Fee revenue projected this year as the fee for 2021 was set at $0, based on the Natural Overrun Fee Program fund parameters.
- In terms of expenses, the PIF Requirement for 2021 is estimated to be $nil as current production totals do not exceed the production threshold of the Natural Overrun.
- The Fund also includes costs associated with the MEFR compensation program based on established targets as well as extraordinary disposal costs incurred by farmers which are estimated to total $13.0M.
- With this, the fund is projected to have an ending balance of $18.3M and does not include the $8M transfer back from the PIF.
- The Board will discuss the transfers from the PIF back to the RMF and NOFF at a later date.
- As approved by the EFC Board on July 14, the 2022 fee will again be $0 as the Fund balance will be above $15M for two consecutive years.

Program Specifics:

- FPA states that the agency is to be responsible for the cost of removing from the shell egg market all eggs in excess of demand that are produced within the provincial allocation of the province, provided the province in in compliance with this agreement.

- The QAC established a production threshold of 130%, where the production at the COP rate of lay in effect from the proposed total designated hen inventory of a quota allocation should not exceed 130% of year 3 table disappearance. Production at or below this threshold is eligible for the full COP.

- Given the consensus that the IP program should cover the costs associated with any additional production created in the course of filling table disappearance, this policy creates a threshold over which farmers should pay for production.

- As per the policy, Natural Overrun is defined as the additional egg production required to satisfy Table Disappearance – how much do we really need to produce in order to satisfy table demand – there are additional eggs needed to meet the demands of the market.

- There are three components to the calculation of Natural Overrun, which is done on an annual basis;

- Seasonality: Seasonality measures the extra production required throughout the year to meet the week of highest demand.
- Smaller sizes: Sizing represents the differences between egg sizes produced by a layer, and egg sizes demanded by the consumer.
- Geography: Geography represents the regional differences in demand compared to regional amounts of production

Background information on program:

Program Principles:

- Should create additional revenue for the PIF
- Does not reduce or include current allocations to provinces/territory, and would apply to future allocations
- Is not specifically designed to replace levy or levy increases
- Must not create a multi-tier quota system
- Program revenue begins when eligible layers are placed
- Provinces/Territories have the flexibility to determine how to implement the fee to producers in their jurisdiction
- Quota ownership and the way egg boards conduct issuance does not need to change
- EFC and egg boards must operate within their legal authority
- Should not have an overly high fund balance
- Must not create a financial hardship on farmers
- Must not undermine the principles of supply management
- Should cover all expenses tied to production that exceeds natural overrun
- Must be as simple as possible

Revenue Structure:

- Revenue to be collected on a fee per layer basis
- Fee will apply to eligible layers in production
- Revenue collected by egg boards and remitted to EFC will be held in a restricted fund to be transferred to Unrestricted PIF when the requirements are met.
- Rationale:
  - Replicates the current structure of the Service Fee Program
  - More transparent calculation

Eligible Layers:

- Federal Quota allocated over and above the previous year's quota allocation
- Eligibility begins upon placement of the layers into production

- Eligibility ceases at the end of the sunset period (5 years after placement) or in the event of a quota decrease
- Rationale:
  - Tied to new allocations
  - Reflective of production growth in the egg industry
  - Most likely to be related to production overages, as overages relate to the last layers placed
  - Provides large pool of layers to maintain a low fee
  - May reduce financial hardship on farmers
  - Helps mitigate the impact of a quota decrease

Fee Calculation:

- Fund parameters will be used to determine the annual fee
- Balance between managing variability of the fee and maintaining a fund balance that can withstand variability of the requirement to transfer funds to the Unrestricted PIF
- Rationale:
  - Consistent with existing structure of the program
  - Consistent financial support needed from egg boards/farmers
  - Allows time for development of NOF parameters
  - Helps mitigate the possibility of an overly high fund balance
- Current NO Fee is $nil – EFC BOD approved $nil fee for 2022 as the fund balance has exceeded $15M for 2 years.

Expense Calculation (PIF Requirement):

- The program will pay for all production that exceeds the requirements of satisfying Natural Overrun.
- The cost of the additional production that exceeds the production threshold will be calculated as the average cost of the buyback program for the assessment year and two years prior. For example, production that exceeds natural overrun in 2018 will use the average cost between 2018, 2017, and 2016
- Cost per dozen is represented as:
  (Expenses – Revenue), where:
  - Expenses = Cost of Buyback, Transportation, Other Programs
  - Revenue = Processor Price received
- Rationale:
  - Less sensitive to year over year changes in Buyback and Processor Prices
  - All expenses from production above Natural Overrun are covered

JULY 20, 2021 – EFO SUMMER MEETINGS

Uniform Levy Project Team (ULPT)

Current Situation:

- The project team has agreed in principle to a draft National Uniform Levy Policy (Policy) to implement a concept for uniform levy remittances from egg boards to EFC. The Policy was sent to egg boards for additional comments on May 20 and all egg boards submitted their comments by June 4.
- The ULPT will review the egg board comments at its next meeting, with the goal being to finalize the Policy wording for presentation to the Board of Directors in September.
- The ULPT is proposing that the Policy be subject to review one-year after implementation in which the ULPT would reconvene to review the Policy and assess its financial impacts on EFC and egg boards. If implemented for 2022, this review will likely occur in early 2023.
- The next project team meeting is scheduled for July 28.

Project Background:

- On November 7, 2019, created the Uniform Levy Project Team (ULPT), with membership consisting of two appointees from each egg board, a Project Director from EFC, and a Project Manager from EFC.
- The aim of the project is to examine and identify levy collection and remittance practices across the country, in order to develop and apply uniform national practices.
- The group's formation came from comments received during the September 2019 LDA Policy consultation, where egg boards were providing feedback and support for the Board of Directors decision to not assess liquidated damages on issued quota in excess of a province or territory's allocation.

Project Principles:

- The methodology to calculate the levy remittance to EFC should be uniform for all egg boards
- The project outcome should provide a methodology to calculate the levy remittance to EFC that is fair and equitable for all egg boards
- The levy remittance calculation methodology should be as simple as possible
- Levy remittances should be sufficient to cover the expenses of Natural Overrun production to satisfy table disappearance, as well as EFC's administration costs and funding for restricted funds
- The per bird per week levy rate should be uniform for all egg boards, calculated by multiplying the per dozen levy rate in the CEMA Levies Order by the national COP Rate of

Lay in effect, divided the number of weeks in the year, 52 or 53 weeks (St. Andrew's Accord)

- Unregulated dozens are out of scope and will continue to be treated the same
- Egg boards will maintain their flexibility regarding how they collect levies from producers
- Quota ownership and the method egg boards use to allot quota does not need to change
- EFC and egg boards must operate within their legal authority
- The project outcome must not undermine the principles of supply management

Levy Background:

- Federal levy allows the Egg Farmers of Canada (EFC) and egg boards to finance their operations, marketing expenses, research activity, and other administrative expenses. Most significantly, federal levy allows EFC and egg boards to cover the cost to remove surplus eggs for industrial product while balancing the incomes of producers.
- Egg boards have agreed to act as EFC's agents to collect the federal levy amount as provided for in the Canadian Egg Marketing Agency Proclamation (Proclamation).
- Egg boards have flexibility regarding how they collect levies from producers; they can be remitted directly by the producer to the egg board, or they can be collected by the grading station and then remitted to the egg board.
- The St. Andrew's Accord was established in 1999, whereby egg boards and EFC agreed to remit federal levy to EFC on a per layer basis. Since then, federal levy to EFC has been remitted on the number of layers issued as determined by the province and territory, on a weekly basis.

Proposed Federal Levy Remittance Calculation:

- The per layer basis will be the lower of:
  - The previous Allocation of the province/territory, which is measured as the lowest Allocation in the 52 weeks preceding either Week 1 of the fiscal year, or a mid-year change in Allocation; and,
  - The current Allocation of the province/territory.
- Levy Abatements have not yet been finalized but currently there appears to be consensus to have abatements for layers out of production covered by:
  - The EFC Early Fowl Removal (EFR) and/or Modernized Early Fowl Removal (MEFR);
  - A claim through the Canadian Egg Industry Reciprocal Alliance or the Poultry Insurance Exchange; or an EFC recognized poultry insurance program; and,
  - The Health of Animals Act (HOA).
- The first seven days out of production not eligible for abatement
- Layers out of production to non-compliance with Animal Care Program and/or Start Clean Stay Clean would be ineligible for abatement.

- The draft Policy proposes egg boards can request a deferral of levy to address a situation where an egg board might have a shortfall of cash to cover the weekly federal levy remittance due to layers out of production under the National Quota Credit Program (NQCP). Similar to the utilization time frame for credits earned under the NQCP, egg boards will have a maximum of 5 years from the date the earned quota credit layers are placed to repay the deferred federal levy.
- Egg boards will maintain their flexibility regarding how they collect levies from producers