

New Farmers and Alternative Markets Within the Supply- Managed System

Metcalf Food Solutions

FarmStart

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The Metcalfe Foundation helps Canadians imagine and build a just, healthy, and creative society by supporting dynamic leaders who are strengthening their communities, nurturing innovative approaches to persistent problems, and encouraging dialogue and learning to inform action.

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Lead authors from FarmStart include Christie Young and Melissa Watkins. FarmStart is a not-for-profit organization that aims to encourage and support a new generation of farmers to develop locally oriented, ecologically sound, and economically viable enterprises. FarmStart provides new farmers with the resources, tools, and support necessary to get their businesses off the ground and to thrive.

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Foreword

Food — how and where we grow, process, distribute, sell, and eat it — is a fundamental human concern and central to the health of our communities, economy, environment, and bodies. Food is elemental, yet the system we have built around it is complex, rigid, and opaque.

There is growing concern that our current food system is not working well — some would say it is broken. In Ontario, many farmers are facing an income crisis. Too many people lack access to healthy food. And, despite growing demand for local food, our centralized, large-scale food processors, distributors, and retailers are unable to provide it.

Efforts to rebuild the local food supply chain and restructure Ontario's food and agriculture system have been building momentum in the last few years. Ontario's residents are expressing a burgeoning desire to create a food system that is more sustainable, equitable, and economically viable.

For the past eight years, the Metcalf Foundation has been seeding and supporting food- and agriculture-related initiatives across the province, from agricultural land trusts to sustainable food certification, from new farm incubators to low-income neighbourhood farmers' markets, from diversified forms of street food to new models for community food hubs.

Starting in 2007, we convened our funding partners who were working on the supply and equitable distribution of local, sustainable food. We wanted to explore the possibilities for cooperative, integrated efforts to transform Ontario's food and agriculture system. These gatherings led to the creation of Sustain Ontario — the Alliance for Healthy Food and Farming which, after only one year of operation, is already playing a central role in supporting the efforts of its growing membership. The discussions also led to our publishing the paper *Food Connects Us All: Sustainable Local Food in Southern Ontario* in February 2008, which identified some of the barriers to a local, sustainable food system and the many roads to change.

Building on that first paper, in 2009 we decided to focus on solutions, rather than just the obstacles to progress. We have learned about innovators and activists, academics and growers who are engaged in new ways of understanding and engaging with food systems. Yet too little of this experimentation and innovation has been entering the policy conversation. We issued a call for proposals seeking tangible ways to advance a local, sustainable food system agenda in Ontario over the next five to ten years.

The call inspired a strong response — and difficult choices for the Foundation. We commissioned five papers, each authored collaboratively by NGOs, academics, practitioners, and others representing a range of sectors and perspectives. The papers are intended to be at once pragmatic and inspiring — looking to craft responses that more meaningfully connect food to critical societal issues such as health, urban sprawl, poverty and hunger, declining farm incomes, and communities at risk.

We hope these papers will provide a platform for a more robust discussion of the possibilities for food system reform in Ontario. But we also want to move beyond discussion. Public interest, civil society engagement, academic focus, and government awareness has never been higher on this issue. We want to stimulate multi-sectoral cooperation in advancing credible, grounded solutions that can be brought into action.

We recognize that there are multiple paths to change, and that innovation often comes from bridging issues and sharing visions for the future. The Foundation thanks the innovators whose ideas and actions are sowing a new vision for food and farming in Ontario.

**Sandy Houston, President
Metcalf Foundation**

Executive Summary

The supply-management system for foods such as eggs, milk, and poultry was created in the 1960s to correct a system in which processors and purchasers were able to use their purchasing power to keep prices low at the expense of producers. Supply-management organizations, under such names as the Ontario Milk Marketing Board or the Egg Farmers of Ontario, act as intermediaries between the producers of milk or eggs and the processors or retailers who package, use, or sell those foods. They ensure that the farmers receive a fair price for their products, and they carry out general marketing campaigns for each type of food. They also regulate the supply of milk, eggs, or poultry by setting quotas on the amount of each type of food that farmers may produce. Regulating supply is a way of controlling the price of each food.

Supply management works well for conventional producers of these foods. Most of these are farmers who specialize in one single kind of farming (dairy, poultry, or eggs) and do it on a large scale. Farmers producing the same kinds of food know they will all receive the same price for it; they do not have to worry about finding customers, and they do not have to carry out their own individual marketing campaigns. Farmers of supply-managed commodities have generally had more consistent returns than those who are not subject to supply management in Ontario, and this is a benefit of the system.

Supply management does not, however, work as well for those who engage in non-conventional forms of farming and for new farmers. Non-conventional farmers depend on their ability to differentiate themselves in the market, and they do their own marketing to let customers know about what they do differently. They do not benefit from economies of scale to the same degree, and they cannot justify the market price for quota given the production methods they use. Many of them sell their products through alternative markets, such as farmers' markets, farm shops, or Community Shared Agriculture (CSA). New farmers, on the whole, cannot easily access the capital required to get into supply-managed commodities. For this reason, those who do not have a family farm operation to "buy" into over time generally tend to enter non-traditional markets.

Today in Ontario, the production of poultry or eggs on a very small scale may be exempt from the quotas, but there are no exemptions for milk. And even with eggs and poultry, there is a large gap between the upper level of production allowed under the exemption and the minimal level of production subject to a quota (for example, a farmer who raises fewer than 300 broiler chickens a year

is exempt, but above that level, the minimum number of chickens that can be raised under the quota system is 91,000 a year).

How can the needs of non-conventional farmers be accommodated within the supply-management system for conventional farmers? Options include the following:

- increasing quota exemptions
- developing alternative markets that are not subject to quotas
- decreasing minimum quota levels
- establishing separate quotas for specialty products
- offering exemptions for specialty products
- offering exemptions for producers who sell through direct marketing
- setting aside a certain amount of processing capacity for alternative producers

Each of these options has benefits and drawbacks. However, the first step is to recognize that alternative producers have needs and constraints that are not currently well accommodated within the supply-management system, and initiating discussions to reconcile these differences.

Farmer profile no. 1

Jane lives with her husband on a farm in Eastern Ontario. They both have off-farm incomes. They raise 300 meat birds (in two flocks of 150 each) and 50 turkeys every year on pasture. Their investment has been minimal – about \$2,000 in hoop housing, watering systems, and brooding area materials. “At best, right now, we can make \$5,000, before labour costs, charging the organic premium,” Jane says.

“At the very least, we would want to extend our season by one more batch of 150. It would cost us a minimal amount in labour and feed, and would only mean better returns.” In Jane’s opinion, in the small-scale pasture business, “time and energy is largely spent on figuring out the animal husbandry – how to keep them alive and healthy, feed them so they put on weight, how to manage your pasture, housing, and watering systems – that is what costs the time and money in the start-up stage. Once you have that figured out, why would you not scale up?” They have more demand than they can produce. “We bring them home from the abattoir and they are all gone by the end of the day.”

“We do this as a labour of love and for our community. This level of agriculture would not provide enough income for farmers who are looking to support a family.”

Introduction to Supply Management

Supply management is a regulated marketing system for farm products that consists of controls on supply (in the form of quotas) that help ensure a fair return to the producers of certain food commodities. The system operates through farm marketing boards for milk, eggs, and poultry, which allocate quotas both to farmers and to processors and administer measures to protect Ontario farmers from having the prices of their goods undercut by imports.

The current model of supply management is designed for farmers who produce large amounts of a single commodity. The marketing boards pool the products of these producers, act as intermediaries between farmers and processors, carry out marketing, and ensure that farmers earn a fair price for their goods. The system allows independent owner-operated dairy, egg, and poultry farms to stay in business, since it performs the same functions that in other countries or jurisdictions are accomplished mainly by consolidation of farmers under a corporate entity.

The system works well for large dairy, egg, and poultry operations that produce a consistent and standard product in predictable amounts. It does not, nor was it intended to, accommodate the needs of farmers who are producing non-standardized food commodities, such as organic milk, free-range eggs, or rare-breed poultry. All the things that make supply management successful for conventional production are constraints on the production and marketing of these differentiated products.

Demand for organic, local, and other distinctive foods is growing, and consumers want to know more about the source of what they eat. Supply-management boards regulate prices and maintain quality standards, but the milk, eggs, and poultry they control are pooled products, anonymous and standardized. They do not allow for the connection between producer and consumer that many people are looking for.

In this paper, we will look at how the supply-management system works and serves the farmers who participate. We will then consider the way in which alternative producers and alternative markets work, in order to understand the gap between the two types of markets. Finally, we will propose some ways to bridge this gap.

The Origins of Supply Management

Supply management in Canada originated in the Ontario dairy industry in the mid-1960s.¹ At that point, the dairy industry was geographically scattered and its markets fragmented (including cheese factories, creameries, and bottled-milk companies). The prices received for milk differed sharply across markets and across regions within the province. Producers had difficulty understanding the size of their markets, and large processing companies effectively exerted market power over smaller-scale producers.

Because of this situation, the Ontario Milk Marketing Board was created in 1965 under the *Milk Act*. It provided for the establishment of production quotas, pricing based on the cost of production, milk classification and end-use pricing, and price pooling. This move was followed by similar developments in other provinces, and nationally under the *Canadian Dairy Commission Act* of 1966. This framework still provides the basic elements of Canada's milk supply management.

Poultry supply management in Canada developed in the 1970s. Legislation for poultry supply management in Canada lies in the *Farm Products Marketing Agencies Act* of 1972, which sets controls on interprovincial trade in poultry and restrictions on international trade. The legislation created a national supervisory board, the National Farm Products Council. Under this legislation and the *Ontario Farm Products Marketing Act*, supply-management authority was established for Ontario industry associations representing broiler chicken producers, egg producers, turkey producers, and chicken hatching egg producers. Today, the Chicken Farmers of Ontario, Egg Farmers of Ontario, Turkey Farmers of Ontario, and the Ontario Broiler Hatching Egg and Chick Commission operate as supply-management authorities for broiler chicken, eggs for human consumption, turkey, and broiler chicken hatching eggs respectively.

Supply-management agencies have been very successful in ensuring that governments protect their farmer-members from adjustments caused by international trade agreements. The agencies also support marketing strategies that protect the value of the quota system.

How Supply Management Works

Farm marketing boards maintain fair prices for food commodities by ensuring that supply does not exceed demand. Each farmer who participates in the system buys the right to produce a certain quantity of a product and agrees to certain standards and requirements, and in return receives the assurance of a market for those products, combined with services such as marketing and trade protection.

¹ This section draws heavily from Biggs (1990) and Mestern (1972).

In addition to setting aggregate quota levels, establishing product standards, and regulating certain production practices, the boards administer individual producer quotas. This involves a range of policies including:

- exemptions from quotas
- minimum quota holdings
- maximum quota holdings
- quota access by new entrants
- quota assessments
- quota transfer fees
- quota price caps
- limitations on movement of quotas across properties
- rules associated with quota exchanges
- quota rental and leasing
- product standards
- certain production practices

Farmers usually buy (or inherit) the right to be allowed a certain quota. Because quotas ensure fair prices, they have an important value for producers. At the same time, the need to buy quota represents a barrier to new farmers who want to establish a dairy or poultry farm. To offset this problem, most supply-management agencies offer new entrant programs that allow for loans or grants of quota over a specific period of time to new producers entering the industry. In some cases, the allocation of quota to new entrants under these programs is prioritized based on the region of the province or the nature of the product (e.g., organic producers or other specialty niches). Even with these programs, however, it is difficult for new farmers to get established, because the quota system is based on the assumption that producers are operating on a large scale, and the start-up costs for large-scale operations can be prohibitive.

Small-scale production does not fit well within the supply-management system because of the high levels of production required to qualify for quota. In Ontario, there are exemptions for very small operations in the egg and poultry industries,² but a range of small and medium-sized operations are effectively excluded from the system. This is because in Ontario and some other jurisdictions, the minimum amount for quota exceeds the quantity that is subject to an exemption from quota by a significant amount, so, in effect, a particular range of farm sizes is ruled out. For example, in Ontario broilers, the quota-exempt volume is 300 birds per year, but the minimum quota holding requirement is 14,000 quota units (this represents an operation with

² In the poultry industry, quota exemptions allow for very small-scale production or grandfather small-scale production that was already established when supply management was initiated. The dairy industry does not do this. Under rules administered by the Dairy Farmers of Ontario, there are no quota exemptions; that is, no production may occur without quota.

approximately 91,000 birds/year³). As a consequence, a farmer who wants to keep, say, 700 birds or 5,000 birds cannot legally operate in Ontario. The reason for this requirement appears to be transportation and administrative costs, which entail a high unit cost of service for smaller flocks.

There are some important differences between the poultry sector and the dairy sector. In the dairy industry, marketing boards perform the producer settlement function, take ownership of milk in transit, and operate revenue pooling schemes. In poultry, processors settle with producers, and no formal price-pooling schemes are used.⁴ As well, pricing in the dairy industry involves not only the cost of production, but also other considerations such as demand response and milk utilization; in poultry, pricing is strictly based on production costs. The dairy sector is different largely because the extent of regulation is stricter in milk supply management. Dairy marketing boards also have the authority to issue licenses, regulate transportation, and regulate milk quality.

Appendixes 1 to 4 provide an overview of quota policies across Canada for various commodities; Appendix 5 contains policies relating to new farmers. What is important to note is the range of different approaches across the country. There is no single way of carrying out supply management, and a range of policies exists for minimum quota amounts, exemptions from quota, and programs for new farmers.

³ Calculation: One quota unit is equal to 13kg/yr. 14,000 quota units x 13kg/yr = 182,000kg. If each bird weighs approximately 2 kg, then this equals 91,000 birds. Each production cycle (or quota period) is 8 weeks. Therefore, in one year there are 6.5 cycles. 91,000 birds/6.5 cycles = 14,000 birds/production cycle. See Appendix A for more detail.

⁴ The levy scheme used to finance breaker egg sales could be considered an informal pool.

Growing Demand for Differentiation in Food Retailing and Food Products

Increasingly, consumers are interested in being able to choose from a greater range of food products. Some consumers want inexpensive food. Some want convenience. Some care about the environmental effects of production processes. Some are motivated by health concerns. Some want food products free of hormones or pesticides. Increasingly, consumers are looking for products that are “local.” This term can mean a number of things, from the restrictive “100-mile diet” to food that is produced within the province where the consumer lives. But more important than the distance that food travels between farm and plate is the fact that, more and more, consumers want to know where their food comes from, who grew it, and the conditions under which it was grown. Many people are turning away from anonymous, aggregated, standardized products and looking for alternatives that allow them to feel more of a connection with the farmer who produced the food.

The demand for “local” food comes from urban and rural consumers alike. An Ontario poll conducted in June/July 2007 by Environics, in partnership with the Friends of the Greenbelt Foundation, showed that 88% of respondents read the origin labels on the foods they buy, 8 in 10 Ontario consumers prefer to buy locally grown foods, and more than 50% say they do buy local at least once a week (Friends of the Greenbelt Foundation 2007). Press coverage focusing on alternative production methods and demand for its products, such as local, natural, and organic, shows that interest in local food is rising.

The demand for differentiated products is not a fad, but a real trend. However, the regulatory and business climates in which agri-food products are produced in Canada do not always allow for differentiation to occur, especially among supply-managed products.

Consumer Segmentation: One Size Does Not Fit All

Historically, food markets were driven by supply and the foods that producers and food processors wanted to produce. Now the market is “consumer-oriented and driven by demand, rather than by supply” (Commission 2008).

But there is no such thing as “the consumer.” Consumers and their preferences are complex and unique; one size does not fit all. Market researchers segment consumers into subgroups based on one or more characteristics or values that cause them to prefer one product with certain attributes over

another. Consumer purchase decisions in all areas (not just food) are influenced by a number of variables:

- geography: rural vs. urban location
- demographics: age, income, family size, ethnicity, education
- psychographics: values, lifestyle, attitudes
- behaviours: rate of usage, loyalty to a brand or a place

When businesses or farm producers respond to these segmented consumer demands, they define niche markets and create differentiated products and services (BC Ministry of Agriculture, Food and Fisheries 2004). These differentiated products and services reflect the differences in each market segment's demands and values.

Attributes that differentiate products may be related to service, design, cost or price, or quality. When purchasing food products, consumers may value the experience of buying food at a farmers' market or directly at the farm gate, or the knowledge that products are locally grown or raised, or do not contain traces of pesticides or hormones. These experiences and this kind of knowledge represent quality attributes. These attributes are becoming increasingly important to many consumers.

Differentiation can take place anywhere along the value chain: on farm during production, during processing, or at retail outlets. For example, organic carrots are differentiated from conventionally produced carrots through on-farm production practices; sliced apples or bagged salads are differentiated at the processing plant; and purchasing produce through a Community Shared Agriculture (CSA) program is an example of a differentiated retail experience.

Most processors, however, do not need or want differentiated products. They want a predictable supply of a standard product. Under the regulated pooling system, most supply-managed products are not differentiated and the source of the raw milk, chicken, or eggs is irrelevant as long as they meet food safety standards. However, as the food market becomes more consumer driven, differentiated supply-managed products will likely become increasingly important.

Differentiation in Retailing

Traditional grocery retailers include supermarkets (both independent and supermarket chains), specialty food stores, and convenience stores. This retail segment remains a strong and consolidated player within the grocery industry (Dessureault and Grier 2006). The top three national supermarket chains in Ontario are Loblaw, Metro, and Sobeys.

Despite strong sales growth in supermarkets, other types of retailers are increasingly competing with them, including wholesale clubs, general merchandisers, drugstores, and other non-traditional food stores. Alternative

retailers have gained market share mainly in the discount food business. For example, Wal-Mart, Costco, and the Hudson's Bay Company (HBC) under the Zeller's banner have been growing in the food retail business.

Canadian drugstore chains are also increasing their food offerings. For example, Shoppers Drug Mart is renovating and expanding some of its stores to offer more product choices, including food. Some of the new Shoppers stores have grocery sections that account for 15 to 20 % of the sales area. The main categories of food products sold at these locations are dry grocery products, snacks, dairy, and some frozen products.

These, however, are generally markets for packaged and standardized products. Consumers looking for organic or local food are increasingly turning to farmers' markets and farm-gate sales to make a connection with the people who produce the food they eat.

In a farmers' market or at the farm gate, farmers can sell differentiated produce directly to the consumer. Differentiated produce means that farmers are not selling simply a quart of strawberries or a basket of generic apples, but they are selling the care and nurturing that they have put into that crop: heirloom varieties, sustainable production practices, farm freshness, humane animal care, or a personal link between the consumer and farmer.

Farmers' markets are experiencing remarkable growth and popularity among food shoppers in Canada, providing opportunities for many full- and part-time farmers. The number of farmers' markets in Ontario has grown to 154 in 2008 (Farmers' Markets Ontario 2009), more than double the number of farmers' markets operating in the late 1980s. Furthermore, sales at these markets are growing at a rate of 7.3%, compounded annually (Farmers' Markets Ontario 2009).

Farmers' market customers want fresh, good-quality products. They value the care and nurturing that farmers put into their operations and want to support local farm production. Many also come for the social experience. Although most Canadian consumers do not shop at farmers' markets, the demand potential for farmers' markets is strong, because they are a vehicle for supporting local food production (Farmers' Markets Canada 2009).

On-farm sales and marketing activities in Ontario have also grown significantly in the last four years. The Ontario Farm Fresh Marketing Association recently released its *On-Farm Marketing Report 2009* (Ontario Farm Fresh Marketing Association 2009), an update to a report completed in 2005 (Ontario Farm Fresh Marketing Association 2005). Both reports surveyed a representative sample of on-farm market managers, on-farm market customers, and non-customers to analyze the importance of on-farm marketing in Ontario.

In 2008, it was estimated that there were 750 on-farm markets with direct sales in the range of \$210 million. In just four years, the number of on-farm markets in Ontario had grown 88% from approximately 400 in 2004, and sales had grown by 80% from \$116 million over the same period (Ontario Farm Fresh Marketing Association 2009).

In 2008, on-farm markets reported significant growth in the last two years in particular, with 72% reporting an increase in the number of customers visiting the farms (Ontario Farm Fresh Marketing Association 2009). As a result of growth in sales, over one-third of the farm markets surveyed are planning to expand and/or renovate their on-farm markets.

Customers who visit on-farm markets are looking for a shopping experience and a high level of service (Ontario Farm Fresh Marketing Association 2009). When asked why they purchased products directly from a farm, 42% of the surveyed customers responded that the products tasted better and were of higher quality, and 30% stated that it was important to support local farms.

Other forms of direct farm marketing are also growing due to continued interest in purchasing local foods, including the Community Shared Agriculture (CSA) business model. The number of farms that offer CSA programs is not formally tracked. However, the Ontario CSA Directory⁵ lists more than 100 farms, and there are likely many more that are not on the list.

CSA is a farm business model that directly connects farmers and consumers. What makes this model unique from other on-farm marketing activities is that consumers purchase “shares” of the farm’s harvest in advance of the season, in order to provide capital support to the farmer and to share in the risk of the year’s food production. In return, consumers receive a “share” of the harvest that they pick up or have delivered on a regular basis. Each farm’s CSA program is unique and varies according to the variety of products available (including fruits, vegetables, meats, dairy, and baked goods), the quantity each shareholder receives, on-farm production practices, and whether the products are delivered or require pick-up. CSAs that offer delivery to urban centres provide an avenue for consumers who cannot make their way to the farms themselves or visit a farmers’ market to purchase local, fresh food.

Differentiated Food Products

Fifty years ago, a typical supermarket would have approximately 2,000 different items to sell. Today, the number is 25,000 (Commission 2007). This expansion is due to the demand for specialty and differentiated products that continues to grow in developed countries (Commission, 2007). As a result, in the last half-century, food innovation and differentiation has increased to capture that demand. According to the Canadian Council of Grocery Distributors

⁵ www.csafarms.ca

(CCGD), approximately 4,000 products are replaced every year with 4,000 new products that attempt to meet ever-changing and varied consumer demands (Commission, 2007).

Chicken and egg producers and processors, for example, have developed many differentiated products to appeal to a wide range of preferences. Consumers can now choose between conventional eggs: organic eggs; free-run, all-natural, locally produced eggs; liquid eggs rather than shell eggs; already hard-boiled eggs; or a combination of these attributes. The choices are just as broad when purchasing chicken: organic; all natural; free-range; free-run, locally raised; or some combination of these choices.

Two types of differentiated products in particular are currently gaining attention — organic and “local” foods.

Organic products

The latest available data suggest that Canadian and Ontario producers are responding to the growing consumer demand for organics. The number of certified organic operations increased by more than 63% since 1999 and reached 3,782 operations in 2007 (Holmes and Macey 2008). Organic farms represent approximately 1.5% of all farms in Canada and just over 556,000 hectares of land. In the *2006 Census of Agriculture*, 6.8% of farms reported that they were producing either certified organic products, uncertified organic products, or products on transitional lands.

According to the Canadian Organic Growers, the industry is growing at a rate of 20% per year. The *2006 Census of Agriculture* reported that Ontario had 593 certified organic farms, 150 farms in transition, and nearly 3,000 uncertified organic farms (Organic Council of Ontario 2008). Further down the supply chain, in 2007, there were approximately 90 certified organic food processors and handlers in Ontario (Holmes and Macey 2008).⁶

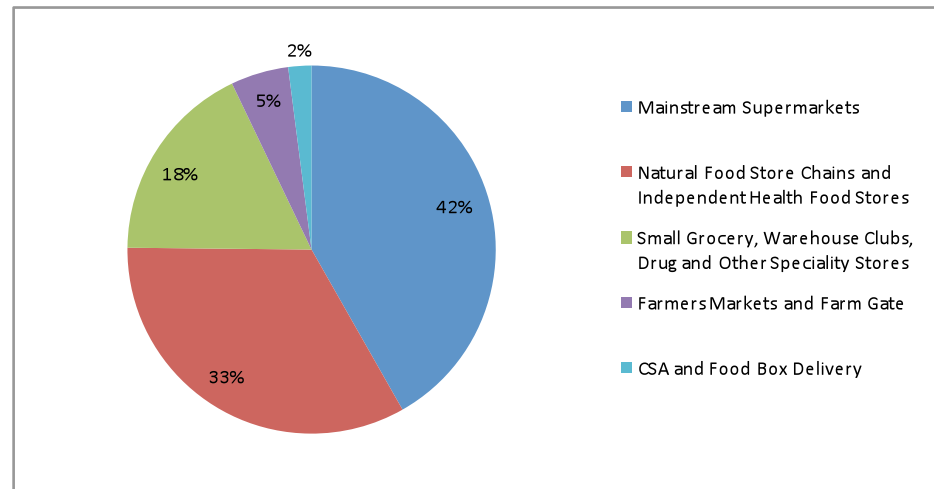
Historically, organic foods largely comprised fresh fruits and vegetables bought directly from farms or at farmers’ markets. More recently, along with fruits and vegetables, organic meats, dairy products, and processed products have made their way onto grocery shelves and into farm markets. Demand for organic livestock is growing throughout the country (Canadian Organic Growers 2009). AC Nielsen retail sales data show that, between 2005 and 2006, sales of organic raw meats increased 81% in national grocery stores; fresh vegetables increased 38%, fresh fruit 28%, beverages 24%, and frozen foods 14%.⁷

⁶ There may be some data missing for 2007 in this field. In 2005 there were 155 processors and handlers in Ontario. (Canadian Organic Growers 2005).

⁷ Organic Agriculture Centre of Canada 2007. Retail sales of certified organic products in Canada in 2006, compiled by Anne Macey for OACC from ACNielsen Market Track Estimate for 52 weeks ending in August 2006 vs. 2005.

Holmes and Macey (2008) estimated that Canada’s organic food sales reached \$2 billion in 2008; this represents a doubling of sales in just two years. AC Nielsen retail sales data indicates that major supermarket chains sell approximately 40% of all organic food products in Canada. These sales represent 1% of total sales in these supermarkets. Figure 3.1 breaks down organic sales in 2006 by retail location. The majority of these organic food products (85%) are imported, primarily from the United States (Commission 2007).

Figure 3.1: Sales of Organic Food by Retail Location



(Source: Holmes and Macey, 2008)

Organic dairy products represent one of the most rapidly growing segments of the food market. In seven years of production (2000/2001–2006/2007) the sale of organic milk in Canada has grown 525%.⁸ By comparison, the market for conventional dairy products is stable. See Appendix 6 for data on the growing demand for organic milk.

Local food

The definition of “local” food varies depending on the consumer’s views, the market in which it is being sold, the commodity, and the growing season. Some consumers define local food as food produced within 100 miles of its place of purchase; some define it as regional, others as Ontario-produced and, in some cases, as Product of Canada. The definition of local food can also be associated with the supply chain through which such products are purchased and with a sense of transparency — the sense that the consumer knows who grew the food and under what conditions. Farmers’ markets are a common supply channel for

⁸ Historically, organic milk supply in Ontario could not meet demand, but recently, the industry has begun to deal with a surplus. Steve Cavell of Organic Meadow estimates that the surplus is at about 60,000 hl. This surplus of organic milk is put into the conventional milk pool.

local foods, along with Community-Shared Agriculture (CSA) programs, roadside stands, small grocery stores, and direct marketing from farms.

The local food sector is often characterized by small and medium-sized independent producers who seek to add value to their products and who direct-market to local residents, restaurants, retailers, and tourists (through farmers' markets, farm shops, and farm-gate sales). Most producers involved in this market (though perhaps not all) have a deliberate strategy to sell their products as locally produced and through defined avenues and outlets. Coincidentally, larger retailers are also promoting a greater range of local foods, both fresh and processed, to meet consumer demand.

The Ontario government has strengthened its commitment to building awareness of and demand for local food in the province. The 2008 Ontario budget committed \$56 million over four years for the *Pick Ontario Freshness Strategy* (Foodland Ontario 2009) and the *Ontario Farmers' Markets Initiative* (Ministry of Finance 2008). The *Pick Ontario Freshness* marketing strategy, launched in June 2007, was developed to promote interest in Ontario food products through increased consumer demand (Foodland Ontario 2009). The strategy includes:

- an advertising campaign to raise consumer awareness of Ontario products and their availability
- an expansion of the *Foodland Ontario* program throughout the grocery store, above and beyond the produce section
- support for the *Savour Ontario* program, which promotes Ontario foods in dining establishments (Foodland Ontario 2009)

In July 2009, the government committed \$24 million over three years to “develop logistics that would enable Ontario-grown food to make its way into the province’s schools and hospitals, increase sales to food service and other institutions” (OMAFRA 2009). As part of this commitment, under the Ontario Market Investment Fund (OMIF) the government has provided funding to six new local food projects. These projects include buy-local initiatives for Windsor-Essex, Chatham-Kent, Essex, and Haldimand, a local food-distribution network for organic farmers in the Ottawa area, and a marketing campaign for Ontario berries (OMAFRA 2009).

Local Food Plus (LFP) has also helped to manage and make local food more visible in retail outlets across Ontario. LFP certifies local producers and processors based on a number of sustainable production standards and then links these stakeholders with local purchasers (Local Food Plus 2009). Other stakeholders, including municipalities and industry, are also leading local food initiatives and developing strategies that include action plans for increased research and marketing efforts, including culinary and farm-gate road maps. Some examples include the *Niagara Culinary Trail*, City of Hamilton

Agricultural Action Plan, Harvestin' the County in Prince Edward County, Foodlink in Waterloo Region, Direct from Norfolk County, Durham Farm Fresh, Kawartha Choice FarmFresh, SAVOUR Muskoka, the Ottawa Buy Local Food Guide, and the Guelph-Wellington Local Food initiative.

A Trend, Not a Fad

The data we have found strongly suggests that the demand for differentiated products is not a fad but a trend with continued growth opportunities. Kohl (2007) has estimated that, in the United States, these types of products have the potential to capture 20% of the marketplace by 2020. We can assume that the Canadian marketplace will follow suit.

While producers and processors provide differentiated products based on consumer-valued attributes, they are also providing many substitute products that compete against each other. When there are many substitutes for a product, consumers can easily switch to another product. The supply-management business model is based on the assumption that consumers want predictable quantities of a standard product. This may have been the case 40 years ago, but is no longer true in a food culture of increasing consumer choice.

Farmer profile no. 2

Sean is a young, enterprising farmer running a diversified farm business that includes grains, flours, cereals, pastas, meats, and eggs. The farm produces corn, soybeans, wheat, spelt, hay, rye, barley, oats, and field peas. Sean also raises cattle, pigs, chickens, ducks, turkeys, and horses.

He runs an on-farm store where he sells most of his meats and eggs.

Sean currently produces 150 chickens twice a year. He wants to raise 1,000 birds a year, based on the scale his system could accommodate and the demand for direct sales (estimated at selling 20 birds a week directly through their store and through farmers' markets). Right now, he sells about 1,000 birds through his store. The 300 "organic ones get gobbled up so quickly we have nothing left to sell," so he buys the rest from a local quota holder who produces drug- and hormone-free birds. Sean is able to cover the cost of labour involved in the bird production and continue to raise birds, because they are an important part of the his farm ecosystem, but if he had to pay for quota, he could not do so.

Sean has also had the tenacity to work out a unique arrangement with the Egg Farmers of Ontario for the eggs he sells from his farm store. He raises a 500-hen flock, which he thinks is a suitable size for an operation such as his. He splits them into two 250-bird flocks and raises them on pasture in the summer and indoors in the winter to produce eggs all year round.

He has managed to set up a quota account with the Egg Farmers where he pays \$5/year/bird into a holding account. When the account builds up to enough money to allow him to purchase quota, it will be converted into quota (if the quota is available). He is not aware of anyone else doing this and feels that he was allowed to do this because he "lobbied the crap out of them and this was the best way to get rid of me."

Sean would get into small-scale dairy farming if he could and has already developed a business plan for a 12-cow herd. He wants to sell bottled milk from his farm store and at farmers' market and use the excess milk to make cheese and butter. This is his business plan:

- Cows: \$24,000
- Equipment: \$40,000 (on an existing farm)
- Operating costs: \$24,000 a year (\$2000/cow/year)
- Production: Each cow should produce \$10,000 worth of milk (based on a 305-day lactation period, meaning he will always have some cows fresh and some dry)
- Price: \$2/litre

Sean believes he could make money right at the outset, especially since he has an established customer base, but this would not be possible if he had to purchase quota.

Conventional and Alternative Production in Supply-Managed Products

Production Costs for Generic Supply-Managed Products

The supply-management system sets prices for food commodities based on the estimated cost of production for those commodities. This includes start-up costs (such as building barns or buying equipment) and ongoing costs for running an operation of a certain size. These costs must be fairly predictable and uniform for producers to ensure that prices are appropriate.

By contrast, the costs of alternative forms of production are anything but predictable. Farmers manage their risk in other ways — by diversification among different products, for example. Because production costs in alternative production systems differ from conventional production, pricing and marketing conditions under supply management may be irrelevant for specialty products.

In this section, we will explain how costs are set in the conventional production model, by looking at the costs for a broiler chicken facility, an egg facility, and a dairy farm. In each case, the focus is on production costs for a new facility. Production costs for a new facility tend to differ from those of older facilities because of differences in scale, technology, and state of depreciation. This distinction is relevant, as (depending on the commodity) the typical farm currently in operation is not the same as one that would be newly built.

In these descriptions, we have included the cost of quota but omitted the costs of the financing required for three reasons. First, allocating financial costs to quota in a generic manner is difficult, because the underlying asset value does not depreciate and has no obvious limit on its useful life. In other words, budgeting the financial cost of quota relies on arbitrary assumptions. Second, production costs used in forming prices in supply management must always omit the costs of quota or its associated financing costs in order to avoid rapid inflation in quota prices. Third, most current participants in supply-managed industries obtained a portion of their quota when the system was established or through family transfers at values far below existing values, or purchased quota along with farm real estate at a discounted price. In practice, the total value of quota for a new facility would not be realized as a lump sum cost at market value; if this were assumed, new farm projects would either be only marginally profitable or make a loss. Thus, we recognize the capital value of quota in the discussions below but do not assign a financing cost to it.

Conventional broiler chicken production costs

A typical new conventional Ontario commercial broiler chicken operation would be built around a broiler barn that has the capacity for just over 52,000 quota units. Assuming production of standard 2.1 kg broiler chickens and 6.5 cycles per year, each quota unit allows for production of 1.86 kg live weight, or a total of 633,000 kg live weight output per year.

Appendix 7 contains the data and assumptions used to calculate the start-up capital and operating costs of a facility of this size. Table 7A in Appendix 7 shows that the start-up capital costs of a facility this size would be approximately \$4.6 million, of which \$3.9 million is the cost of quota to produce this quantity of chickens per year.

The operating costs of broiler production are dominated by feed and chick costs. Table 7C in Appendix 7 shows the estimated total costs to be about \$1.20/kg to supply a 2.1-kg broiler chicken priced at \$1.46/kg.

Price per kg	\$1.46
Cost per kg (not including quota)	\$1.20
Profit per kg before quota cost	\$0.26
Kg produced per year	633,000
Total profit before quota cost	\$138,964

Chicken producers must find processors to purchase their chicken. However, production of chicken in this quantity suggests that the quota was purchased from another producer leaving the industry; therefore, the link to the processor could already be made and essentially no marketing of the chicken is required. Essentially, the marketing function for the producer would be quite rudimentary and the processor would market the product to the end consumer. The chicken producer will have a direct relationship with the processor in order to negotiate transportation logistics.

Along with chicken production, many conventional chicken producers have a cash crop operation. These crops are not grown to feed the chickens. Typically, there is almost no on-farm feed manufacturing and most producers purchase complete feeds.

Conventional egg production costs

A typical new conventional Ontario commercial layer operation would be built around a layer barn that has the capacity for 60,000 hens (quota units). Pullets are purchased and held one year in production, with a production level of 27 dozen eggs per hen per year. This equals a total production of just under 1.5 million eggs a year.

Appendix 8 contains the data and assumptions used to calculate the start-up capital and operating costs of a facility of this size. Structurally, egg production costs are similar to broiler production costs. The start-up cost component is dominated by quota cost, and the operating cost has feed as its largest component. Based on this model, Table 8A in Appendix 8 shows that the start-up capital costs of a facility this size would be approximately \$10.7 million, of which \$9.3 million is the cost of quota to produce this many eggs per year.

The operating costs of layer production are dominated by feed and pullet costs. Table 8C in Appendix 8 shows the estimated total costs to be about \$1.12/dozen.

Table 4.2: Summary of revenues, egg production	
Price per dozen eggs	\$1.37
Cost per dozen eggs (not including quota)	\$1.12
Profit per dozen eggs before quota cost	\$0.25
Eggs produced per year	1,500,000
Total profit before quota cost	\$363,755

Like chicken producers, egg producers have fairly limited marketing requirements. Many layer operations also include a cash crop component.

Recently, the Egg Farmers of Ontario introduced a cap on purchases of quota for new operations of 22,000 units. The cap does not apply to purchases of existing farms as an ongoing entity, and, after the maximum purchase of 22,000 units, farmers can purchase up to 5,000 further units per year. Under this new measure, the up-front quota cost for a new operation would be \$3.41 million (22,000 units at \$155/unit), with a stream of investments over time in units of 5,000 a year to round out the capacity of the facility.

Conventional dairy production costs

Costs of a typical new Ontario conventional dairy operation would be based on a 250-cow free-stall operation with 41 dry cows. Space for dry cows is included in the allocation of 250 free stalls for the herd. At an average milk production rate of 9,417 litres per cow per year, total milk production in this typical facility would equal 1.78 million litres a year.

Appendix 9 contains the data and assumptions used to calculate the start-up capital and operating costs of a facility of this size. Table 9A in Appendix 9 shows that total costs of the barn, manure storage, feed storage, and milking parlour are estimated at \$6,915 per stall, in addition to an initial stock of cows valued at \$2,300/head. This gives an initial investment in cows and facilities of about \$2.4 million. Based on a 3.9 kg/hl butterfat test, just over 1 kg milk quota

per cow is required, valued at \$25,500/kg. This equals a total quota investment of just over \$6.4 million. In total, an investment of \$8.8 million is required.

Table 9C in Appendix 9 summarizes key operating costs of the dairy farm model. The biggest single component of total production cost was feed at \$.23/litre, followed by other variable costs and non-quota fixed costs. Given the feed price environment of 2008, total production costs were about \$.66/litre, exclusive of quota.

Price per litre	\$0.757
Cost per litre (not including quota)	\$0.660
Profit per litre before quota cost	\$0.097
Production per year in litres	1,780,000
Total profit before quota cost	\$231,186

Essentially, no marketing by individual farmers is involved. If a producer has dairy quota, the milk board will find a customer for the milk produced from that quota. The milk board arranges the collection and transportation of milk across the province and takes ownership of the milk once the product is in transit. Unlike chicken and egg producers, the dairy producer is paid by the milk board rather than the processor. Dairy producers may not know where their milk goes once it leaves the farm.

Typically, dairy producers grow their own forages. Some operations also have a cash crop component, but this is usually minor compared to the dairy operation.

Alternative Production

In essence, the descriptions above represent current conventional technology to produce poultry, eggs, and milk in Ontario. There is, however, no “representative” alternative production operation and therefore no average cost of production that can be compared to the conventional cost of production models. Not only are these alternative operations different from their conventional counterparts, but they are also different from each other.

Here are three examples.

1. One alternative operation in Ontario produces pork, chicken, turkey, and fresh vegetables. This operation sells all of its products directly to consumers through a CSA program.
2. Another operation is a certified organic farm producing grain, meats, poultry, eggs, and fresh vegetables. This operation has a meat CSA program and also sells its products through farmers’ markets and through direct relationships with restaurants and independent stores.

3. A third operation in Ontario produces a wide variety of grains that are milled, processed, and sold on-site in various forms and packages. Customers can also purchase meats, eggs, and other goods from the same operation.

Some operations are based on adherence to specific production practices such as free-range or free-run, while others organize themselves around a fixed land base and grow their own feed for livestock and poultry. Others are based around direct relationships with their customers and offer on-farm activities (livestock displays, mazes, crafts, etc.) to attract customers. Still others are a combination of all of the above.⁹

Although there is no “representative” alternative production system, some characteristics of these systems are similar and clearly differentiate them from conventional operations. These characteristics include:

- mixed operations: economies of scope
- a lack of economies of size
- different costs of production
- greater marketing efforts and customer interaction
- higher market risk
- spin-off enterprises

The following section describes these differences in detail.

Mixed operations: economies of scope

Alternative operations often include a variety of enterprises, such as chicken, turkey, eggs, pork, and vegetables, in which no single enterprise accounts for the majority of farm cash receipts, unlike conventional operations (see Table 4.4). These farms are not specialized and generally have few economies of scale in production; rather, they aim for economies of scope in direct marketing.

Each component (egg production or raising chicken) may be small compared to its more specialized conventional counterpart, however, these alternative operations as a whole can be commercial in both size and product scope. It is the total package of products produced that is the value proposition of many of these operations. For example, a customer can purchase fruits, vegetables, meats, eggs, and even fresh flowers for the week in one bundle.

An important point to note is that due to the mixed offerings, these operations are also diverse economically, and therefore the risk is spread across a number of enterprises. Risk is mitigated by the variety of enterprises. If one enterprise suffers a poor growing season or animal disease, the whole operation will not be devastated by this setback.

⁹ Ontario farmers are restricted in some of their practices. For example, in the United States, rotational grazing has developed as an alternative approach to dairy farming (this means that different animals graze on certain areas of the farm at different times). In Canada, however, due to the need to fill quota year-round, rotational dairy grazing is restricted.

Farmer A	Farmer B	Farmer C
Chicken: 11%	Grains: 75%	Grains: 75%
Turkey: 36%	Poultry, waterfowl, eggs: 15%	Pork: 10%
Hogs: 40%	Pork and beef: 5%	Beef: 10%
Vegetables: 13%	Vegetables: 5%	Poultry: 5%

A lack of economies of size

Producers’ ability to realize economies of size or scale depends on the extent to which they can spread their fixed costs over a larger number of units of production. Because they operate at small or medium scales, alternative production systems commonly struggle to attain economies of size in supply-managed products.

There are three reasons for the lack of economies of size. First, many of the alternative operations produce supply-managed commodities under personal or small-lot exemptions. The exemption levels tend not to be consistent with full utilization of equipment. Second, given the minimum quota-holding requirements in chicken and turkey production, alternative operations may be unable or unwilling to purchase quota that would otherwise allow for more efficient use of facilities. Third, contemporary production technology is commonly targeted towards enterprise specialization and scales of operation larger than those used by producers supplying alternative markets, regardless of the quota exemption. Thus, the unit production costs owing to fixed costs will tend to be higher in alternative production.

At the same time, farmers who pursue alternative forms of production tend to operate within a culture and philosophy that are land-based and ecological or certified organic. These operations tend to be relatively small, not strongly growth-oriented, and heavily involved in marketing as well as producing their products.

Some farms also operate under the principle of balance, meaning no one enterprise may grow significantly out of proportion relative to the others, as they are integrated units of the farm. So while the farms may be large overall, with many operations able to grow beyond the exemption levels, the scale required by the minimum purchase requirements for quota would require excessive growth in one area — which would be inconsistent with their farming approach.

Differing costs of production

Production costs commonly differ between alternative production systems and conventional production, sometimes significantly, for three main reasons.

First, alternative production tends to be less mechanized than conventional production. This difference relates to scale, as well as to the use of confinement housing — by nature, the greater the use of outside access, the lower the use of automatic feeders, cages, etc. Compared with conventional production, more labour is used in the alternative production process, resulting in higher production costs. Moreover, where outdoor housing is used in alternative production in lieu of confinement housing, space requirements will affect the cost structure.

Second, alternative production systems commonly employ techniques and products which have lower yields compared with conventional production. For example, many alternative farmers raise heritage animal breeds and reject some forms of plant-genetic technology. Heritage-breed animals usually take longer to fatten to market-ready weights, and heirloom vegetables and other types of plants may take longer to grow. As a consequence, yields tend to be lower in alternative production. Lower yields must be compensated for by increased revenue through greater marketing efforts.

Third, there may be additional costs associated with certification of products and with purchasing certified inputs. Producers who market certified organic products (and thereby incur many of the cost disadvantages described above) must pay for certification services that are not part of conventional production. Within an organic program, feeds must be either purchased or grown that are priced at a premium to conventional feeds.

Greater marketing effort and customer interaction

In most alternative operations, marketing is a central component of the farm business. Producers must create their own base of customers through their own marketing efforts. Many of these operations market their goods and services through customer relationships, including sales at farmers' markets, CSAs, on-farm sales, or direct delivery. This marketing effort and investment significantly reduces the margins producers receive until the market is fully developed.

Conversely, in conventional supply management, marketing boards promote and sell the farm product. For example, a dairy farmer's customer is the processor, not the consumer. The farmer does no marketing whatsoever.

Moreover, the marketing of alternative products differs from conventional marketing. In many instances it is the farm story, its production practices, and a relationship of trust with the producer that is being marketed along with the product. This approach differs from the marketing of commodity product in terms of the interface with customers and the nature of market power relationships.

Supply management has its origins in issues related to purchasers' market power, and its instruments strengthen farmers' position relative to this market

power by selling product collectively under the authority of marketing boards. In contrast, producers marketing alternative products do not need or want collective protection from purchaser market power. By explicitly choosing to produce and sell a product that can realize value only if it is sold as a differentiated good, they need direct contact with customers.

Higher marketing risk

In addition to incurring higher marketing costs, by producing and marketing new and alternative products, alternative producers assume a greater level of marketing risk than their commodity-oriented counterparts. Commodity products, by definition, are sold in liquid markets to a mass group of consumers. Alternative products are targeted towards a subset of the market. Reaching the relevant target market involves more costly marketing, the target market is much less reliable or predictable, and the impact of purchase choices by a given customer or segment is much more significant. Thus, the risk associated with alternative products is higher.

Spin-off developments

Alternative product marketing allows for spin-off businesses to be developed. For example, there is a natural synergy among farms in a region that market directly to consumers to network together and market a “regional food experience.” This, in turn, provides an incentive for processing alternative products and developing an associated food-service component. The marketing of commodity products does not facilitate these types of developments.

The Price Difference between Conventional and Alternative Products

The budget for a new conventional facility in a poultry or dairy enterprise allows for production efficiencies related to the rational scale at which a new facility must be constructed, although it represents very large capital requirements, largely driven by the quota investments required. The prices received for the products, however, are controlled, and although they are intended to cover the costs of production, they are also low enough to ensure consistent sales to processors and other customers.

Alternative production generally operates through smaller production units that encompass a range of enterprises but lack the economies of scale available to conventional production within any single enterprise. As well, alternative producers operate under higher production costs, owing to differences in technology choices and the costs of certification. However, they command a much higher price for their products, partly because of the limited supply of these differentiated products. Consumers are also willing to pay higher prices for

this food, because they value knowing where the food came from and how it was grown.

The marketing of commodity products and that of alternative products also differ sharply from one another. In conventional production, marketing is rudimentary or absent, whereas in alternative forms of production, marketing is an intrinsic aspect of the farm operation. The relative significance of marketing creates an additional element of risk (and potential reward) in alternative production and better allows for the prospect of spin-off developments.

Farmer profile no. 3

Red runs a new mixed-farm operation in central Ontario. He is developing a community shared agriculture (CSA) program, as well as raising pasture pork, turkeys, and chickens. His business model is based around an established customer base in his 250-member CSA.

He raises 300 meat birds in two flocks of 150 birds each, on pasture in chicken tractors.

Red's chickens cost him \$600 in start-up materials, \$1,300 in annual expenses for each 150-bird batch (including chicks, brooder costs, feed, mileage, electricity, and slaughter), and \$500 in labour for each batch (at \$12/hour). Each year he nets \$1,700 after these expenses and labour costs.

He feels they could scale up easily from 300 birds. Ideally he would like to raise 1,500 birds on pasture each season, based on what he could manage and easily sell to his CSA members. While he feels he could make a little more per unit on labour and material expense if he could scale up, he would primarily save more per unit on fuel cost (trips to hatchery, feed mill, abattoir, customer service, etc.).

While profits are minimal at the current scale, he raises the chickens and turkeys for two reasons. First, he needs a sustainable source of fertility for his soil (manure), and second, he sees a strong demand for the products he raises — demand for the taste; demand for pastured, organic meats; and demand for humanely raised meats — and having this demand met adds value for his CSA customers.

Options for New Farmers and Alternative Markets within the Supply-Managed System

Before assessing potential alternatives for alternative products within the supply-management system, we should summarize the main findings of this study.

Supply management developed to protect the producers of conventional food commodities from the power of processors and other customers and to ensure that farmers received a fair price for their products. The system regulates supply in order to control prices and is based on assumptions about how the food will be produced and the quantities and costs of production. The supply-management boards, often called marketing boards, do the marketing for the sector as a whole, so that producers need to do little or no marketing of their products.

The scale and cost structure of alternative operations differs from those of commodity producers. Alternative production is generally less specialized than commodity production, with many products produced on the farm, although in much lower quantity. Marketing is an intrinsic part of alternative production. Producers must create their own markets, with all the additional costs, risks, and rewards this entails. However, their products can command much higher prices.

Although the demand for commodities in supply management is stable or slow growing, the demand for alternative products is growing rapidly and has established itself as more than a fad.

Within this context, we have identified potential alternatives to the current situation for supply management; the options are not listed in any particular order. The options are explained and their apparent pros and cons discussed.

1. Raise quota exemption levels to facilitate additional alternative production.
2. Phase alternative market development program into the supply-managed system.
3. Decrease minimum quota holdings and allow for increased self-marketing initiatives.
4. Establish separate quota for specialty product.
5. Create an exemption for specialty products.
6. Create an exemption for direct marketing.
7. Target specialty markets in allocating processing.

As Appendixes 1 to 4 make clear, there is no one single way to operate a supply-management system, and variations are possible. The key is to determine which variation would best support the needs of alternative producers while continuing to serve the requirements of conventional food producers.

Increase Quota Exemption Levels

An obvious alternative to increase production opportunities for alternative products is to increase quota exemption levels. Such exemptions would need to allow for farmers to market their own products and to sell directly in a variety of ways — from the farm, in farmers' markets, and to restaurants and small-scale processors. This could facilitate the growth of alternative production of supply-managed products to a level that would make it a more meaningful and profitable enterprise in a portfolio of enterprises for new farmers. Increasing the quota exemption levels would allow producers who are currently raising 300 chickens, 100 layers, and/or 50 turkeys to increase their production and experience some economies of scale.

The advantages of an increase in the quota exemption levels are that it is a very simple change and also one that would not require any obvious changes in the broader elements of supply management. The quota exemption could be established at a sufficient level to make poultry a more feasible enterprise on a specialty mixed farm. Quota cost would not be a barrier to entry for beginning farmers.

The disadvantages are that it does not address alternative marketing in dairy products (where there is no exemption), and it does not address processing and market access issues. For example, an increase in the chicken exemption level does not imply an increase in processing access, which can become an important marketing constraint. Finally, any quota exemption level can be criticized as arbitrary.

Alternative Market Development

A second option is to facilitate specialty market development, with an eventual rollover into the conventional supply-management system. This process could operate in the following way: Marketing boards would establish criteria to evaluate specialty product projects, and farmers wishing to enter the industry would apply for temporary quota credits based on specialty market enterprises. Marketing boards would approve a certain number of these projects, issue quota credits, and monitor the success of the projects. After a given period (for example, five years) and subject to satisfactory evaluation, the projects would be granted permanent quota.

For example, a producer could approach a marketing board with a proposal to raise rare-breed poultry in an outdoor setting for a local restaurant. The volume

of product involved would be determined in conjunction with the restaurant, and access to processing would be arranged. The marketing board could review the proposal and allow for a temporary quota credit. This would be monitored and later reviewed, and a decision would be made regarding permanent quota allocation.

This approach would facilitate the entry of new farmers into specialty markets within the supply-management system. It could apply to both dairy products and poultry, and participating producers would eventually end up with quota that is “earned” in a sense, rather than the quota cost being a barrier to new entrants.

The disadvantages lie in establishing the volume eligible for specialty projects and the criteria and evaluation of projects approved for quota – and following this, maintaining complicated systems of oversight. Also, this option, through the application process, would allow marketing boards to determine the “success” of the ideas, rather than the market itself. The option also restricts the number of farmers allowed to produce and market alternative products to some arbitrary number decided by the boards. Ultimately, approved projects for specialty producers would have the same quota as conventional producers, and regulations related to product standard or production processes would need to be dealt with.

Decrease Minimum Quota Holdings

Another way to increase opportunities for new producers in specialty production is to decrease minimum quota holdings. The most drastic decrease would be to lower the minimum quota holding requirements to the exemption levels; in several cases, there are broad gaps between quota exemption levels and minimum quota holdings. To stimulate specialty production, this change could be coupled with an increase in the self-marketing quota that could give new entrants access to processing at relatively low levels of production. Flexibility in service fees could be implemented if small holder production materially increased the costs of service.

The proposal to decrease the minimum quota is similar to the one to expand the exemption, except that new producers would need to purchase quota. The increased self-marketing quota combined with the decreased minimum could open up opportunities for new farmers operating on a small scale with specialty production, because it links production of the farm product with access to processing that provides the producer with a saleable consumer food product. It offers the prospect of building growth in supply management and could apply to dairy and poultry.

However, this proposed system requires that new entrants purchase quota, which is a financial barrier, and the value of the marketing function provided by

supply-management agencies to alternative products is likely to be minimal. It may also be difficult to match access to self-marketing quota to new entrants taking advantage of the lower minimum quota. Ultimately, the lower minimum quota will be subject to the criticism that it is arbitrary.

It must also be noted that currently, “any person can ask for permission to buy less than the minimum required in any commodity; however they would have to ask permission in person before the Board and have a list of reasons to do so” (Morrison 2009). The Board does not have to grant permission, however, and currently such decisions are made ad hoc.

Within this alternative, there could also be the option to lease quota. The ability to lease would make the option more financially viable for some producers. For example, suppose a producer wanted to raise 2,000 broilers per year. This producer could raise the 300 broilers allowed under the exemption and lease quota for a set amount per bird or kg for the additional 1,700 birds. Lease agreements could be renegotiated each year.

Establish Specialty Market Quota

Another option is to create a new class of quota dedicated to specialty products. Essentially, marketing boards would estimate existing demand for specialty products, and create and distribute quota to existing specialty producers. The quota allotment would fluctuate over time with demand, and the specialty quota could be exchanged among specialty producers. There would be no transfer of quota between conventional production and specialty production.

For example, a marketing board could conduct a survey of the apparent demand for specialty product. Based on this information, existing specialty producers would be audited, to verify their specialty status and historic production levels, and issued quota. The marketing board would then monitor demand and adjust quotas on a pro rata basis or issue new quota based on measured changes in demand.

The advantage of this approach is that it allows for specialty market growth within the supply-managed system.

However, it requires quota purchase and thus presents a barrier to new producers. It would require a very clear definition of *specialty* to keep it separate from the conventional quota, and *specialty* tends to defy clear definition. To operate effectively, the specialty quota would also need to be adjusted according to market demands, and this would likely prove difficult for supply-management agencies that deal in commodity markets. Also, extensive monitoring would be required. Rapid growth in specialty demand might also be perceived as having been achieved at the expense of conventional production, creating tension in supply-management agencies.

Specialty Product Exemption

Specialty products — for example, organic, free-range, or product marketed from a regional appellation — could simply be exempted from quota.

The advantage of this approach is that it would remove the barriers to entry for specialty production, and specialty producers would have complete freedom in marketing their product.

There are, however, important disadvantages. This approach requires a clear definition of *specialty product* to prevent a flood of entrants under the exemption, representing a threat to conventional production. Taken to its logical extension, an exemption for specialties could create international trade issues if specialty products were exported at a material level.

Direct Marketing Exemption

Dairy and poultry sold through direct farm marketing could be exempted from quota. Similar to the option above, this approach would remove the barriers to entry for direct-marketed production, and producers would have complete freedom in marketing their product.

The most important task under this option would be to determine what exactly a direct farm marketing channel is. For example, direct farm marketing could include farm gate sales, farm stores, farmers' markets, CSA operations, direct to restaurant, and mail order and e-commerce direct to final consumer. Therefore, the producer is allowed to produce whatever they can market directly from their farm.

For example, a producer could produce milk to add to a vegetable CSA for 50 families, providing a certain amount of pasteurized milk with each CSA delivery or pick-up. Another example would be a producer raising 600 chickens which he or she could sell at farmers' markets, to restaurants, and through on-farm sales.

However, there are questions about what can be considered direct marketing — does it include farmers' markets, restaurants, and small-scale processors? Moreover, in such a system, a method of ensuring that farmers are selling only directly would need to be developed. And, of course, the safety of the products sold would need to be ensured.

Target Specialty Markets in Allocating Processing

In order for specialty farm production to grow, appropriate processing plant capacity must be available. Many smaller meat-processing plants have closed in recent years, and access to these plants is regulated. In other cases, existing plants are not well set up, or are not interested in processing alternative products. Aligning specialty processing with farm production, therefore, is important in growing the farm segment and would support any of the options described above.

For example, if a set percentage of plant quota were allocated to processing specialty or niche products, plants and/or marketing boards would need to source the specialty product for processing from farmers. This arrangement would naturally create opportunities for specialty products, either by itself or in conjunction with some of the alternatives above.

The principal advantage of this concept is that it would create processing access, which can be important to alternative production. Increased access to processing could create an environment in which new specialty producers could justify the cost of quota purchase, which would then allow for growth within the supply-managed system.

The disadvantages include the fact that it depends on a clear definition of *specialty*. However the farm production is controlled, if processing access were allocated as a portion of total processing allocation, then the specialty market (in terms of processing) could grow only at the same rate as the conventional market, which is likely much too slow. Alternatively, supply-management agencies would need to unilaterally adjust the processing allocation, which requires knowledge of specialty markets that they may not have. As with the separate quota option, very rapid growth in specialty product could be perceived as coming at the expense of conventional product.

Conclusion

There is a growing segment of alternative production that is drawing new farmers into the sector. The growing market demand for alternative food products and food-purchasing experiences represents an opportunity to increase these alternative farm operations in Ontario. However, farm operations producing alternative products that include supply-managed enterprises face regulated marketing constraints that limit their prospects. Broadly speaking, the production costs associated with alternative production are expected to be higher due to (intentionally) less efficient use of technology.

Supply management was developed to protect farmers from purchaser market power by marketing farmers' products collectively. However, alternative products differ in ways that make collective marketing largely irrelevant, since direct interaction with purchasers (rather than protection from them) is essential. Today, when many commodity products in supply management face stagnant growth but demand for alternative products is growing rapidly, the current system is inflexible and limits consumer choice.

In this environment, supply management is not effectively making room for new producers interested in alternative production. Additionally, new producers struggle with barriers to entry into a market in which they want to operate at a relatively small scale and do their own marketing. Supply management is oriented to marketing commodities through a single channel to protect farmers from customers and targets relatively homogeneous farms supplying homogenous commodities. Reconciling these differences is challenging, as some options that clearly benefit specialty production could disadvantage the supply-management system and vice versa.

The first step in resolving these latent conflicts is recognizing the differences and needs of new producers supplying alternative products and producers supplying commodity products.

Appendix 1: Broiler Quota Exemption and Minimum Quota Requirements

Province	Exemptions from Quota	Minimum Quota Holding Requirements	Cost of Quota	Definition of Quota Unit
British Columbia	Personal Use: 200 chickens. Small Lot: 3,000 kg live weight.	No minimum. ¹⁰	An estimate of \$56/unit was provided. ¹¹	One unit of quota equals 1.929kg/production cycle. ¹²
Alberta	2,000 chickens/year. There is an exemption for a communal group quota of 6,000 birds/yr.	No minimum ¹³	In 2009 average quota price has been \$82 per unit. ¹⁴	1unit=8 x 0.4 x 0.7358 x percentage utilization, which is approx. 2.3 kg per cycle (6.5 cycles per year). ¹⁵
Saskatchewan	999 birds/year. ¹⁶ There is an exemption for communal group quota (e.g. Hutterite Colonies) of 5,000 birds/yr.	The Order states that the Board shall not grant a new license to a producer with less than 38,940 kg/lw per cycle (38,940 kg / 1.77 kg per bird = 22,000 birds per cycle). ¹⁷	\$42–\$45/bird based on a 1.77kg bird. However, there is not a formal recording of this value and this is an estimate based on what has been heard throughout the industry. ¹⁸	One unit of quota equals 11.51 kg/year. ¹⁹

¹⁰ BC Chicken Marketing Board, General Orders, Section 35.1.

¹¹ Personal communication, BC Chicken Marketing Board, September 3, 2009.

¹² BC Chicken Marketing Board, General Orders, Section 1: Definitions.

¹³ Personal communication, Alberta Chicken Producers, June 25, 2009.

¹⁴ Personal communication, Karen Kirkwood, General Manager, Alberta Chicken Producers, August 31, 2009.

¹⁵ Personal communication, Karen Kirkwood, General Manager, Alberta Chicken Producers, August 31, 2009.

¹⁶ Chicken Farmers of Saskatchewan, FAQ webpage. <http://www.saskatchewanchicken.ca/newsletters--more/faq.aspx>

¹⁷ Personal communication, Clinton Monchuk, CEO, Chicken Farmers of Saskatchewan, June 25, 2009. The order also states that the Board can give a license for less quota if they deem it in the best interests of the industry. The CEO of CFS says it is in the best interests of the industry and has allowed the transfer of quota in smaller amounts.

¹⁸ Personal communication, Clinton Monchuk, CEO, Chicken Farmers of Saskatchewan, August 24, 2009.

¹⁹ Chicken Farmers of Saskatchewan. About Us Webpage. <http://www.saskatchewanchicken.ca/about-us.aspx>

Manitoba ²⁰	999 birds/year. ²¹	30,000 kg/cycle; on average 15,000 birds/cycle with 6-7 production cycles per year.	During the last few exchanges of quota, the price paid has ranged from \$38–42/kg.	One unit of quota means a basic allotment equal to 1 kg of chicken broiler of a category. ²²
Ontario	Small Lot: 300 birds ²³	Must purchase 14,000 units. ²⁴ This is roughly an operation with 14,000 birds/cycle. The Board accepts applications for less than the minimum on a case by case basis – two applications were approved in 2003. ²⁵	\$74/quota unit.	One unit of quota is roughly 13 kg/year. ²⁶
Quebec	100 birds. ²⁷			
New Brunswick ²⁸	200 birds	No minimum	Not able to provide an estimate.	There is no specific definition of a quota unit, but one quota unit equals 1 kg live weight.
Nova Scotia ²⁹	200 birds. ³⁰	Minimum base quota of 235,000 kg lw/year to purchase to enter the industry and get a license (235,000 kg/2kg/6.5 production periods = roughly 18,077 birds per cycle).	The Chicken Farmers of Nova Scotia purposefully does not record or pay attention to the price of quota.	There is no specific definition of a quota unit. But one quota unit equals one kg live weight.

²⁰ Personal communication, Karen Armstrong, Assistant Manager, Manitoba Chicken Producers, September 10, 2009.

²¹ Manitoba Chicken Broiler Producer Registration Order. Regulation 53/2005.

²² Manitoba Chicken Broiler Quota Order. Regulation 228/2006.

²³ Chicken Farmers of Ontario. Regulation No. 2228-2008 Small Flock and Farm Gate Marketing.

²⁴ Chicken Farmers of Ontario, Quota Policy No. 170-2005.

²⁵ BC Ministry of Agriculture, Food and Fisheries 2004.

²⁶ Personal communication, Frank Fortuna, Chicken Farmers of Ontario, June 25, 2009.

²⁷ BC Ministry of Agriculture, Food and Fisheries 2004.

²⁸ Personal communication. Louis Martin, Chicken Farmers of New Brunswick, June 25, 2009/September 4, 2009.

²⁹ Personal communication, Shelley Acker, General Manager of Chicken Farmers of Nova Scotia, September 2, 2009.

³⁰ Chicken Farmers of Nova Scotia Regulations. Section 9(2).

PEI	500 birds. ³¹			
Newfoundland ³²	99 birds.	No minimum.	Quota is not sold and purchased in NL.	1 quota unit equals 1kg of chicken.

³¹ Maritime Certified Organic Growers 2002. "Organic Poultry – Meat Birds."

³² Personal communication, Ron Walsh, Newfoundland and Labrador Chicken Producers, June 25, 2009 and September 2, 2009.

Appendix 2: Layer Quota Exemption and Minimum Quota Requirements

Province	Exemptions from Quota	Minimum Quota Holding Requirements	Cost of Quota	Definition of Quota Unit
British Columbia	Personal Use: 99 layers. Small Lot: 100–399 layers. The Board will limit the total small lot amount to 10,000 layers/yr, therefore a producer must apply to this program. Priority for this program was given to producing specialty eggs such as organic, free-range, free-run in regions outside the lower mainland. ³³ If required a waiting list for the Small Lot program will be started.	No minimum. ³⁴		One quota unit is equal to one layer.
Alberta ³⁵	300 layers. ³⁶	No minimum beyond 300 layers.	2009 Transfer Statistics show that laying hen quota is selling for on average \$182.67 (<1,000 hens) and \$180.25 (>1,000 hens).	One quota unit is equal to one layer.
Saskatchewan	299 layers ³⁷	No minimum. ³⁸		

³³ BC Egg Marketing Board Standing Order: Section 2: Licensing and Records of Exemption.

³⁴ Personal communication, BC Egg Marketing Board, June 25, 2009.

³⁵ Personal communication, Christina Robinson, Producer Services Coordinator, Alberta Egg Producers, June 26, 2009.

³⁶ http://www.eggs.ab.ca/egg_industry/factsoneggindustry.htm

³⁷ Bendig, E. 2002. Review of Saskatchewan Egg Producers Marketing Plan Regulations and Operations.

³⁸ Personal communication, Saskatchewan Egg Producers, June 25, 2009.

Manitoba	99 layers. 499 layers: Designated Small Non-Registered Certificate. ³⁹ These certificates were grandfathered when the Board decided to lower the exemption to 99, therefore they have limited transferability. When a producer retires, his/her certificate can come up for auction. ⁴⁰	500 quota units. ⁴¹	Between July 2008 and July 2009 laying hen quota on the Quota Exchange sold for \$135.55–\$140.99. ⁴²	One quota unit is equal to one layer. ⁴³
Ontario ⁴⁴	Small Lot: 100 layers for own use or farm gate sales. ⁴⁵ If graded, the eggs can be sold anywhere. “There are some quota-exempt producers with flocks of 500 because they were ‘grandfathered’ into the current regulation.” ⁴⁶	No minimum.	Laying hen quota is currently being sold for about \$170/unit.	One quota unit is equal to one layer.
Quebec ⁴⁷	100 hens ⁴⁸	No minimum.	Quebec has an auction for layer quota. At the last auction on August 31, 2009, quota was sold for \$250.	One quota unit is equal to one bird which is equal to approximately 24.99 dozen/yr.
New Brunswick	199 hens ⁴⁹	No minimum. ⁵⁰	Not able to provide an estimate.	One quota unit is equal to one layer. ⁵¹

³⁹ Manitoba Egg Producers. http://www.mbegg.mb.ca/industry_producer.html

⁴⁰ Personal Communication, Penny Kelly, General Manager, Manitoba Egg Producers.

⁴¹ http://www.eggs.mb.ca/industry_producer.html

⁴² http://www.eggs.mb.ca/industry_quota.html

⁴³ Manitoba Laying Hen Quota Order. Definitions. <http://web2.gov.mb.ca/laws/regs/pdf/f047-128.98.pdf>

⁴⁴ Personal communication, Harry Pelissero, General Manager, Egg Farmers of Ontario.

⁴⁵ Chicken Farmers of Ontario. Regulation No. 2228-2008 Small Flock and Farm Gate Marketing.

⁴⁶ Stoneman, D. 2006.

⁴⁷ Personal communication, Serge Lebeau, Fédération des producteurs d’oeufs de consommation du Québec (FPOCQ), September 10, 2009.

⁴⁸ BC Ministry of Agriculture, Food and Fisheries 2004.

⁴⁹ Order 1 New Brunswick Egg Marketing Board. <http://www.nbegg.ca/images/orders%20english.pdf>

⁵⁰ Personal communication, New Brunswick Egg Producers, June 26, 2009.

⁵¹ Personal communication, New Brunswick Egg Producers, September 2, 2009.

Nova Scotia ⁵²	99 hens	No minimum purchase	Not able to provide an estimate.	One quota unit is equal to one layer.
PEI ⁵³	299	No minimum purchase	The last quota that was offered for sale was sold for \$130.01/unit.	One quota unit is equal to one layer.
Newfoundland	99 ⁵⁴			

⁵² Personal communication, Nova Scotia Egg Producers, September 2, 2009.

⁵³ Personal communication, Michael Cumiskey, General Manager, Egg Producers of PE., June 30, 2009.

⁵⁴ Maritime Certified Organic Growers 2002, "Organic Poultry – Eggs."

Appendix 3: Turkey Quota Exemption and Minimum Quota Requirements

Province	Exemptions from Quota	Minimum Quota Holding Requirements	Cost of Quota	Definition of Quota Unit
British Columbia ⁵⁵	Personal Use: 50 turkeys Direct Vendor Permit: 300 poults. ⁵⁶	No minimum.	Not able to provide an estimate.	One unit of quota is equal to one kilogram of turkey.
Alberta ⁵⁷	300 turkeys. ⁵⁸	No minimum.	The BC Turkey Producers estimate that turkey quota is currently selling for \$4–\$7/kg.	One unit of quota is equal to one kilogram of turkey.
Saskatchewan ⁵⁹	99 turkeys. ⁶⁰	No minimum. This changed from a minimum of 113,000 live kg/yr so that smaller operators could get into the business.	Estimated to be between \$4.00–\$4.75 per live kg.	One unit of quota when being purchased is equal to one live kg.
Manitoba ⁶¹	99 turkeys/year.	Minimum requirement for a registered producer is 60,000 kg/yr.	The MTP set a price for quota every year based on the Bank of Canada Consumer Price Index. In 2009, the price was set at \$3.08/kg.	One unit of quota is equal to one kilogram of turkey.

⁵⁵ Personal communication, Michel Benoit, BC Turkey Producers. June 30, 2009 and September 3, 2009.

⁵⁶ Application for Direct Vendor Permit for the 2009/2010 Quota Year.
<http://www.bcturkey.com/publications/direct-vendorlicenseapplication.pdf>

⁵⁷ Personal communication, Jordan Broom, Marketing and Communications Coordinator, Alberta Turkey Producers, June 26, 2009 and September 3, 2009.

⁵⁸ Alberta Regulation 113/98. Turkey Marketing Regulation.

⁵⁹ Personal communication, Rose Olsen, Saskatchewan Turkey Producers' Marketing Board. September 9, 2009.

⁶⁰ Saskatchewan Turkey Producers' Marketing Board Regulations. Order No. 02/02 Exemptions.

⁶¹ Personal communication, Helga Wheddon, General Manager, Manitoba Turkey Producers, September 2, 2009.

Ontario ⁶²	50 turkeys/year.	Minimum purchase is 2,000 kg per year. "Any person can ask for permission to buy less than the minimum required in any commodity; however they would have to ask permission in person before the Board and have a list of reasons to do so."	Industry sources state that currently quota is valued at \$7.00/kg.	TFO does not describe quota in units as in chicken and layers. Quota is by the kilogram per year and category of quota. For example, broilers average 5kg, hens average 7.6kg and toms average 15kg all live weight.
Quebec	25 birds/year. ⁶³			
New Brunswick	25 birds/year.	No minimum purchase. ⁶⁴		
Nova Scotia ⁶⁵	25 birds/year. ⁶⁶	Minimum purchase is 75,000 kg live weight.	Not able to provide an estimate.	One unit of quota equals 4.76 kg live weight.
PEI	N/A			
Newfoundland	N/A			

⁶² Personal communication, Greg Morrison, Senior Field Inspector, Turkey Farmers of Ontario, September 30, 2009.

⁶³ Personal communication, Sateesh Singh, Canadian Turkey Marketing Agency, June 26, 2009.

⁶⁴ Personal communication, Chicken Farmers of New Brunswick, June 25, 2009.

⁶⁵ Personal communication, Sonya Lorette, General Manager, Nova Scotia Turkey Producers Marketing Board, July 8, 2009.

⁶⁶ Nova Scotia Turkey Producers' Marketing Board Regulations. Section 10.

Appendix 4: Dairy Minimum Quota Requirements

Province	Minimum Quota Holding Requirements	Cost of Quota
British Columbia	1,500kg/yr = 4kg/day ⁶⁷	\$105/kg b.f./day = \$38,325/yr
Alberta	No minimum purchase, in the past you could lease quota. Alberta is in the process of changing to a Continuous Quota Model like ON, QC, and the Maritimes. ⁶⁸ Alberta allows farmers to produce and process up to 50L/day without quota. ⁶⁹	\$90.10/kg b.f./day = \$32,887/yr
Saskatchewan	No minimum purchase requirements. ⁷⁰	\$87.00/kg b.f./day = \$31,755/yr
Manitoba	1 kg/day.	\$25,100/kg b.f./day
Ontario	10 kg/day. ⁷¹	\$28,300/kg b.f./day
Quebec	10 kg/day. ⁷²	\$24,001/kg b.f./day
New Brunswick	10 kg of daily quota. ⁷³	\$25,800/kg b.f./day
Nova Scotia	Currently no minimum quota holding requirement, but starting August 1, 2009 this will change to 10kg/day. Any current producers under this will be grandfathered but new producers will require this minimum. ⁷⁴	\$28,100/kg b.f./day
Prince Edward Island	A registered dairy producer must own a minimum of 0.1 kg of daily quota. In order for a producer to receive payments for milk deliveries on a two-week basis, a minimum of 5.0 kg of daily quota must be owned. The Board is considering changing the 5.0 kg minimum to 10.0 kg, but it has not been changed yet. ⁷⁵	\$30,000/kg b.f./day

⁶⁷ Personal communication, British Columbia Milk Producers, July 8, 2009.

⁶⁸ Personal communication, Mike Southwood, General Manager, Alberta Milk, July 9, 2009.

⁶⁹ Alberta Agriculture and Rural Development. 2003. Farm Direct Sales: Know the Regulations. Retrieved on September 30, 2009. [http://www1.agric.gov.ab.ca/\\$department/deptdocs.nsf/all/agdex3485](http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/agdex3485)

⁷⁰ Personal communication, Fonda Herman, Dairy Farmers of Saskatchewan, September 2, 2009.

⁷¹ Dairy Farmers of Ontario. DFO Policies, August 1, 2009.

⁷² Personal communication, Brian Cameron, General Manager, Dairy Farmers of Nova Scotia, July 9, 2009.

⁷³ Dairy Farmers of New Brunswick, Daily Quota Order, Order 2009-04, Section 5, June 1, 2009.

⁷⁴ Personal communication, Brian Cameron, General Manager, Dairy Farmers of Nova Scotia, July 9, 2009.

⁷⁵ Personal communication, Dairy Farmers of PEI, July 8, 2009.

Appendix 5: New Entrant Programs for Supply-Managed Products

The following section lists some of the entrant programs for supply-managed products across various provinces. The information was either taken directly from the source literature or obtained through interviews.

British Columbia

BC Broiler Hatching Egg Commission

This new entrant program is funded by assessments on quota transfers. If quota is transferred between producers, a 5% levy is taken by the Board (unless the transfer occurs between family members or due to business reorganization). Once the Board has built up a reserve of 5,000 units, then a new entrant is chosen from a list of new producers looking to enter the market. This program started April 1st, 2006.

BC Chicken Marketing Board

The *New Entrant Program for Growers* was implemented on January 1, 2005. The Board may issue quota to an applicant in any amount not exceeding 7,716 kg live weight per eight-week cycle. There are three geographic chicken-producing areas in BC, and there is a new entrant list for each one. For each new entrant list, there is a Primary Quota list and a Specialty Quota list. The current lists show that, in two of the geographical areas, the number of producers waiting for specialty quota is greater than the number waiting for conventional quota.

*BC Egg Marketing Board*⁷⁶

Programs for New Entrants are established as follows (from Section 7t):

- (i) The Board may use the *Market Responsive Allocation Pool (MRAP)* of quota that is set aside to allow, subject to FIRB approval, existing TRLQ & Special Permit holders to increase to 5,000 layers if they so wish, and to facilitate the New Entrant programs and the growth of existing producers.

⁷⁶ This information was taken directly from the BC Egg Marketing Board Standing Order, Section 7: Quota System.

- (ii) There must be an identified market need that is not currently being filled.
- (iii) Subject to Section 2(k)(vii), invitations to acquire quota will be by New Entrant Draw, subject to priority to meet unfilled specialty market demand with priority being given to New Entrants outside the Lower Mainland.
- (iv) The new entrant must provide a business plan to the Board, in a form acceptable to the Board, and be in operation within one year of receiving the invitation to acquire quota.
- (v) Business plans, in a form acceptable to the Board, must include the product to be produced, the market requirement as indicated by a grader agreement, and a demonstration of financial commitment.
- (vi) Each year the BCEMB will issue an amount of New Entrant Quota to a minimum of two New Entrants. Priority will be given to the *New Entrant Specialty Layer Program* including producers willing to produce new and innovative specialty products. New Entrant quota will be issued on a graduated basis:
 - 0–2yrs: up to 1,000 layers
 - 3–5yrs: up to 1,000 additional layers
 - 6–7yrs: up to 1,000 additional layers
- (vii) The New Entrant must be actively engaged in the business of farming and operate independently including:
 - having the birds housed on the New Entrant's own property
 - personally keeping and maintaining the birds
 - providing a Statutory Declaration that their business is not being financed by and the birds will not be kept or maintained by any other person
- (u) *New Entrant Regular Layer Program*: A program for New Entrants wishing to produce for the non-specialty egg market. Persons wishing to qualify for entry must meet the conditions in Section 7 (t).
- (v) *New Entrant Specialty Layer Program*: A program for New Entrants wishing to produce for the specialty egg market. In addition to the conditions in Section 7 (t), the following conditions must also be met:
 - (i) There must be an identified specialty market need that is not currently being filled.
 - (ii) The producer must meet the criteria defined under Section 7(p).
 - (iii) A producer must be 3rd party certified. Revocation may result from loss of certification. If a producer loses certification, the Board may, at its sole discretion revoke that producer's New Entrant Specialty Layer Quota. Note: Temporary loss of certification due to uncontrollable circumstances such as having to use restricted remedies to protect the

welfare of an organic flock (when no effective organic treatment exists) would not result in the revocation of specialty product quota.

(w) *New Entrant Draw*: As part of the BCEMB programs for New Entrants the Board will from time to time make available New Entrant Quota through a New Entrant Draw. The Draw will be operated with the following criteria:

(i) Eligibility for new entrant status includes:

- residency in BC.
- not having previously been a quota holder past or present, of supply-managed quota, egg or any other type, and is not a spouse of quota holder, past or present.
- a commitment by the applicant to be actively involved in the farming operation.

(ii) The Draw will be operated by an independent third party.

(iii) There will be a non-refundable fee to participate of \$250.

*BC Milk Marketing Board*⁷⁷

Two new organic milk producers came on board in 2007–2008, but increased demand by processors was greater. Therefore, the Board had to issue a substantial sleeve for specialty milk production. In addition, more organic milk producers were scheduled to start in 2008–2009. The Board expects to operate a specialty milk pool soon to deal with this demand.

Graduated Entry Program

The Board has committed to invite three new entrants to the industry annually. The priority will be to those producers who will produce specialty products and to those outside of the Fraser Valley. When the Board invites a new entrant, that entrant will receive 5,000 kg of quota. If that new entrant then purchases an additional 2,000 kg of quota over the first five years, the Board will match that acquisition. Currently, there are 74 persons on the waiting list for the GEP (July, 1, 2008). Therefore, if three new entrants are allowed into the industry annually, it will take 25 years for the last person on the list to get into the industry.

*Cottage Industry Program*⁷⁸

The Cottage Industry Program (CIP) was introduced as a means of allocating temporary quota to a start-up producer/processor who wishes to produce milk and process it into a manufactured milk product (excluding fluid milk) on the farm.

⁷⁷ http://www.milk-bc.com/calendar_news/index.php/download/639/0808co.pdf Schedule 1.

⁷⁸ http://www.milk-bc.com/calendar_news/index.php/download/639/0808co.pdf Schedule 2.

The Board has agreed to provide for the establishment of one new CIP producer annually. The CIP entrant will receive up to 10,000 kg of total production quota or specialty total production quota (organic production).

BC Turkey Marketing Board

New Entrant Program

The Board will make available 30,000 kg of quota per year for two new entrants to join the industry (15,000 kg of quota each). The Board restricts when the new entrants can sell or transfer this quota. The priority is for those persons planning to grow specialty turkey products (new, innovative products), followed by certified organic turkey, followed by marketing in local/regional markets, and lastly commercial, conventional turkey. In 2007, two new growers entered the market under the *New Entrant Program*. Eleven producers remain on the new entrant list. Of these, two want to produce only organic and five want to produce both organic and commercial turkey. If two new entrants are offered quota every year, it will take six years for the last person on the list to obtain quota.

Alberta

Alberta Egg Producers

Market Development Leasing Program for Organic Egg Production

The following is taken directly from the Operating and Policy Procedure 9.12 provided by the Alberta Egg Producers.

The program is aimed at promoting and facilitating certified organic egg production and providing access for persons wishing to enter the industry. The goal is to allow existing and new certified organic egg producers in Alberta to accumulate purchased quota in a relatively short period of time.

The Board will set aside 5,000 birds of its next quota increase for lease to certified organic producers.

The maximum number of birds for lease from this program is 1,000/production facility (legal land location).

Leases will be available on a first come, first served basis providing all eligibility requirements have been met.

Eligibility Requirements

Certified Organic Producers who apply for lease must qualify for license and become registered producers under the Board's Plan/Regulation.

The producer must be certified for organic egg production by a recognized certifying body and must provide a copy of a valid current organic certification certificate annually as proof of certification.

The producer's facilities must be located in Alberta.

The producer must maintain 100% of eggs being sold as certified organic.

Responsibilities of the Lessor and Lessee

1a. The Board will offer an initial lease term to a maximum of 3 years. During the initial term (up to a maximum of three years), a lease rate of \$3.65/hen/year applies.

1b. Payment for the lease must be made to the AEP at least once per month as a minimum.

2a. The lease is renewable on an annual basis at the current market average lease (calculated as the previous 6 months weighted average lease rate for all quota).

2b. The maximum amount of time the Board will lease quota under the program is 7 years from the date of first lease.

The lease payments will be used by AEP to help defray the administrative costs of the program (i.e. administration fund).

The lessee may terminate the lease upon 30 days notice and verification of disposal.

In the event that the producer loses his/her organic certification or fails to sell 100% percentage of his eggs to the organic market, the AEP reserves the right to cancel the lease in the event that the lessee is in contravention with policy and/or Regulation.

Reporting Requirements

The producer will be expected to report the total number of eggs being produced and a breakdown of how many are sold as certified organic and other on a form developed by the AEP.

Manitoba

Dairy Farmers of Manitoba

*New Entrant Program & Top-Up Program*⁷⁹

Annually, DFM will award successful applicants in the two programs with 15 kg of daily butterfat quota. This loaned 15 kg of quota must be added to an

⁷⁹ Personal Communication, Dairy Farmers of Manitoba, July 9, 2009.

additional 15 kg of quota which the candidate must obtain through the provincial quota exchange.

The allocated 15 kg of quota must be returned to DFM in three instalments at the end of each dairy year in the 5th, 6th and 7th years of the program

This program has recently been updated. In the past, new entrants were required to hold 12 kg of quota and would be loaned another 12 kg.

Manitoba Egg Producers

New Entrants Policy

When the Board receives allocated “overbase” quota, the Board sets aside 50% of it and accumulates it. Once it reaches 6,000 units (approximately equal to 6,000 layers) new entrants can apply to receive it. Applicants are chosen by a draw by a third party.

Since this program has been in place, all of the new entrants who received this quota have expanded their operations.

Ontario

Dairy Farmers of Ontario⁸⁰

New Entrant Quota Assistance Program

DFO launched this new program on April 30, 2009.

Successful applicants will be loaned a maximum of 12 kg of quota, which they must match by purchasing 12 kg of quota. This means that a new farmer under the program would be starting with between 25 and 30 cows.

Applications must include a business plan verified by a chartered accountant and a letter from a lender agreeing to finance the operation outlined in the plan.

The program is set up to accommodate 10 new dairy farmers, who will be loaned quota for 18 years. If there are more than 10 applicants per year, a third party will conduct a random draw for all applicants that meet the program criteria.

⁸⁰ Dairy Farmers of Ontario. “Dairy Farmers of Ontario announce program to assist new dairy farmers.” April 30, 2009.

Quebec⁸¹

Quebec Egg Producers

The Fédération des producteurs d'œufs de consommation du Québec (FPOCQ – Quebec Egg Producers) offers one free lifetime quota loan for 5,000 layers every year. This quota is transferable only to one's children. Regions with lower egg- production density are advantaged.

How the Program Works

Applicants to *FPOCQ Start-up Assistance Program* for new egg producers must:

- be between 18 and 40 years of age
- intend to start a new egg-production operation in which they will be fully involved
- live in Quebec and be permanent residents of Canada
- have a college-level education in agriculture or management
- have at least one year of work experience on a farm
- complete a business plan approved by a financial institution, covering financial, technical, and environmental aspects
- demonstrate that the project meets environmental regulations
- have never owned quota in any agriculture production under supply management or been a shareholder of a farm using quota
- not be an immediate family member of someone holding egg quota or owning a layer farm

Quebec Poultry Producers

Les Éleveurs de volailles du Québec (Quebec Poultry Producers) give 50 m2 or 100 m2 of broiler quota to any new producer aged 18 to 40 who has never owned more than 150 m2 of quota over more than five years. To get 50 m2, the applicant must purchase 150 m2 or own 20 per cent of the farm. To get 100 m2, the applicant must purchase 300 m2. The free quota comes from a reserve in which les Éleveurs de volailles du Québec put 5% of the five-year average of annual new quota allocations to Quebec by Chicken Farmers of Canada each year.

Quebec Milk Farmers

The Fédération des producteurs de lait du Québec (FPLQ – Quebec Milk Farmers) offers a five-kilogram quota loan to young producers joining an existing farm. After five years, the quota must be reimbursed at a rate of one kilogram per year. The FPLQ also offers a limited number of 10-kilogram quota loans towards new milk farms.

⁸¹ This information is taken directly from <http://www.canadianpoultrymag.com/content/view/1470/38/>

New Brunswick

New Brunswick Egg Producers

New Entrant Program

Every time the New Brunswick Board receives an increase in allocated quota, they put aside quota for two new producers (1,000 layer quotas each). Two years ago, this program was initiated, and they will be providing quota to two more producers this year. Due to the industry size in New Brunswick, the Board decided that this size of operation would be good for niche markets and that the demand was there. The Board advertises and sends any interested party an information package. Interested parties are asked to come out to a meeting to meet other chicken producers and ask any questions. If they are still interested after attending an information session, they can then apply. All applications that meet the criteria are then put into a draw to determine who gets the quota. One requirement for the new entrants who receive the quota is that they cannot sell or lease it for ten years, although they may expand.

Appendix 6: Demand for Organic Products

Although data on differentiated markets and products is not regularly tracked, the Dairy Farmers of Canada and the provincial milk boards do collect organic milk production data. Therefore, we can use organic milk production and pricing data⁸² as a proxy for all differentiated products and compare the demand for organic milk production to conventional milk production in the supply-managed pool.

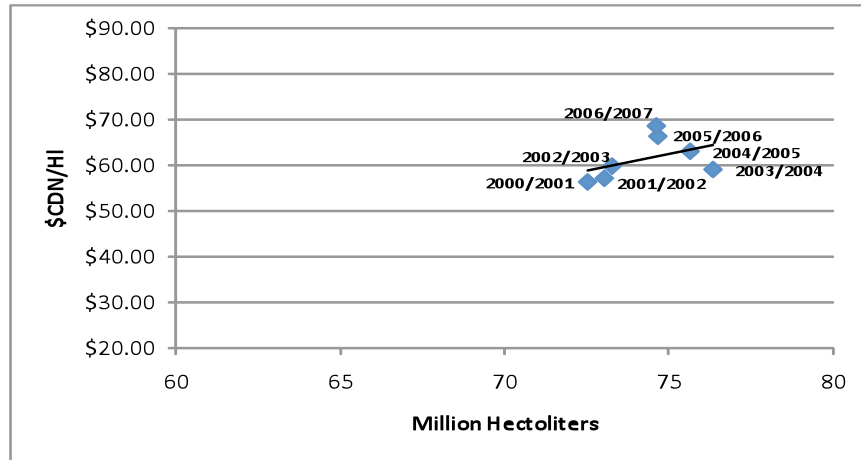
Product demand is indicated by a combination of price and quantity at one point in time. The points on the graphs below are the years in which the combination of price and volume occurred. That is, the points show the demand for the commodity in any given year. Any movement or trend of the points towards higher volumes and/or higher pricing is a sign of increasing demand. Conversely, any movement or trend of the points towards lower volumes and/or lower pricing suggests decreasing demand for the commodity. Finally, any bunching or lack of movement shows stable or stagnant demand.

Figures 6A to 6C show the production volume/price combinations and the years in which the combinations occurred since 2000/2001 for conventional milk and organic milk production in both Canada and Ontario.

Figure 6A shows that processor demand for conventional milk over the last decade has been stagnant or decreasing. In the last four years, prices have increased while production has decreased. The demand points are clustered and show no significant increasing trend. Conversely, Figures 6B and 6C show that the demand for organic milk across Canada and in Ontario has increased significantly. Production increased sixfold in Canada over the last decade and quadrupled in Ontario, while prices increased at the same time. These figures show that the demand for conventional milk in Canada is relatively stagnant and maturing while demand for the differentiated product is on the rise.

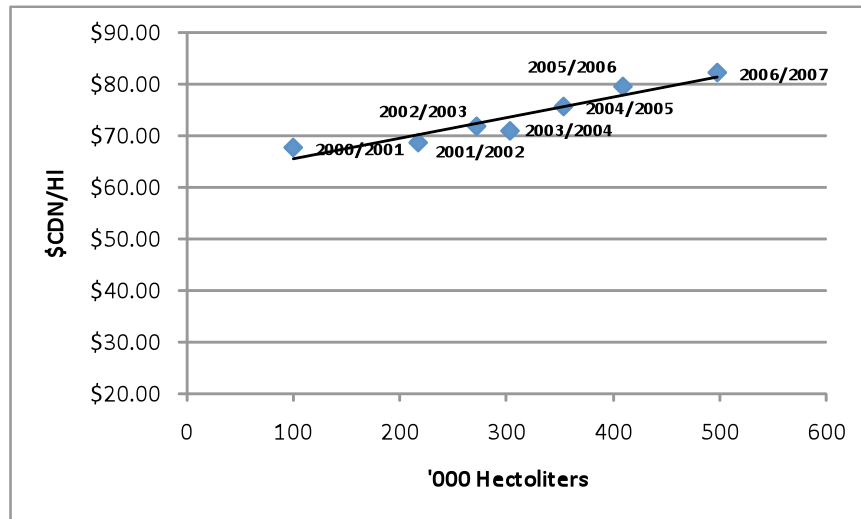
⁸² Organic milk prices are not formally tracked by the Dairy Farmers of Canada, but a number of sources (Lotter 2003; AAFC 2006; Anderson 2006; Glauser 2007) state that the premium paid for organic milk over conventional milk ranges between 16% and 22%. Based on these sources, the organic milk price used in Figures 3.4 and 3.5 was the conventional milk price plus a 20% premium.

Figure 6A: Conventional Milk Demand, Canada



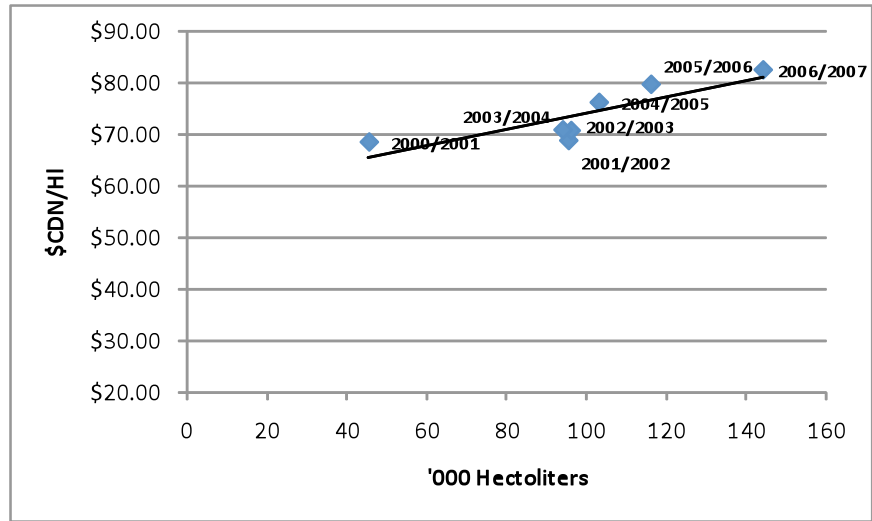
Source: Canadian Dairy Information Centre, 2009

Figure 6B: Organic Milk Demand, Canadian Production



Source: Canadian Dairy Information Centre, 2009

Figure 6C: Organic Milk Demand, Ontario Production



Source: Canadian Dairy Information Centre, 2009

Appendix 7: Conventional Broiler Chicken Production Costs

Table 7A: Initial Capital Costs, Broiler Model

Building Size (400x75 sq. ft.)	30,000
Building Cost/sq. ft.	\$20
Barn Equipment Cost/sq. ft.	\$6
Stocking Density sq. ft./Bird Shipped	0.649
Quota Unit Capacity	52,189
Quota Value/unit	\$74
Building Cost	\$600,000
Equipment Cost	\$180,000
Quota Cost	\$3,862,021
Total Initial Capital Required	\$4,642,021

Table 7B: Major Parameter and Price Assumptions, Broiler Model

Mortality Rate	4.20%
Condemnation Rate	1.25%
Birds Placed/Year	318,664
Weight, kg	2.1
Live Price, \$/kg	\$1.46
Marketed kg	632,724
Total Feed (kg/bird) ⁸³	3.59
Average Feed Cost (\$/tonne)	\$384
Chicks (\$/bird) ⁸⁴	\$0.563

⁸³ Current feed costs, information on total feed requirements, and the feed price were obtained from Wallenstein Feed and Supply.

⁸⁴ Chick costs were obtained from the Ontario Broiler Hatching Egg and Chick Commission.

Table 7C: Broiler Chicken Costs and Returns

Income:		\$/kg	Total (\$)
	Chicken Sales	1.46	923,777
Expenses:			
	Chick	0.278	175,664
	Feed	0.656	439,298
	Catching	0.029	19,407
	Utilities	0.044	29,578
	Labour	0.041	27,638
	Repairs	0.010	6,630
	Veterinary	0.004	2,409
	Litter	0.004	2,610
	Marketing Board Levy	0.016	10,124
Total Variable		1.083	713,357
Contribution Margin		0.377	210,420
Fixed Costs: ⁸⁵			
	Barn Equipment	0.037	23,311
	Barn	0.076	48,146
Total Cost		1.196	784,814
Net Profit		0.264	138,964

⁸⁵ Fixed costs were calculated using the annuity cost method and assuming a 20-year life for the barn, a 10-year life for equipment, and a 5% interest rate.

Appendix 8: Conventional Layer Production Costs

Table 8A: Initial Capital Costs, Layer Model

Building Size (sq. ft.)	20,000
Building Cost/sq ft	\$20
Barn Equipment Cost/sq. ft.	\$50
Stocking Density Birds/sq. ft. Placed	3
Quota Units	60,000
Quota Value \$/unit	\$155
Building Cost	\$400,000
Equipment Cost	\$1,000,000
Quota Cost	\$9,300,000
Total Initial Capital Required	\$10,700,000

Table 8B: Major Parameter and Price Assumptions, Layer Model

Mortality Rate	5.5%
Hens Housed	60,000
Egg Production/Hen (dozen)	27
Egg Price, inclusive of levy, \$/dozen	\$1.37
Marketed Eggs, dozen	1,474,200
Total Feed (kg/bird) ⁸⁶	37
Average Feed Cost (\$/tonne)	\$360
19-week old Pullets (\$/bird)	\$6.00

⁸⁶ Current feed costs and information on total feed requirements were obtained from Wallenstein Feed and Supply.

Table 8C: Egg Production Costs and Returns

Income:		\$/dozen	Total (\$)
	Egg Sales	1.37	2,011,557
Expenses:			
	Pullets	0.244	360,000
	Feed	0.542	799,200
	Utilities	0.020	30,000
	Labour	0.195	288,000
	Repairs	0.006	9,000
Total Variable Costs		1.008	1,486,200
Contribution Margin		0.356	525,357
Fixed Costs: ⁸⁷			
	Barn Equipment	0.088	129,505
	Barn	0.022	32,097
Total Cost		1.118	1,647,802
Net Profit		0.247	363,755

⁸⁷ Fixed costs were calculated using the annuity cost method and assuming a 20-year life for the barn, a 10-year life for equipment, and a 5% interest rate.

Appendix 9: Conventional Dairy Production Costs

Table 9A: Initial Capital Costs, Dairy Model

Total Barn and Equipment Cost/stall	\$6,915
Initial Cow inventory, Dry and In-Lactation, \$/head	\$2,300
Stalls	250
Cows In-Lactation	250
Dry Cows	41
Total Facility and Cow Investment	\$2,398,244
Milk Production litres/cow	9,417
Butterfat kg/litre milk	3.9
Quota Value \$/kg/day	\$25,500
Total Quota, kg	252
Quota Investment	\$6,414,849
Total Capital	\$ 8,813,093

Table 9B: Major Parameter and Price Assumptions, Dairy Model

Milk Test, kg/HL (butterfat/protein/other solids)	3.9/3.3/5.7
Milk Price Received (\$/L) ⁸⁸	\$0.7572
Feed (kg/cow/day, wet basis):	
Corn Silage	47
Corn	5.6
Soymeal	6.3
Vitamin and Mineral	0.3
Labour Wage (\$/hour)	\$14.07
Cow Cull Rate	30%
Replacement Heifers (\$/head)	\$2,300
Other Variable Costs (\$/cow/year) ⁸⁹	\$1,523

The ration in Table 9B is based on corn silage, corn, and soymeal and satisfies the National Research Council (NRC) standards for dairy nutrition.

⁸⁸ Dairy Farmers of Ontario. Producer Milk Prices, December 2008.
http://www.milk.org/Corporate/Corp_Mnu_Item.aspx?MenuItem=PrdMilkPrc.

⁸⁹ Other variable costs were obtained from averages in the 2007 Ontario Dairy Farm Accounting Project.

Table 9C presents the results of the above parameters and prices, based on 2008 monthly average values. A double 6 milking parlour configuration is used, assuming milking 16 hours/day, with the cows milked three times per day. The labour component assumes 2 full-time employees and one manager. Given the feed price environment of 2008, total production costs were about \$.66/litre, exclusive of quota. The biggest single component of total production cost was feed at \$.23/litre, followed by other variable costs and non-quota fixed costs.

Table 9C: Milk Production Costs and Returns

Income:		\$/L	Total (\$)
	Milk Sales	0.757	1,782,638
Expenses:			
	Feed ⁹⁰	0.232	546,186
	Labour ⁹¹	0.094	221,300
	Heifer Replacement	0.073	171,860
	Other Variable	0.162	381,389
Total Variable Costs		0.561	1,320,735
Contribution Margin		0.127	461,903
Fixed Costs:			
	Total Fixed Costs	0.098	230,717
Total Cost		0.659	1,551,452
Net Profit		0.029	231,186

⁹⁰ Corn and soymeal are priced at 2008 monthly average values for Chatham and Hamilton for corn and soymeal, respectively. Corn silage is valued at 22.8% the price of corn/tonne, and mineral is valued at \$700/tonne.

⁹¹ Labour costs were obtained from Human Resources and Skills Development Canada for livestock farm workers in the Waterloo-Perth-Huron region in Ontario. The wages equivalent of managers is assumed to be twice that of labour, and a benefit rate of 15% is assumed.

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