



Farm Products Council
of Canada

Conseil des produits agricoles
du Canada

Central Experimental Farm
Building 59
960 Carling Avenue
Ottawa, Ontario K1A 0C6

Ferme expérimentale centrale
Édifice 59
960, avenue Carling
Ottawa, Ontario K1A 0C6

August 14, 2024

Mr. Roger Pelissero
Chair
Egg Farmers of Canada
21 Florence Street
Ottawa, Ontario K2P 0W6

Subject: Proposed Amendments to Schedule 1 (Federal Quota) of the *Canadian Egg Marketing Agency Quota Regulations, 1986*

Dear Mr. Pelissero,

At its August 13, 2024, meeting, the Farm Products Council of Canada (Council) reviewed the proposed amendments to Schedule 1 (Federal Quota) of the *Canadian Egg Marketing Agency Quota Regulations, 1986*, as outlined in your letter of July 11, 2024, for the allocation period that began on December 31, 2023, and ends on December 28, 2024.

Following a thorough review of the rationale provided by the Egg Farmers of Canada (EFC) and internal analysis, Council members found that the amendments are necessary for the implementation of the marketing plan as contained in the *Canadian Egg Marketing Agency Proclamation*.

Should you have any questions, please do not hesitate to contact me or Lisa Melanson-Daigle, Council Secretary, by email at fpcc.secretariat.cpac@fpcc-cpac.gc.ca.

Sincerely,

Brian Douglas
Chair

July 11, 2024

Mr. Brian Douglas
Chairman
Farm Products Council of Canada
Central Experimental Farm
Building 59, 960 Carling Avenue
Ottawa ON K1A 0C6

Re: 2024 Federal Quota Allocation Amendment

Dear Brian:

Egg Farmers of Canada (EFC) is seeking FPCC's prior approval for an amendment to Schedule 1, Federal Quota, of the Canadian Egg Marketing Agency Quota Regulations effective December 31, 2023, to December 28, 2024. This amendment was unanimously approved by the EFC Board of Directors (EFC Board) on July 9, 2024. Drafting instructions reflecting the amendments have been provided to Farm Products Council of Canada (FPCC) at the same time as the Department of Justice. Official stamped copies of the Quota Regulations amending package will be forwarded to your office in accordance with established blue stamp process timelines.

The July 9 EFC Board meeting package included a memo from our legal counsel, David Wilson, outlining EFC's legal and fiduciary duties pertaining to quota allocation, and to ensure that the obligations of the Federal-Provincial Agreement (FPA) and Farm Products Agencies Act (FPAA) are met (section 12.2 of the EFC Board package). The meeting package also included a copy of Dr. Maurice Doyon's document *Discussion of Canadian Egg Quota Allocation Overbase Factors* (section 12.1 of the EFC Board package), which EFC uses to assess the five overbase criteria as per the Canadian Egg Marketing Agency Proclamation.

Mr. Wilson's memo emphasized that the EFC Board has discretion regarding the allocation of quota, as determined in the 2006 Justice Shore ruling, and that the Quota Allocation Calculation (QAC) Policy can be used as a guideline in exercising that discretion to supply the Canadian market. Mr. Wilson also underlined the importance of the QAC Policy and that it was achieved by consensus. This consensus has allowed the QAC Policy to adapt and evolve in order to respond to various challenges and issues since the QAC Policy's initial adoption.

Dr. Doyon's report begins with the principle of comparative advantage of production and then addresses various province-by-province indicators related to overbase factors, as updated using the most current, finalized data. Professor Doyon's paper also explained the linkages of the various indicators to the overbase factors in the Proclamation and to EFC's statutory objects. Since 2016, the report has included a discussion regarding initiatives implemented to reduce EFC's reliance on levy such as the Processor Agreement and the

Natural Overrun Fee Program (previously the Service Fee Program), which have offset the cost of surplus production that is not required to satisfy table disappearance (TD).

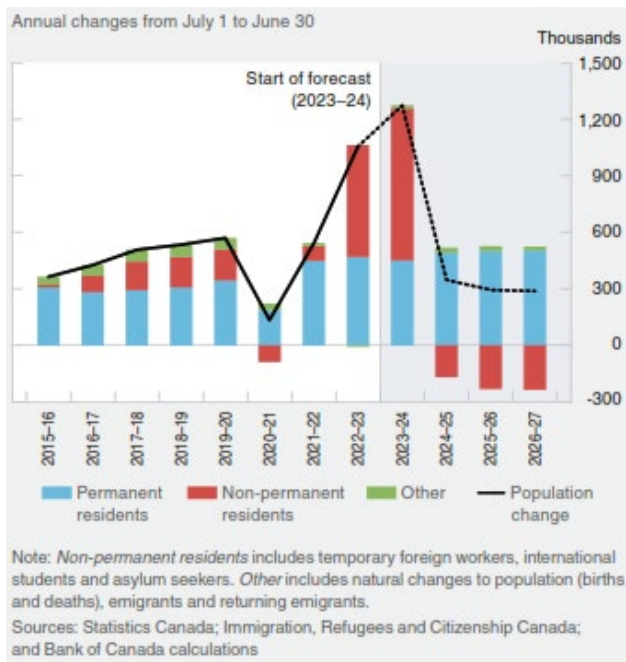
The EFC Board continues to support Dr. Doyon's view that the indicators are best assessed in a holistic manner, rather than in isolation. This includes the use of alternative tools to augment decision-making, rather than relying solely on the overbase indicators. The selected indicators remain instructive and are closely linked to EFC's mandate.

The EFC Board reviewed the per capita disappearance for all markets, as well as updated growth rates for table disappearance and population. Per capita consumption increased overall; however, most of the growth was in the table market. Per capita consumption figures are now higher than pre-COVID levels. Consumers have eaten 4.7 more table eggs per person in 2023, compared to 2022. High growth for this market has continued in 2024 and is expected to persist through 2025. On the other hand, the processed market per capita consumption continues to struggle despite the increase in population. Per capita consumption in this market is forecast to remain well below pre-COVID levels.

Population Growth

Population growth has been driven almost exclusively through immigration. As seen in the chart below, there is a substantial increase in immigrants in 2023 relative to pre-COVID years. It is estimated that immigration will continue to increase in 2024; however, the Government has signaled its intent to reduce immigration targets back to pre-COVID levels in 2025 and thereafter.

Population of non-permanent residents decline in line with the government targets



Reference: Bank of Canada Monetary Policy Report April 2024

Total population growth is expected to be 2.73% in 2024, which is driving demand for eggs. A lower population growth rate of 1.5% is foreseen for 2025. Both estimates are derived from Statistics Canada's quarterly population estimates.

Table Disappearance Growth

The table market experienced a surprisingly high growth rate of 5.33% in 2023. This tremendous growth was also the highest in the last 10 years. Coupled with the lowest production growth recorded in the last 20 years at 0.14%, massive demand growth resulted in a supply gap and boosted imports. There was no storage in 2023.

This growth is expected to continue in 2024, bolstered by both high population increases and per capita growth. 2024 TD growth is estimated to be 5.36%. EFC shared its TD rationale with Canadian Poultry and Egg Processors (CPEP), who was supportive of the growth rate. CPEP noted strong growth in the retail market; however, the food service market has an expectation of no growth or a possible decrease. Although more production will be in place, the supply gap is expected to continue this year, preventing a significant decline in imports. No storage is expected in 2024.

EFC has yet to seek feedback from CPEP regarding the 2025 table disappearance growth due to the advanced timing of allocations; however, EFC will communicate with CPEP in advance of the November 2024 Board meeting when a reconciliation will be presented.

Quota Allocation

Due to this significant growth in demand for eggs in Canada, the EFC Board approved an allocation increase which aligns with the strategic goal to supply all markets with domestic production over and above trade requirements, mitigating the need to import US eggs to supply Canadian processor contract volumes. EFC is estimating a processor import allowance for almost 2.0M boxes of eggs at the cost of \$41M to the Unrestricted Pooled Income Fund (PIF) in 2024. Based on discussions with our US counterparts, the increase in eggs directed towards Canada has increased the Urner Barry (UB) price. The Board decided to implement this allocation midway through 2024 to ensure the production cycle could be started as soon as possible, given the large gap between supply and demand is being covered by imports from the US.

The allocation increase incorporates the following calculations:

- Second Reconciliation of 2024 Market and Population Growth (MPG) QAC Allocation;
- Preliminary First Reconciliation of 2025 Market and Population Growth (MPG) QAC Allocation;
- Preliminary First Calculation of 2026 Market and Population Growth (MPG) QAC Allocation;
- Final Reconciliation of 2022 Market and Population Growth (MPG) QAC Allocation; and,
- Final Reconciliation of 2023 Market and Population Growth (MPG) QAC Allocation.

Second Reconciliation of 2024 Market and Population Growth (MPG) QAC Allocation

As per the presentation found in section 12.3 of the July 9 EFC Board meeting package, EFC has incorporated relevant market information and has applied statistical modeling techniques to estimate a TD growth rate for

2024 (5.36%). Final TD data is available through 2022 (1.03%) and 2023 (5.33%). This reconciliation results in an increase of 150,259 layers.

Preliminary First Reconciliation of 2025 Market and Population Growth (MPG) QAC Allocation

This allocation component is preliminary as the QAC Policy states this reconciliation is scheduled to occur at the November 2024 EFC Board meeting. The initial calculation presented in November 2023 did not acknowledge final 2023 TD growth (5.33%), updated Projected 2024 TD Growth (5.36%), nor Preliminary 2025 TD Growth Estimate (2.87%). This reconciliation results in an increase of 122,714 layers. Another reconciliation incorporating extrapolated TD growth for 2024 and a TD growth rate for 2025 based on updated information and with feedback from CPEP will be presented in November 2024.

Preliminary First Calculation of 2026 Market and Population Growth (MPG) QAC Allocation

This was the first presentation of the 2026 MPG QAC, which would normally be presented in November 2024. It incorporates TD growth rates for 2024 and 2025, as well as a population growth estimate for 2026.

While the EFC Board decided to use only a two-year average of population growth for Year 3 TD when the 2025 MPG allocation was first presented in November 2023, the 2026 MPG returns to the structure described in the QAC Policy to use a three-year average of population growth (year-over-year growth to Q1 for 2022, 2023 and 2024) to estimate 2026's TD growth. All three QAC tests passed, which warrants an increase in allocation. This calculation results in an increase of 629,203 layers.

Ad-Hoc Allocations

Final reconciliations of 2022 and 2023 Market and Population Growth (MPG) QAC Allocation were also approved by the EFC Board at the July 2024 meeting. These reconciliations incorporate final TD growth for 2022 (1.03%) and 2023 (5.33%). They are considered ad-hoc allocations as the QAC Policy does not provide for final reconciliations with finalized TD data; however, the EFC Board has discretion on how to allocate quota. Future QAC Policy discussions will include whether final reconciliations are part of the QAC Policy. The 2022 final reconciliation results in an increase of 126,754 layers; whereas, the 2023 final reconciliation incorporates an increase of 331,402 layers.

The EFC Board included these reconciliations as the prior reconciliations were significantly understated, resulting in the use of Special Temporary Market Requirement Quota (STMQRQ) layers to supply our markets, as well as increased imports to supply processors with their contract volumes.

In summary, the allocation increase approved by the EFC Board totals 1,360,322 layers.

Quota Distribution

As per the QAC Policy, the process to distribute a quota allocation increase to provinces and the Northwest Territory is as follows

- 4.76% of the allocation is distributed to Saskatchewan;
- 50% of remaining allocation is distributed to 'short' provinces whose hen to population ratio is below the national average; and,

- 50% of remaining allocation is distributed to all provinces and the Northwest Territory based on market shares of current quota.

The EFC Board approved each recommended quota allocation increase be distributed in stages in order to update the market shares and hen to population ratios prior to distributing the next increase. The approved order was to process the regular QAC calculations prior to ad-hoc allocations as follows:

- 2024 MPG QAC Second Reconciliation (QAC Policy);
- Preliminary 2025 MPG QAC First Reconciliation (QAC Policy);
- Preliminary 2026 MPG QAC First Calculation (QAC Policy);
- 2022 MPG QAC Final Reconciliation (ad-hoc); and,
- 2023 MPG QAC Final Reconciliation (ad-hoc).

The EFC Board then reviewed the impacts this allocation would have on the table and processing markets for 2024 and 2025. Egg boards have provided estimated placement schedules for previous allocations, which EFC uses to forecast future layer inventories and production. A slowdown is observed in placements for the first year after allocation; however, placements catch up to the historical trend by the end of first year, and birds are placed faster in the second year. It is estimated that there will be a smaller increase in estimated production in 2024 due to slower placements, followed by a larger increase in 2025 as layers are placed later.

It is estimated that the increased production capacity will meet future demands of both table and processing markets. Imports are expected to remain stable in 2024 and then decrease significantly in 2025 when the allocations are placed.

Egg Industry Support for the QAC Policy

The egg industry strongly supports the QAC Policy as a reasonable balance between differential growth and economic activity in all jurisdictions. The QAC Policy strikes a balance between regional needs and the management of a national system. The EFC Board was unanimous in its agreement to use the QAC Policy guidelines and to also apply ad hoc measures in order to allocate this quota increase effective Period 10 (September 8, 2024), after duly considering the overbase factors and EFC's objects.

EFC views the results of the QAC Policy as achieving regional balance, while addressing competitiveness. 88% of the proposed allocation increase is distributed to 89% of the Canadian population, recognizing areas with differential growth. Supply management is also a cornerstone of economic activity in many provinces, including the four Atlantic Provinces.

Schedule 1 of the Quota Regulation

EFC is seeking an allocation increase of 1,360,332 layers for a total allocation of 31,403,635 layers. With this proposed increase, Schedule 1 of the quota regulation would provide for the maximum production of approximately 840 million dozens for the period of 52-weeks from December 31, 2023, to December 28, 2024; this is not intended to be a proxy for layer inventories nor gradings information.

Schedule 1 Dec. 31, 2023 - Dec. 28, 2024 Effective date: Sept. 8, 2024			
	Domestic Regulated Quota Dec. 31, 2023 - Sept. 7, 2024 (layer)	Domestic Regulated Quota Sept. 8, 2024 - Dec. 28, 2024 (layer)	Limits to Federal Quotas Prorated (doz.)
BC	3,713,235	3,911,456	104,161,441
AB	3,131,819	3,311,796	88,536,480
NT	140,599	143,748	3,757,213
SK	1,367,649	1,432,400	38,381,905
MB	2,737,042	2,798,396	75,107,927
ON	10,733,440	11,250,083	301,045,335
QC	6,125,124	6,402,403	171,352,370
NB	581,621	606,668	16,123,121
NS	927,987	948,789	25,714,547
PE	155,795	159,288	4,267,260
NL	428,992	438,608	11,503,872
TOTAL	30,043,303	31,403,635	839,951,471

In summary, EFC looks forward to moving ahead with its QAC Policy allocations for the remainder of 2024 to ensure EFC can provide sufficient domestic egg supply to meet demand.

Best regards,



Roger Pelissero
Chair

copy: EFC Board of Directors
 FPCC Members
 Drew Black, Chief Executive Officer