



Farm Products Council
of Canada

Conseil des produits agricoles
du Canada

Central Experimental Farm
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Ottawa, Ontario K1A 0C6

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Édifice 59
960, avenue Carling
Ottawa, Ontario K1A 0C6

June 21, 2023

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

Subject: Proposed Amendments to the *Canadian Egg Marketing Levies Order*

Dear Mr. Pelissero:

This is to advise you that at its June 20, 2023, meeting, the Farm Products Council of Canada approved the proposed amendments to the *Canadian Egg Marketing Levies Order*, as requested in your letter of May 17, 2023.

Following a thorough review of the rationale provided by the Egg Farmers of Canada, Council members were satisfied that the proposed amendments are necessary for the implementation of the Agency's marketing plan. The amendments come into effect on July 16, 2023, and expire on March 30, 2024.

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

Sincerely,

Brian Douglas
Chairman

Canada 

May 17, 2023

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

Re: 2023 Levies Order Amendments

Dear Brian:

We are seeking FPCC's prior approval of the Canadian Egg Marketing Agency's Levies Order, which was unanimously approved by the EFC Board of Directors (EFC BOD) on May 16, 2023. Drafting instructions reflecting the amendment have been provided to Farm Products Council of Canada (FPCC) at the same time as the Department of Justice. Official stamped copies of the Levies Order amending package will be forwarded to your office in accordance with established blue stamp process timelines.

As a result of several factors affecting the Unrestricted Pooled Income Fund (PIF), EFC is requesting a 10-cent levy rate increase effective Period 8, 2023 (July 16, 2023).

2023 PIF Projections

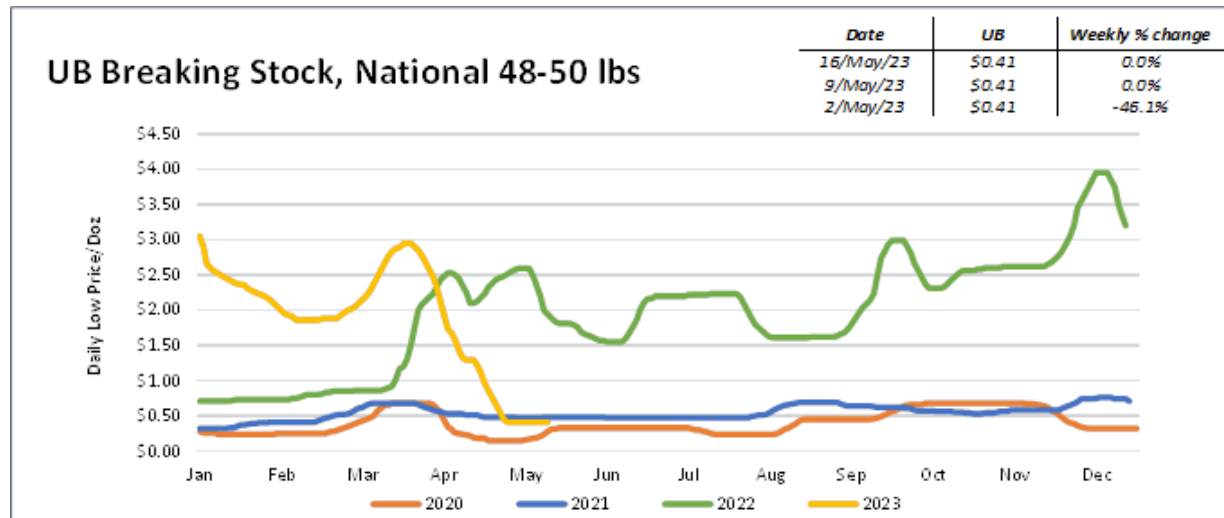
The EFC BOD approved updated PIF projections on May 16, 2023, which indicate that the 2023 PIF ending fund balance will be in a deficit position if no further action is implemented. A copy of the projections is included with this letter.

The previous financial update was provided to the EFC BOD on March 22. This update can be reviewed in section 12 of Open Board package. Since the March 22 meeting, the PIF financial situation has changed significantly.

Canadian and U.S. egg production continues to be very volatile due to Highly Pathogenic Avian Influenza (HPAI) incidents. So far, there have been no significant outbreaks this spring; as similar to 2015, migration patterns, particularly in the Mississippi flyway are later than normal. We anticipate the heightened risk of AI to be lower in June once the bird migration has completed.

Since the March 22 financial update, the Urner Barry (UB) price, that is an indicator of U.S. prices, has decreased significantly. The price has declined by approximately 86%; and has currently stabilized at approximately 41-cents per dozen. Anecdotal reports indicate that U.S. producers stock-piled eggs in advance of the Easter period; however, U.S. consumer demand was lower than projected, resulting in a flood of eggs into the market at the end of the Easter period. The UB price is one of the main components used to calculate the Processor Price and forecasting the price of imported eggs, and also affects the Import Allowance expense. The current UB price trend is having a substantial negative effect on the balance in the PIF, resulting in lower revenue from processed egg sales. The chart below

provides the trend line of the UB price compared to prior years. The yellow line indicates the dramatic drop in the UB price over the course of several weeks.



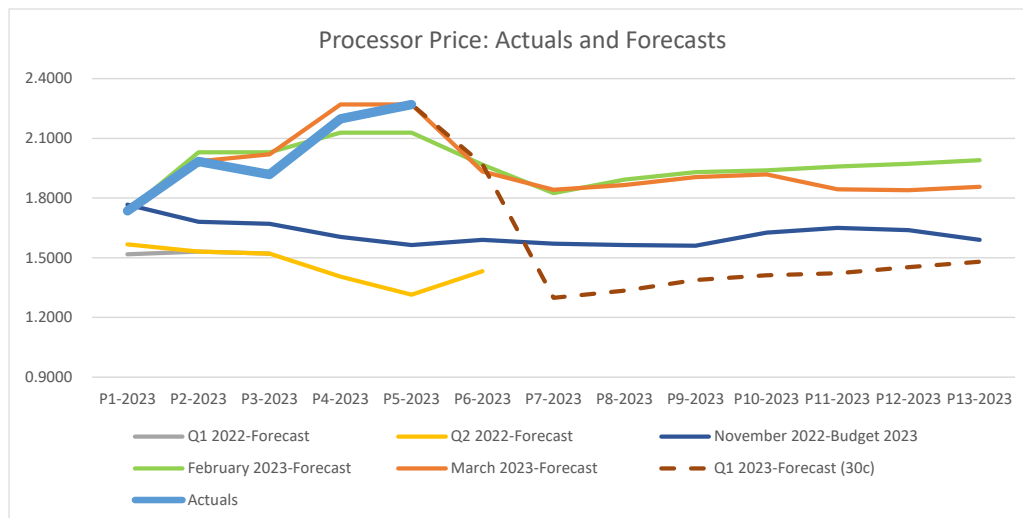
Processor Price

The average Processor Price with LHP for 2023 is projected to be \$1.677 per dozen, \$0.2618 lower than the March 2023 forecast of \$1.94 per dozen, which is based on an average UB price of \$1.44 per dozen (March \$1.96). The processor price is forecasted to be higher than the UB price in 2023 due to the continuation of the Low-High Price (LHP) Program (explained further below) and a higher UB price compared to historical levels. The 2022 HPAI outbreaks in both Canada and the U.S. have negatively affected supply, pushing prices higher than expected and for a longer period until layer populations return to normal levels.

In addition to the UB price, the processor price includes a grain-based component, exchange rate impacts, regional add-ons and the value-added product amount as per the Processor Protocol. The U.S. grain-based price, which was between 50- to 60-cents over the past several years, is forecasted to reach \$0.7968 per dozen in 2023 (March - \$0.7950) and is expected to remain high for the foreseeable future. The average grain-based price for 2023 was budgeted to be \$0.8161 per dozen. As the Processor Protocol is implemented, the grain-based price becomes a larger percentage of the processor price.

The average Processor Price for 2023 includes the impact of the LHP Program for all of 2023, continuing into 2024. The difference between the Price per the LHP Program and the Price per the Processor Protocol is tracked by EFC and referred to as the Total Differential Balance (TDB). This initiative is revenue neutral to EFC but provides relief to processors through periods of extraordinarily high prices, as experienced in 2022 and early 2023, and provides support to EFC when UB prices are low. There are times when the TDB is recoverable from processors to EFC, and vice versa, from EFC to processors. The price per the LHP Program is set every period by EFC in consultation with processor representatives.

The TDB recoverable by EFC from the processors at the start of the year was \$67,724K. The balance grew to \$83,831K in Period 2 (ended February 25), when the UB price increased to nearly \$2.95 per dozen. With the drop in the UB price, the price per the Processor Protocol was calculated to be lower than the price per the LHP Program, resulting in a decrease to the Total Differential Balance. The LHP price for Period 6 (May 21 – June 17) has been set at \$1.9984 which is nearly \$1.00 more than the Protocol Price, and 60-cents more than the previously projected 30-cent spread between the prices. The LHP price may continue to be adjusted with more than a 30-cent spread in the short term. EFC forecasted to maintain a 30-cent spread starting from Period 7 to the end of the year, due to ongoing high uncertainty with the UB Prices. Updated projections indicate that the TDB will be close to \$30M at the end of 2023 and that it could be fully repaid by the end Period 7, 2024, with the assumption of a 30-cent price spread between the LHP and Protocol price. The chart below details the processor price compared to prior projections and demonstrates the volatility of the market.



Industrial Product (IP) Volumes

Processor Demand growth rate compared to 2022 is presumed to be 2.98%, down from 4.58% per the March 2023 projections. This growth is based on contract volumes and historical fill rates. Processed egg demand was lower due to Q1 trends and comments from processors that the higher prices have caused customers to substitute eggs in their recipes and/or to change their menu lineup.

Table Disappearance (TD) growth is assumed to be 3.09% for 2023 (as approved by the EFC BOD in November 2022). The actual TD growth (adjusted to 52 weeks for comparison) for 2022 was 0.85%. For Periods 1-3 of 2023, the TD growth rate is tracking at 4.11% over 2022 (for the same periods in 2022, the TD growth rate was 0.41%). This higher TD growth rate results in lower IP volumes. This rate is not in alignment with Nielsen's data as Nielsen tracks retail egg sales which represent only a portion of the market (i.e., food service data is excluded) and therefore, is not reflective of the overall situation. The EFC BOD chose a higher and aggressive TD growth rate for 2023 because of the risk of AI and its effect on egg supply in Canada, resulting in some growth not being placed.

In March, IP volumes were adjusted higher due to updated data regarding egg farm HPAI repopulation dates in Canada, as repopulation was occurring faster than expected. PIF projections now presume that repopulation will occur within an average of 189 days, which is much less than the 365 days as projected in February.

Egg Purchase Costs

Egg Purchase Costs are based on an average Buyback of \$2.56 per dozen for the year. Buyback prices are forecasted to be \$0.1577/dozen higher than March 2023 projections as the PIF levy rate decrease of 18-cents (effective Period 2, 2023) did not result in an equal decrease in the Buyback Price.

The 2023 buyback projections also include the impact of the proposed 10-cent levy increase and the presumption it will result in an equal increase in the Buyback Price. The Buyback Price also includes an additional 4-cent handling fee for the entire year. This estimate was made on a conservative basis and is pending ongoing discussions of the Buyback Assessment Review Team (BART).

The largest component of the COP and Buyback Price is feed. Our projections presume that feed prices will remain stable for the remainder of 2023.

Import Allowance Costs

As mentioned, U.S. prices also have an impact on the support paid to processors for imported eggs within their Guaranteed Supply Volumes, should eggs not be available in Canada. Import allowance claims have totaled \$27.3M in Q1 of 2023 and are projected to be \$30.2M for the year. Imports have decreased, compared to earlier projections, due to higher domestic production levels resulting from faster repopulation efforts in Canada and the implementation of the Special Temporary Market Requirement Quota (STMQRQ) allocations, as well as lower processor demand.

The overall import allowance expense for 2023 includes 2.7M boxes (down by approximately 320K boxes – original import volumes of close to 3M boxes in March) to be imported at an average cost of \$7.90 per box, compared to \$14.98 per box in March). When the LHP price is higher than the protocol price (TDB is decreasing) then the LHP offsets some of the import costs, as import allowance support is the difference between the cost to import and price per the Processor Protocol.

Levy

Based on the above assumptions, the PIF is forecasted to be in a deficit position by the end of the year if no action is taken. With the data available today, an 18-cent levy increase would bring the PIF year-end fund balance to just within the \$45M lower trigger point at the end of 2023. EFC recognizes the challenges with proposing a large levy increase; therefore, the EFC BOD approved a 10-cent levy increase as a measured approach that ensures the solvency of the fund, and brings the PIF balance closer to its established Trigger Points. EFC fully recognizes that a 10-cent levy increase may not be sufficient for the long-term; therefore, the EFC BOD may need to consider a further levy increase at either the September or November Board meetings, depending on how the fund performs for the remainder of 2023.

The levy increase is to come into effect at the start of Period 8 (July 16, 2023), resulting in a projected ending fund balance for the Pooled Income Fund of \$22.8M, which is \$22M below the \$45M minimum Trigger Point. The fund balance continues to include the February 24 temporary transfers of \$20M from the Risk Management and the Natural Overrun Fee Funds combined. Quarterly projections are included in Appendix A.

EFC Funds

The EFC BOD received updated projections for the remaining EFC Funds, which are included in the table below. A further update will be provided in July as part of the mid-year review.

Fund (in thousands)	2023 Opening Balance	Net Increase/ (Decrease)	Temporary Transfers to PIF	2023 Projections
Unrestricted Administration	\$ 7,474	\$ (4,591)	\$ -	\$ 2,883
Restricted Research	\$ 4,972	\$ (439)	\$ -	\$ 4,533
Risk Management	\$ 16,712	\$ (5,996)	\$ (8,000)	\$ 2,716
Natural Overrun Fee	\$ 15,073	\$ 59	\$ (12,000)	\$ 3,132

Amendment to the Levies Order

EFC is requesting a 10-cent levy rate increase to support the PIF balance, using a measured approach to bring the Fund closer to its minimum trigger point of \$45M.

The current Levies Order expires March 30, 2024. The amendment is to renew the Levies Order effective July 16, 2023. The following table summarizes the proposed Levies Order for 2023. The amounts are comprised of the proposed EFC levy of \$0.3595 per dozen; and provincial/territorial levies to be paid by each producer, effective July 16.

Province/Territory	Total Levy Cents/ dozen
Ontario	39.95
Quebec	40.75
Nova Scotia	39.75
New Brunswick	42.25
Manitoba	41.95
British Columbia	45.37
Prince Edward Island	42.15
Saskatchewan	45.10
Alberta	44.87
Newfoundland and Labrador	40.95
Northwest Territories	43.35

In summary, I would request that FPCC prior approve the Levies Order amendment in order for EFC to implement its marketing plan for the remainder of 2023.

Best regards,



Roger Pelissero
Chair and Acting Chief Executive Officer

copy: EFC Board of Directors
FPCC Members

**Egg Farmers of Canada
Pooled Income Fund
2023 Updated Projections**

	Q1	Q2	Q3	Q4	2023 Forecast	March 2023 Projections	Variance to March 2023 Projections		February 2023 Projections	Variance to February 2023 Projections		Q1 2024 Forecast
							\$	%		\$	%	
D Sales to Processors (in boxes)	2,145,743	2,444,784	3,058,487	3,891,114	11,540,127	11,581,684	41,556	0.4%	10,625,797	(914,330)	(8.6%)	3,059,508
Table Sales (in boxes)	511,542	391,312	276,044	533,419	1,712,317	1,698,767	(13,550)	(0.8%)	1,667,295	(45,022)	(2.7%)	511,542
A Processor Price (CDN\$)	1.8578	2.1464	1.3403	1.4417	1.6769	1.9387	(0.2618)	(13.5%)	1.9123	(0.2354)	(12.3%)	1.3573
T Buyback Price (CDN\$)	2.5540	2.4989	2.5800	2.5998	2.5614	2.4037	(0.1577)	(6.6%)	2.3923	(0.1691)	(7.1%)	2.6048
A Levy Rate per dozen (CDN\$)	0.2840	0.2240	0.2907	0.3240	0.2840	0.2378	0.0462	19.4%	0.2378	0.0462	19.4%	0.3240
Leviable Birds (ROL 26.54)	26,798,638	26,998,638	27,665,305	27,998,638	27,414,023	27,429,407	(15,385)	(0.1%)	27,998,638	(584,615)	(2.1%)	27,998,638
\$ REVENUE												
Levy	\$ 46,947,490	\$ 37,189,805	\$ 49,454,812	\$ 74,279,744	\$ 207,871,852	\$ 173,547,382	\$ 34,324,470	19.8%	\$ 177,389,636	\$ 30,482,215	17.2%	\$ 55,709,808
Processor Egg Sales	62,945,618	78,400,824	61,494,759	84,141,248	286,982,448	338,102,998	(51,120,549)	(15.1%)	303,636,356	(16,653,908)	(5.5%)	62,338,747
Table Egg Sales	19,479,726	14,675,447	10,717,295	20,839,386	65,711,854	61,262,819	4,449,035	7.3%	59,805,224	5,906,630	9.9%	19,981,353
Interest & other income	(43,331)	138,837	160,532	151,663	407,702	292,909	114,793	39.2%	466,301	(58,598)	(12.6%)	91,926
\$ TOTAL REVENUE	\$ 129,329,503	\$ 130,404,913	\$ 121,827,399	\$ 179,412,041	\$ 560,973,856	\$ 573,206,108	\$ (12,232,252)	(2.1%)	\$ 541,297,517	\$ 19,676,339	3.6%	\$ 138,121,834
\$ EXPENSE												
Egg Purchases	\$ 101,866,059	\$ 106,287,525	\$ 129,075,816	\$ 172,584,710	\$ 509,814,110	\$ 478,310,082	\$ (31,504,028)	(6.6%)	\$ 442,248,950	\$ (67,565,160)	(15.3%)	\$ 139,543,421
Transportation	3,342,379	3,082,040	3,725,535	4,921,982	15,071,936	14,429,092	(642,844)	(4.5%)	13,523,843	(1,548,093)	(11.4%)	4,082,957
Storage	233,379	86,670	86,670	115,560	522,279	463,294	(58,985)	(12.7%)	371,290	(150,989)	(40.7%)	183,482
Third Party Verification	316,137	369,600	388,800	518,400	1,592,937	1,616,758	23,821	1.5%	1,636,800	43,863	2.7%	388,800
Import Allowance	22,254,302	5,566,255	707,169	3,816,548	32,344,275	47,777,229	15,432,954	32.3%	48,415,007	16,070,732	33.2%	632,571
Admin Transfer	1,082,622	1,341,921	1,129,278	1,414,451	4,968,272	4,657,560	(310,712)	(6.7%)	4,657,560	(310,712)	(6.7%)	1,074,822
Donations	67,531	343,041	343,041	457,389	1,211,002	1,121,365	(89,637)	(8.0%)	1,211,002	-	0.0%	279,462
Legal and Consulting Fees	4,447	57,165	57,165	76,223	195,000	180,222	(14,778)	(8.2%)	195,000	-	0.0%	45,000
Other	122	29,214	29,214	38,950	97,500	89,497	(8,003)	(8.9%)	97,500	-	0.0%	22,500
\$ TOTAL EXPENSE	\$ 129,166,978	\$ 117,163,432	\$ 135,542,688	\$ 183,944,213	\$ 565,817,311	\$ 548,645,099	\$ (17,172,212)	(3.1%)	\$ 512,356,952	\$ (53,460,359)	(10.4%)	\$ 146,253,015
\$ NET GAIN/(LOSS)	\$ 162,525	\$ 13,241,482	\$ (13,715,289)	\$ (4,532,172)	\$ (4,843,455)	\$ 24,561,009	\$ (29,404,464)	(119.7%)	\$ 28,940,565	\$ (33,784,019)	(116.7%)	\$ (8,131,181)
\$ Opening	\$ 7,675,441	\$ 27,837,966	\$ 41,079,448	\$ 27,364,158	\$ 7,675,441	\$ 7,675,441	\$ -		\$ 7,675,441	\$ -		\$ 22,831,986
\$ Add: Transfers from RMF and NOFF	\$ 20,000,000	\$ -	\$ -	\$ -	\$ 20,000,000	\$ 20,000,000	\$ -		\$ 20,000,000	\$ -		\$ -
\$ Closing	\$ 27,837,966	\$ 41,079,448	\$ 27,364,158	\$ 22,831,986	\$ 22,831,986	\$ 52,236,450	\$ (29,404,464)		\$ 56,616,006	\$ (33,784,019)		\$ 14,700,805

HIGHLIGHTS and ASSUMPTIONS:

- The 2023 updated PIF projections indicate that the ending 2023 fund balance will be in a deficit position by \$2,587K if no further action is implemented.
- The PIF projections include a 10-cent levy rate increase, effective the start of Period 8 - July 16, 2023.
- Table Disappearance growth is assumed to be 3.09% for 2023 (approved by Board in November 2022). Actual TD growth for 2022 was 0.85%.
- The revised processor demand growth rate projection is 2.98%, down from 4.58% per the March 2023 projections.
- Updated PIF projections do not assume any new significant HPAL outbreaks after February 7, 2023. All 2022 AI birds are assumed to be placed in 2023.
- IP volumes are forecasted to decrease by 42K boxes, still consistent with the previous March 2023 projections.
- Processor prices have been updated to reflect the latest Urner Barry trends; they are projected to be \$0.2618/dozen lower than March 2023 projections. Following the Easter period, UB prices have been falling significantly (\$0.41/dozen as at May 16, 2023). In addition to recent price trends, projections for AI repopulation in the U.S. have changed and birds are expected to return to production faster than expected.
- The LHP price will be \$1.9984 for Period 6 and return to a 30-cent price spread between the LHP price and Protocol price starting in P7. Updated projections indicate that the TDB could be fully repaid by the end Period 7, 2024.
- Buyback prices are forecasted to be \$0.1577/dozen higher than March 2023 projections. The PIF levy rate decrease of 18-cents (effective Period 2, 2023) did not result in an equal decrease in the Buyback Price. The 2023 buyback projections include an additional 4-cent handling fee for the entire year.
- Import allowance costs are forecasted to decrease overall by \$15,433K compared to March 2023 projections; import volumes to decrease by 319,617 boxes (Q1 2023 volumes of 2,653,100 boxes vs March 2023 volumes of 2,972,717 boxes; import price per box to decrease to an average of \$7.90 per box (\$14.98 per box per March 2023 projections).
- The PIF's 2023 ending balance is projected to be \$22,832K, which is below the \$45M minimum Trigger Point and continues to include the temporary transfers of \$20M from the RMF and the NOFF.