OPERATING POLICY

Policy #:	**9.25**
Section Heading:	**Quota & Production Facilities**
Policy Title:	**New Entrant Program (NEP)**

POLICY **Last Updated:** **October 31, 2024**

Overview

Egg Farmers of Alberta (EFA) believes that it is crucial to the long-term sustainability of agriculture in Canada that new people and new investment be encouraged to enter the industry. EFA's New Entrant Program (NEP) was developed in order assist individuals and families who want to own an egg farm by alleviating some of the start-up capital – this is intended to be a hand-up, not a hand-out. The program strives to accomplish this task by setting aside a small amount of the province's layer quota to be issued to successful applicants who have completed all of the program's requirements.

Background

In May 2010 the Board decided to establish a pool of quota for the allotment of quota to new producers. The original program allotted New Entrant producers production permits allowing them to possess up to 1,500 layers for commercial egg production subject to conditions requiring compliance with EFA's applicable policies. In 2016 the program was modified by guaranteeing New Entrants access to lease up to 3,500 units of quota from the New Entrant pool, starting at zero cost for the first year and scaling up the cost by 20% each year until paid the full lease cost in the 6th year of operation.

In 2021 the New Entrant Program was modified again to guarantee New Entrants access to lease 4,000 units of quota from the New Entrant pool until such time as the New Entrants production permits and any acquired quota reaches the industry average flock size.

Objectives

The New Entrant Program objectives are to:

- Provide access to production permits to assist those wanting to enter the egg industry.
- Ensure that New Entrants selected by the program will remain actively engaged in the industry and ultimately transition their egg operations out of the NEP with allotted quota replacing production permits to enable their egg farm to be handed down to future generations.
- The program creates a viable business opportunity for on-farm supplemental income and potential for growth in the egg industry. (Note: This does not necessarily mean that it will be a financial sustainable and self-sufficient operation whereby New Entrants are not required to have other income sources.)

Benefits of the NEP

The Alberta egg industry has greatly benefited from the launch of the New Entrant Program in 2012. Some of these benefits include:

- Adding additional passion, strength, viability and credibility to the industry.
- Expanding the producer base.
- Attracting new investment in and young farmers to the provincial egg industry.
- Expanding the number of producers to potentially serve as Directors and/or committee members.
- Improved public and government support for supply management, by addressing the common concern about the system being a barrier to new farmers.
- Providing support & resiliency to rural communities.
- Adhering to Marketing Council's Quota Governance and Management Principles requiring marketing boards to establish programs and policies to enable entry for new producers.

1. Definition

A New Entrant is an individual/spouse or company that applied for and been granted NEP production permits by the EFA.

2. New Entrant Quota Pool

2.1 A New Entrant Quota Pool was established by the EFA for the New Entrant Program. Production permits issued to New Entrants may eventually be converted to quota from the New Entrant Quota Pool as prescribed in the program and this Policy. EFA will maintain the New Entrant Quota Pool to ensure sufficient quota in the pool equivalent to:

- Production permits issued to New Entrants who may become entitled to conversion of their production permits to quota upon satisfying all requirements of the program, and
- Satisfy guaranteed leased quota to New Entrants.

2.2 Where the Egg Farmers of Canada (EFC) issues new quota to the Provinces, the EFA shall set aside 10% of each new allocation, to a maximum of 100,000 per allocation, to be added to the New Entrant Quota Pool. Likewise, a quota decrease will also decrease the New Entrant Quota Pool by 10%.

2.3 Quota not required to satisfy New Entrant production permits and guaranteed leases will be placed in the general leasing pool available to all producers.

3. Opening the New Entrant Program

3.1 Where the Egg Farmers of Canada (EFC) issues new quota to the Provinces, the EFA shall set aside 10% of each new allocation to a maximum of 100,000 per allocation.

3.1 The program will be run on a triennial basis provided there is enough quota available in the New Entrant Quota Pool to backstop production permits for at least 3 additional New Entrants to receive a 1,500 New Entrant production permit plus the guaranteed lease of up to 4,000 units of quota.

3.2 The maximum amount of production permits and quota available to be distributed in any one year will be the equivalent of the total maximum production permits and leased quota of 8 New Entrants.

4. Cancelling the New Entrant Program

4.1 EFA reserves the right to not accept applicants under the New Entrant Program, and to cancel the New Entrant Program at any time prior to applicants being notified by EFA in writing that their NEP application is approved. No contractual relationship (either expressed or implied) is created with any person or company submitting an application under the New Entrant Program.

4.2 Should the NEP be cancelled, application fees or performance deposits will be refunded.

5. Information Sessions

5.1 Information sessions will occur between the launch and application date and will consist of a live and/or recorded information. Questions will be summarized and available in the information package.

6. Eligibility Requirements

6.1 A NEP applicant shall be a "person" as defined in the *Egg Production & Marketing Regulation*, AR 026/22 as amended (the *"Marketing Regulation").*

"*Person" means a person defined in the Interpretation Act and includes:*

(i) a partnership as defined in the Partnership Act,

(ii) any unincorporated organization that is not a partnership referred to in subclause (i), and

(iii) any group of individuals who are carrying on an activity for a common purpose and are neither a partnership referred to in subclause (i), nor an unincorporated organization referred to in subclause (ii).

6.2 An applicant that is an individual and his or her spouse (including common law spouses), may not be:

(a) a current or past quota holder of EFA.

(b) a shareholder or past shareholder of a current or past EFA quota holder.

6.3 Only one application per married couple or common-law couple is allowed.

6.4 An applicant that is a Hutterite Colony shall be fully independent from any other Hutterite Colony to be eligible.

6.5 Applicants must submit a completed application form and a application fee of $1,000 plus GST (GST Reg #122224538). Either a void cheque can be provided with bank authorization from the applicant, or a cheque payable to the Egg Farmers of Alberta. (Payments returned NSF from the bank will result in applications being withdrawn.) The application fee is refundable only if the applicant does not pass the initial screening.

6.6 Applicants must include a written business plan (see section 9 below) that describes plans to own an acceptable production facility (includes land, buildings, and equipment) within a 3-year time frame. Only one application per legal land description is permitted, per the points below. (Should more than one application be received, the board has the right to remove applications as it sees fit.)

- This includes land that is owned by another applicant and the intent is to purchase or subdivide the same legal land description. OR
- Related parties may not apply with the intent to purchase the same legal land description.

Applicants who will need to build a new facility cannot install conventional cages and must comply with current EFA policies regarding layer housing. After 2024,

New Entrants cannot use existing conventional production facilities on purchased land.

6.7 Applicant(s) must be a Canadian citizen or permanent resident of Canada.

6.8 Applicant(s) must be a permanent resident in the Province of Alberta.

6.9 Applicant(s) must be at least 18 years of age at the time of application.

6.10 Applicant(s) that are successful in being selected to receive a New Entrant production permit agree to the publication of their identity including details of individuals and representatives.

6.11 EFA staff and family members are not eligible to apply for the New Entrant Program.
"Family member" means the spouse, adult interdependent, partner, child, parent, sibling, son-in-law, daughter-in-law, father-in-law, mother-in-law, first cousin, aunt, uncle, niece or nephew of a staff member."

6.12 Applicants must submit a letter of support from their financial institution or from whoever the capital is coming from.

6.13 Applicants must be in good standing with the Board.

7. Application Process

7.1 EFA will provide public notice regarding the number of production permits available for the New Entrant Program, and the dates the program will run.

7.2 Interested applicants who contact EFA will be provided with an electronic information package that can be downloaded. The package will include all necessary information regarding Regulations, Policies and any programs operated by EFA or EFC. Information packages will not be available once the program is closed for applications.

7.3 Applications must be received electronically by the EFA office per the method indicated in the application package. New Entrant applications must be received by the deadline date @ 4:00pm. For confidentiality purposes, none of the applications will be opened until the application deadline has passed and will be held in confidence by the Financial Coordinator. Any applications received after the deadline will not be processed.

7.4 The EFA Board of Directors may, at its sole and exclusive discretion, restrict the allocation of New Entrant production permits.

8. Initial Application Screening

8.1 Applications received will be reviewed for eligibility by the EFA General Manager (and/or their designated representative) with advice from independent experts where appropriate. Only those applications meeting all the eligibility criteria will be approved to move into the comprehensive review process.

8.2 All applicants will receive formal notification from EFA regarding the status of their application. All incomplete applications will not be further considered, and unsuccessful applicants will be notified with a brief explanation as to why they did not pass the initial screening.

8.3 Applicants whose applications are rejected at the screening stage will have their application fee refunded.

9. Business Plan Evaluation

A required business plan submitted by NEP applicants will be evaluated based on the following criteria:

9.1 Applicant Knowledge and Experience (200 points):

- A history of academic training and work experience
- A description of any training or experience directly related to the egg and/or poultry sector
- An education plan covering the following topics:
  - Who will mentor you in the egg industry?
  - Who will be involved in the day-to-day operations of your egg farm, and what will they be doing?
  - What experts or industry professions will you engage with for advice to help enhance your management practices?
  - Which information management systems will you employ to improve your management practices?
  - Do you participate in any agricultural or non-agricultural enterprises that are likely to make it easier to enter, or prosper in, the egg industry?

9.2 Financial Readiness (500 points)

- A two-year financial plan (100 points) incorporating:
  - Realistic expected start date of production
  - Balance sheet at the start date, indicating initial assets and liabilities
  - A breakdown of the projected operating costs for the first two years of operation, including an estimate of any applicable insurance premiums
  - A breakdown of the projected capital costs for the first two years of operation
  - Projected monthly cash flow statements for the first two years of operation
  - Projected annual income statements for the first two years of operation
- A ten -year financial plan (30 points) addressing:
  - Expected major capital expenditures
  - Long-term vision for the farm
  - Long-term projections of costs and revenues
- Realistic Budget (180 points) covering the following topics:
  - Reflects the realities of Supply Management (Producer paying price, levy, lease fees, quota etc.)
  - Validity and relevance of the initial assumptions (productivity, efficiency, etc.) used to prepare the budget
  - Budget quality and reliability
  - Gross margin allows the company to meet the needs and ensure a certain sustainability
- Outcome (100 points) expectations and issues:
  - Capital contribution and sources of financing
  - If the source of guarantee and/or financing does not come from a quota or another quota production
  - Guarantees offered
  - Debt structure and forecasts for future needs

- Balance of capitalization and distribution of capital (ex. land, buildings, equipment, machinery, etc.)
- Infrastructure costs:
  - Realistic
  - Impact on balance sheet

- Working Capital (90 points) options and requirements:
  - Use of a line of credit for operations before profitable
  - Forecasting flexibility to deal with unforeseen events (ex. construction delays, demonstrates the ability to withstand a poor performing flock, etc.)
  - Break-even point and planned actions in case it is not reached
  - Use of cash and profits generated

9.3 Details related to the proposed production facility and operating practices including (100 points):

- How the production facility will meet Animal Care Program requirements
- Description of how laying hens will be depopulated in a manner that complies with the Animal Care Program
- How the production facility will meet Start Clean Stay Clean Program requirements
- A plan to source (purchase) or grow pullets
- A description of why you have chosen the planned housing system that considers market needs and business opportunities (NOTE: If the Applicant plans to produce free run or organic eggs the plan should include grader sign off on the production or a description of how the Applicant will market their own eggs)
- A description of how the Applicant will manage worker safety on the operation
- A description of planning considerations including:
  - An overview of the functional location and locations of buildings
  - Any odour mitigation plans and/or considerations of prevailing winds
  - A plan for disposal of end of lay hens and/or mortalities
  - An explanation of access and traffic patterns

9.4 The Applicant's plan for sale of eggs relative to the planned location. The Applicant must include one of the following (this requirement must be met, or the application will be dismissed):

  - Proof that the production facility will be within economic access of a grading facility
  - Grading station sign-off that they will pick up the eggs from the planned location
  - Plans to become a producer-grader

- Location, Biosecurity, and Environmental Considerations including (100 points):
  - The location of any residences located on the farm site or within 500 metres
  - Reasonable assurance that the farm will meet National Resource Conservation Board (NRCB) guidelines and will not be at odds with any municipal development plans or other development restrictions

- A description from the applicant on how the barn design will meet environmental performance criteria including plans for manure, mortality, water, and energy management
- A description of how the barn will be laid out to maximize biosecurity
- A description of intended biosecurity practices
- A list of any other poultry production within a 5 km radius
- If there are plans to renovate an existing building, the history of the building and any livestock it was previously used for

9.5 A Risk Mitigation Plan that includes (100 points):

- A list of potential risks to the viability or stability of the farm (ex. production permit cut, not full access to guaranteed lease, disease outbreak or disease-based depopulation, fire, flood, etc.
- A description of the magnitude each risk, the probability of each risk, and potential impact to the egg farm of each risk
- A plan and/or procedure that will be implemented to minimize the probability of, and/or impact of, each identified risk

10. Business Plan Scoring Process

10.1 EFA will engage the services of an independent consultant to evaluate the business plan provided by each eligible applicant that passes the initial screening.

10.2 An applicant must score a minimum of 750 out of 1,000 points for the business plan to qualify to be interviewed for the NEP.

10.3 Any applicant scoring less than 750 points will not be given further consideration.

10.4 The independent consultant will note the deficiencies for any non-qualifying submissions.

10.5 The business plan evaluation and individual scores of applicants will remain confidential.

11. Business Plan Notification Process

11.1 After the independent consultant has reviewed all applications, all applicants will receive formal notification from EFA regarding the status of their applications.

11.2 Applicants that score 750 points or more on their business plan will be notified that they have moved forward to the performance deposit process.

11.3 Applicants that score 749 points or less on their business plan will be notified that they will not be given any further consideration and will be provided with feedback regarding areas for improvement.

12. Performance Deposit

12.1 EFA is seeking applicants who demonstrate a genuine interest in investing long term in the egg industry in Alberta. The design of the review and selection process is intended to support applicants displaying “genuine interest” and will identify the best possible future egg producers. The performance deposit has been established to minimize the risk of frivolous applications; and for applicants to demonstrate their commitment to establishing an economically sustainable independent egg production unit.

12.2 Qualifying applicants that score 750 points or more on the business plan must post a $10,000 performance deposit 30 days after being notified of their success.

12.3 Performance deposits shall be accepted and deposited upon receipt and held in a non-interest-bearing account.

12.4 Qualifying applicants whose performance deposits are not submitted, received after the deadline, or returned due to non-sufficient funds (NSF) shall be excluded from any further consideration.

12.5 Performance deposits shall be refunded when:

- The qualifying applicant was not selected through the draw process.
- The qualifying applicant did not receive an average of 75% on the interview process.
- The selected qualifying applicant has received their allotment and their first flock is placed in their facility at 19 weeks of age prior to the 3 year production deadline.

12.6 Qualifying applicants that do not commence production within the three-year time frame, will forfeit the performance deposit which will be transferred to EFA's general revenue or Sustainable Growth Fund.

13. Interview Committee

13.1 EFA will develop an Interview Committee of a minimum of 3 registered producers to participate in the interview process for each qualifying applicant. The Committee will consist of a cross section of producers with different production types/demographics and shall include 2 members of the Board, and a minimum of 2 staff members. Depending on the number of applicants, the committee will have the option to split into 2 teams to conduct interviews.

13.2 Interview Committee members will be required to sign a confidentiality agreement.

13.3 Interview Committee members will be entitled to receive compensation and reimbursement of expense as per EFA's Operational Expense Policy.

13.4 Interview Committee members will receive an electronic copy of all of the qualifying applications.

14. Interview Process

14.1 All qualifying applicants who have scored 750 points or greater on their business plan and have submitted their performance deposit will be interviewed by the Interview Committee.

14.2 The Interview Committee will use a series of 10 standard questions to interview each candidate.

14.3 Each Interview Committee member will anonymously score each question out of 10 points.

14.4 Applicants that score 74% or less during the interview will not be given any further consideration and will be provided with feedback regarding areas for improvement.

14.5 All qualifying applicants who have scored 75% or greater on the interview will either:

- be awarded the New Entrant Permit and notified, or
- their name will be entered into a random draw to be conducted for the allotment of the pre-determined amount number of production permits available.

15. Random Draw Process

15.1 Should the amount of quota in the New Entrant Quota Pool be insufficient to backstop all qualifying applicants' requested production permits, a random draw will be held to determine allotments of available production permits to approved

applicants. Available production permits to approved applicants will be determined on the basis that the quota in the New Entrant Quota Pool shall not be less than the quota required to backstop and support all production permits issued to all New Entrants including approved applicants plus an additional minimum of 1,500 additional production permits. The drawing process will continue until all available production permits are allotted to approved applicants.

15.3 Applicants will be notified that they did score 75% or greater during the interview and if their name was drawn or not.

16. Training Sessions

16.1 Training sessions will be offered once the New Entrants have been selected. Training may include:

- Welcome to the Industry Meeting
- Providing access to the producer website
- Webinars/self-study courses on each topic
- One-on-one training

17. Receiving and Producing New Entrant Production Permits

17.1 New Entrants that qualify for a NEP licence will be issued an initial production permit as of the 19-week date of their first flock.

17.2 The initial production permit issued will be the lower of the number of layers applied for or confirmed layer capacity of the New Entrant's egg operation up to a maximum of 1,500 layers. This permit will not be adjusted in the future even if additional capacity is created.

17.3 New Entrants who currently have 300 unregulated birds, must discontinue this production no later than 30 days after becoming a New Entrant and before placing their initial flock in accordance with their production permit.

17.4 The New Entrant has three years to activate their production permit. During this 3-year period, the New Entrant must complete progress reports every 6 months per the schedule provided to the New Entrant, to demonstrate that they are on schedule to go into production within 3-years of being accepted into the program. New Entrants that fail to provide progress reports, and / or are not following their plan will have their file sent to the Board and could be eliminated from the New Entrant program.

17.5 New Entrant production permits will be reviewed and renewed annually. Should the New Entrant maintain their production permit and successfully operate their egg operation in compliance with all EFA regulatory and policy requirements, the New Entrant's production permit shall be converted to allotted quota to the New Entrant.

17.6 New Entrants must remain in continuous production unless renovations to their egg production facilities are required, or they are required cease production because of a disaster or disease related issue.

- Renovations: downtimes cannot exceed more than 3 months unless otherwise authorized and approved prior by the Board of Directors.
- Disaster: downtimes must be discussed and approved shortly after the disaster by the Board of Directors.
- Disease: downtimes are as long as CFIA and / or CEIRA insurance provides coverage. Should the New Entrant be out of production longer, the additional time out of production is added to the continuous production

time requirement before the production permit is eligible to be converted to quota.

- 17.7 New Entrants that go out of business or fail to produce fully under their production permit during the continuous production 10-year period will forfeit their production permit and the right to conversion of their production permit to quota.

17.8 New Entrants may purchase or lease-in layer quota, however they are not permitted to lease out production permits assigned to them. Production permits are non-transferable except in accordance with this Policy.

17.9 New Entrants must continue to maintain full ownership of the production facilities (land, buildings and equipment) to maintain their New Entrant production permit.

17.10 A colony New Entrant loses all privileges of a daughter colony regarding quota transfers. As such, a colony New Entrant may not receive quota transfers from a mother colony, until after the production permit has transferred to the New Entrant colony.

17.11 A non-colony New Entrant may not receive a quota transfer from a related party, until after the production permit has been converted to quota allotted to the New Entrant.

17.12 In addition to the New Entrant Program, all EFA Regulations and Policies apply to the New Entrants, except if specified in this policy.

18. Guaranteed Access to Leased Quota

18.1 In addition to the production permit, New Entrants will be guaranteed access to lease a maximum of 4,000 units of quota from the New Entrant Quota Pool, conditional on them maintaining their initial production permit as adjusted from associated increases/decreases.

18.2 Lease fees from the New Entrant Quota Pool will have reduced lease fees for the first 5 years of production. The lease fee for their first production cycle will be waived with applicable lease fees increasing by 20% every year until the 6th year when the lease rate would be at the full value.

18.3 Guaranteed leases from the New Entrant Quota Pool:

a) Is reduced by any New Entrant production permit increases.

b) A New Entrant's guaranteed lease will be reduced by the amount that their access to issued quota exceeds the provincial flock size established in the year of award. Access to issued quota includes:

Purchased quota
Quota allocations
New Entrant production permits & increases
New Entrant production permits & increases converted to Quota

Example:

- In the year of award, the average flock size was 18,000.
- The New Entrant currently has a capacity of 25,000.
- A New Entrant has purchased quota and has had allocations for a total of 17,500
- Their production permits and increases total of 2,500.
- If the New Entrant did not purchased quota, they would have access to 5,500 – 2,500 = 3,000 guaranteed leases.
- Their access to issued quota is 17,500 + 2,500 = 20,000.

- The amount that their access to issued quota exceeds the average provincial flock size, when awarded is 20,000 – 18,000 = 2,000
- Access to guaranteed leased quota 3,000 – 2,000 = 1,000.

c) Is available to the New Entrant, even after the New Entrant production permit is converted to quota.

d) Nontransferable to any other party. The New Entrant(s) that applied and were accepted to the program can not have a change in beneficial or legal ownership.

18.4 New Entrants that would like to lease from the Quota Leasing Pool are required to apply for leased quota when Quota Leasing Pools are run. However, during the New Entrants' first 2 flock cycles, they may access the guaranteed leased quota at the discretion of the Board outside of the Quota Leasing Pool deadlines once their facility is verified. Any quota leased beyond the New Entrant Quota Pool guaranteed leased to New Entrants must come from the Quota Leasing Pool per the rules and fill rate of EFA policy 9.30.

18.5 Lease fees generated will be put into the Sustainable Growth Fund to the maximum threshold and then directed to the Provincial Industrial Product Fund.

19. New Entrant Production Permit Increases and Decreases

19.1 New Entrant production permits are subject to ongoing adjustments on a pro-rata basis whenever there is a general provincial quota allotment increase or decrease.

19.2 New Entrants who do not have the capacity to place production permit increases plus utilization, will not be eligible to receive increases, as of October 31, 2024.

a) Partial production permit increases plus utilization will be allowed, if applicable.

b) New Entrants will be eligible to past production permit increases that were not awarded, due to the New Entrant not having the capacity if the following are true.

- Capacity is increased and verified prior to the New Entrants conversion date.
- The New Entrant places a flock in the increased capacity with a 19-week date prior to the New Entrants conversion date.
- The New Entrant maintains continuous production per 17.6.

19.3 Prior to October 31, 2024, New Entrants that received a production permit plus utilization exceeding their capacity, they will not have their production permit decreased and will be allowed to continue to lease out the production permit plus utilization exceeding capacity.

20. Production Permit Transfers

20.1 New Entrant production permits are transferable only in accordance with this section. EFA Polices 9.2 (Quota Transfer without Production Facilities) & 9.34 (Quota Exchange) do not apply to New Entrant production permits.

20.2 In the unfortunate case of the death of a New Entrant, the beneficiary may present a letter to the EFA Board on their wishes to continue to produce under the New Entrant production permit. Other requirements or documents may have to be met or supplied at the Boards request.

20.3 New Entrant production permits licenced to corporations or partnerships, requires the approval of the EFA prior to a change in beneficial or legal ownership or control.

20.4 New Entrant production permits can be transferred from a New Entrant to a company owned by the New Entrant, or from the company owned by the New Entrant to the New Entrant, upon Board approval, and applicable fee.

21. Release of New Entrant Production Permit

21.1 If a New Entrant decides to return their New Entrant production permit to EFA at any time prior to the 10-year completion period, a Release of Production Permit is to be signed and on the effective date, the production permit will be cancelled in the name of the returning New Entrant and the Board will adjust the New Entrant Quota Pool accordingly.

22. Annual Renewal of Production Permits

22.1 New Entrant production permits will be renewed on an annual basis once compliance has been assessed. The assessment will include license qualification, compliance with reporting, review land title and corporate structure (if applicable) to ensure ownership has not changed.

23. Conversion from New Entrant Production Permit to Quota

23.1 New Entrant production permits will be converted to equivalent quota upon the New Entrant being in continuous production from the placement of the first flock, until 10 years from the issuance date of the production permit and being in good standing with the Board.

23.2 New Entrants that have production permits that initiated from either the MDLP, 2014 New Entrant Program or 2015 New Entrant Program will be converted to equivalent quota per dates communicated in annual New Entrant Production Permit letters.

23.3 Quota that is converted from a New Entrant production permit to quota is exempt from the requirement for the quota to be in continuous production for an additional 3 years, per 13.2(2) of the *Marketing Regulation* and EFA Policy 9.2

24. Registration of Mortgage or Financial Interest

24.1 Section 28 and 28.1 of the *Marketing Regulation* does not apply to New Entrant production permits.