



## OPERATING POLICY

<b>Policy #:</b>	<b>9.25</b>
<b>Section Heading:</b>	<b>Quota &amp; Production Facilities</b>
<b>Policy Title:</b>	<b>New Entrant Program (NEP)</b>

### POLICY

Last Updated:

November 15, 2022

### 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 producers 1,500 birds of quota and required them to operate it for 10 consecutive years before they were able to sell it. This program was later modified in 2016, by allowing new entrants to guaranteed access to lease up to 3,500 birds 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 6<sup>th</sup> year of operation.

The new program launched in 2021 will build on the current program, by increasing the amount of birds the new entrant can access up to 4,000 birds and allows the new entrant to lease from the new entrant pool until such time as the new entrant reaches the industry average flock size.

### 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 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 egg quota to be issued to successful applicants.

### Objectives

The program objectives are to:

- Provide access to quota to assist those wanting to enter the industry.
- Ensure that new entrants selected by the program will remain actively engaged in the industry and ultimately transition the egg operation to future generations.
- The program creates a viable business opportunity. (Note: This does not necessarily mean that it will be a self-sufficient operation whereby the operator is 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 pool 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 who:

- 1.1 Has never before received a quota allocation from the Egg Farmers of Alberta.
- 1.2 Is not a current shareholder of a company which has received a quota allocation from the Egg Farmers of Alberta.

### **2. New Entrant Quota Pool**

- 2.1 A New Entrant Quota Pool shall be established by EFA for the assignment of quota to new entrants as prescribed in the program

### **3. Allocation of New Entrant Quota**

- 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.
- 3.2 The program will be run on annual basis provided there is enough quota available in the new entrant pool for at least 3 producers to receive the 1,500 bird allotment plus the guaranteed lease of up to 4,000 birds.
- 3.3 Access to the guaranteed lease of up to 4,000 birds is conditional on maintaining the initial allotment of 1,500 birds along with the associated increases/decreases issued to the new entrant.
- 3.4 The maximum amount of quota available to be distributed in any one year will be the equivalent of 8 producers.
- 3.5 Quota not required to satisfy the program will be placed in the general leasing pool.

### **4. Eligibility Requirements**

- 4.1 An applicant shall be a "person" as defined in the Egg Production & Marketing Regulations being AR 026/22 as amended.  
*"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).
- 4.2 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.
- 4.3 Only one application per married couple or common-law couple is allowed.
- 4.4 An applicant that is a Hutterite Colony shall be fully independent from any other Hutterite Colony to be eligible.
- 4.5 Applicants must submit a completed application form and a non-refundable application fee of \$1,000 plus GST (GST Reg #122224538) via electronic transfer or a certified cheque/money order payable to the Board.
- 4.6 Applicants must include a written business plan (see section 7 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. Producers who need to build a new facility must select an alternative housing system (i.e. not conventional). However, if the production facilities currently have conventional cages, the new entrant is free to use those facilities until the phase out date.
- 4.7 Applicant(s) must be a Canadian citizen or permanent resident of Canada.
- 4.8 Applicant(s) must be a permanent resident in the Province of Alberta.
- 4.9 Applicant(s) must be at least 18 years of age at the time of application.
- 4.10 Applicant(s) that are successful in being selected to receive a new entrant allotment agree to the publication of their identity including details of individuals and representatives.
- 4.11 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.*
- 4.12 Applicants must submit a letter of support from their financial institution or from whoever the capital is coming from.

## 5. Application Process

- 5.1 EFA will provide public notice of the existence of the amount of quota that is available for the New Entrant Program.
- 5.2 Interested applicants who contact EFA will be provided with an electronic information package (either online or downloaded on a flash-drive brought to us by the applicant) that will include all necessary information regarding Regulations, Policies and any programs operated by EFA or EFC; Note: In the event that the applicant does not have access to the internet or does not live near the EFA office, we will provide a flash drive with the information package for a pre-paid fee of \$50.00.

- 5.3 Applications must be received by the EFA office in a **sealed envelope** or by electronic submission by the deadline date. The outside of the envelope must be clearly marked "New Entrant Program". For confidentiality purposes, none of the envelopes will be opened until the deadline for the program has passed and electronic submissions will be held in confidence by the Logistics Coordinator until the deadline is passed. Any applications received after the deadline shall be returned to the applicant.
- 5.4 The EFA Board of Directors may, at its sole and exclusive discretion, restrict the allocation of New Entrant Quota.

## 6. Initial Application Screening

- 6.1 Applications received will be reviewed for eligibility by the General Manager (and/or her 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.
- 6.2 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.

## 7. Business Plan Evaluation

The submitted plan will be evaluated based on the following criteria:

- 7.1 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 including a discussion on:
    - 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?
- 7.2 Financial Readiness (500 points)
  - A two-year financial plan (100 points):
    - 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 (90 points):
  - Expected major capital expenditures
  - Long-term vision for the farm
  - Long-term projections of costs and revenues
- Realistic Budget (120 points):
  - 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):
  - 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
  - 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

7.3 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 producer 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
- 7.4 Location, Biosecurity, and Environmental Considerations including (100 points):
- The Applicant's plan for sale of eggs relative to the planned location. The Applicant must include one of the following:
    - 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
  - 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
- 7.5 A Risk Mitigation Plan that includes (100 points):
- A list of potential risks to the viability or stability of the farm (ex. quota 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

## 8. Scoring Process

- 8.1 EFA will engage the services of an independent consultant to evaluate the business plan provided by each eligible applicant.
- 8.2 An applicant must score a minimum of 750 out of 1,000 points for the business plan.
- 8.3 Any applicant scoring less than what has been outlined will not be given further consideration.
- 8.4 The independent consultant will note the deficiencies for any non-qualifying submissions.
- 8.5 The business plan evaluation and individual scores will remain confidential.

## 9. Notification Process

- 9.1 After the independent consultant has had the opportunity to review all applications, all applicants will receive formal notification from EFA regarding the status of their applications.



- 9.2 Applicants that score 750 points or more will be notified that they have moved forward to the performance deposit process.
- 9.3 Applicants that score 749 points or less will be notified that they will not be given any further consideration and will be provided with feedback regarding areas for improvement.

## **10. Performance Deposit**

- 10.1 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.
- 10.2 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.
- 10.3 Performance deposits shall be accepted and deposited upon receipt and held in a non-interest-bearing account.
- 10.4 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.
- 10.5 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.
- 10.6 Qualifying applicants that do not commence production within the three-year time frame, will forfeit the deposit which will be transferred to EFA’s general revenue or Sustainable Growth Fund.

## **11. Interview Committee**

- 11.1 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 all members of the Board.
- 11.2 The Committee members will be required to sign a confidentiality agreement.
- 11.3 Committee members will be entitled to receive compensation and reimbursement of expense as per EFA’s Operational Expense Policy.
- 11.4 Committee members will receive copies of all of the qualifying applications.

## **12. Interview**

- 12.1 All qualifying applicants who have scored 750 points or greater on the business plan and have submitted their performance deposit will be interviewed by the Interview Committee.
- 12.2 The Interview Committee will use a series of 10 standard questions to interview each candidate.
- 12.3 Each Interview Committee member will anonymously score each question out 10.

### **13. Random Draw**

- 13.1 Should the total number of birds requested by all qualifying applicants exceed the number of birds available, a draw will be held to determine the allotments. The drawing process will continue until all birds are allocated or the remaining birds is less than a lot, leaving any remaining birds in the New Entrant Pool.
- 13.2 All qualifying applicants who have scored 75% or greater on the interview will be entered into a random draw to be conducted for the allotment of the pre-determined amount available.

### **14. Receiving and Producing the New Entrant Initial (1,500 bird) Allotment**

- 14.1 The new entrant's initial allotment will be issued in the form of a permit to producers who qualify for licence to a maximum of 1,500 birds adjusted to capacity.
- 14.2 The initial permit issued will be the lower of the amount of birds applied for or the confirmed capacity of the new entrant's production facility as of the date the new entrant places their first flock, ie. the 19-week date. This permit will not be adjusted in the future even if additional capacity is created.
- 14.3 New entrants who currently have 300 unregulated birds, must discontinue this production when they are issued a new entrant production permit.
- 14.4 The new entrant has three years to activate and will not be issued a production permit for this allotment until such time as the new entrant is ready to go into production.
- 14.5 New entrant permits will be reviewed and renewed annually until year 10 when the permit is allocated as quota.
- 14.6 The new entrant will remain in continuous production unless renovations are required or he or she must stand down as a result of a disaster or disease related issue. Downtimes cannot exceed more than 3 months unless otherwise authorized by Board of Directors.
- 14.7 Producers who go out of business or fail to produce their initial allotment during the 10-year period will forfeit their right to the new entrant allotment plus any associated increases/decreases and the birds will be returned to the New Entrant Pool for re-allocation.
- 14.8 New entrants may purchase or lease-in layer quota, however they are not permitted to sell birds from their initial allotment plus any associated increases or decreases nor are they permitted to lease out birds from their initial allotment.
- 14.9 New entrants must continue to maintain full ownership of the production facilities (land, buildings and equipment) in order to maintain their new entrant allotment.
- 14.10 In addition to the New Entrant Program, all EFA Regulations and Policies apply to the New Entrants.

### **15. Guaranteed Access to Lease**

- 15.1 In addition to the initial allotment, new entrants will be guaranteed access to lease a maximum of 4,000 birds from the new entrant pool, conditional on them maintaining their initial allotment along with the associated increases/decreases issued to the new entrant and providing there are birds available in the new entrant pool.
- 15.2 Lease fees will be reduced for new entrants for the first 5 years of production. The lease fee for their first production cycle will be waived with lease fees



increasing by 20% every year until the 6th year when the lease rate would be at the full value.

- 15.3 The amount of birds the new entrant can access for guaranteed lease will be reduced by any quota increase allocations.
- 15.4 The amount of birds the new entrant can access for guaranteed lease will be reduced by any quota transferred to them once the requirements of the New Entrant program have been completed as well as allocations on that amount.
- 15.5 The amount of birds the new entrant can access for guaranteed lease will not be impacted by any purchase of quota until such time as the new entrant acquires (through purchase and increases) quota that brings their allotment to the provincial average flock size (established in the year of award) at which time the access for guaranteed lease will be reduced by the amount they exceed the average provincial flock size.
- 15.6 Lease fees generated will be put into the Sustainable Growth Fund to the maximum threshold and then directed to the Provincial Industrial Product Fund.

## **16. General Quota Increases and Decreases**

- 16.1 New entrant allotments (initial allotment plus any quota increases or decreases) will be adjusted on a pro-rata basis whenever there is a general quota increase or decrease.
- 16.2 New entrants who are not able to place the authorized increases will be permitted to lease out that quota through the general pool for up to 10 years.
- 16.3 Quota decreases will be applied to any quota that is in the new entrant pool at the time of the allocation adjustment, any guaranteed leases or birds that have been put into the general leasing pool.

## **17. Quota Transfers**

- 17.1 The new entrant allotment (adjusted for quota increases or decreases) cannot be sold or transferred for 10 years from the initial new entrant permit date.
- 17.2 To further clarify, the new entrant:
  - A change in beneficial or legal ownership of a licensee that is a corporation or partnership requires the approval EFA.
  - A quota transfer 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 is permitted per policy 9.2 Quota Transfer without Production Facilities.
- 17.3 For the purposes of tracking, EFA will activate quota First In, First Out (FIFO). Any decreases in quota will be Last In, First Out (LIFO). In the event a new entrant purchases quota, he/she must activate all increases prior to the purchase plus the purchased quota and operate it for 3 years before the purchased quota can be sold.

## **18. Withdrawal of Lots**

- 18.1 EFA reserves the right to withdraw any or all lots offered under the New Entrant Program at any time before or after the closing time for receipt of applications. Unless and until the EFA has notified the applicant in writing, a contractual relationship (either expressed or implied) is not created with any person submitting an application under the New Entrant Program.
- 18.2 Applications or performance bonds will be refunded.



## **19. Release of Quota**

- 19.1 If a New Entrant decides to return their quota to EFA at any time during, a Release of quota is to be signed and on the effective date, the quota will be returned to the New Entrant pool for re-allocation.

## **20. Information Session**

- 20.1 An information session will occur between the launch and application date and will consist of a live and/or recorded webinar followed by two town hall calls to answer any additional questions. The questions will be summarized and available online.

## **21. Training Session**

- 21.1 Training session 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
  - The establishment of a mentorship program

## **22. Annual renewal of permit**

- 22.1 New Entrant 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 to the Re-Developed Program**

- 23.1 Existing new entrants will be entitled to convert to the new program by March 31, 2021.
- 23.2 An agreement will need to be signed that transfers all existing rights under the existing program to the new program.

## **24. Registration of Mortgage or Financial Interest**

- 24.1 Section 28 and 28.1 of Egg Farmers of Alberta Marketing Regulation (AR 293/97) only apply to owned quota.
- 24.2 Remedies available under section 28(6) would only apply to owned quota and not to the NEP birds should default occur as the quota is owned by the Board.