

To: Workshop Participants

From: Alf Krause, Chair, VMC

Date: February 24, 2016

Re: Workshops Feb 29 / Mar 1, 2016

Accompanying are background notes provided in advance of the Workshops VMC is holding on Feb 29<sup>th</sup> in Nanaimo and March 1<sup>st</sup> in Delta. George Leroux has been recruited by our General Manager to assist in these workshops aimed at delving deeper into solutions. A brief profile of George that includes his credentials, skillset, and industry knowledge is attached to these background notes.

The purpose of the Workshops is to engage participants interested in the storage crop vegetable sector in BC to discuss, understand and consider possible solutions for problems that have arisen in managing and administrating regulated marketing authorities for these vegetables in B.C.

This discussion will help us determine the strategic direction for Vancouver Island and ensure orderly marketing best serves the needs of Vancouver Island and the BC industry. We are committed to implementing a solution that is based on a fair and inclusive process that observes a common vision for the industry.

At the sessions, scenario descriptions (or hypothetical case studies) will be distributed for analysis and assessment by all attendees. Please come to the workshop prepared to debate alternatives with a view to work together in finding solutions with your biases and opinions transparent and in the open.

The Workshop will be led by George Leroux. He will be supported in the Workshop by Andre Solymosi, VMC General Manager. George and Andre have worked together on and off over the last decade. Please come prepared to constructively discuss how we, collectively, move our industry forward on behalf of all producers.

A handwritten signature in blue ink, appearing to read 'Alf Krause', is written over a horizontal line.

Alf Krause, Chair

VMC – Workshops  
Monday, February 29<sup>th</sup>, 2016  
**NANAIMO**

11:00 AM – 3:00 PM  
Working Lunch to be provided  
**Coast Bastion Hotel**

*Address: 11 Bastion St, Nanaimo, BC V9R 6E4*

**Workshop Outline**

<b>1100</b> <sup>1</sup>	Introductions	
1110	Workshop Objective	Define clear outcomes for the meeting
1115	Issues Identification	Slide show of “Context” - Get the issues on the table
1130	Vision & Strategy	Identification of Purpose, Vision and Strategic Direction - Purpose – why does VMC exist? - Vision – where do Producers want the industry to be in 5 yrs? ... 10yrs? - Strategy – how will Producers compete to win?
1215	Criteria	Review SAFETI and ensure understanding - Form attendees into small groups - Hand-out Criteria Worksheets to each group
1230	Lunch / Break	
1300	Scenario 1	Current Situation – leave rules & procedures as they are
1330	Scenario 2	Eliminate DA
1400	Scenario 3	Implement Provincial DA
1430	Scenario 4	Provide Exemptions for Vancouver Island
1445	Summary & Wrap-up	Summarize key findings from day Commit to next step
1500	Finish	

Workshop Process

1. The purpose of the workshops is to engage all participants in problem solving.
2. Attendees will be challenged to argue points of view opposite to their apparent bias or opinion.
3. Alternative scenarios will be put forward for debate and assessment.
4. All learning from the discussions will be compiled for the VMC to consider as it charts a path forward for Vancouver Island and the regulated vegetable sector.

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<sup>1</sup> Times are guidelines only. The quality of discussion will determine the actual time spent in each area.

VMC – Workshops  
 Tuesday, March 1<sup>st</sup>, 2016  
**DELTA**

12:30 PM - Lunch  
 Meeting 1:00 – 5:00 PM  
**Delta Town & Country Inn**  
 Address: 6005 Hwy 17A, Delta, BC V4K 5B8

**Workshop Outline**

12:30	Lunch	
1300 <sup>2</sup>	Introductions	
1310	Workshop Objective	Define clear outcomes for the meeting
1315	Issues Identification	Slide show of “Context” - Get the issues on the table
1330	Vision & Strategy	Identification of Purpose, Vision and Strategic Direction - Purpose – why does VMC exist? - Vision – where do Producers want the industry to be in 5 yrs? ... 10yrs? - Strategy – how will Producers compete to win?
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1430	Break	
1500	Scenario 1	Current Situation – leave rules & procedures as they are
1530	Scenario 2	Eliminate DA
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1700	Finish	

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## Issue –

Delivery Allocation (DA) and Agency designation are foundation procedures used by storage crop vegetable producers (Producers) to share market access fairly and equitably under authority granted by the B.C. Vegetable Marketing Commission (VMC). These procedures have not been amended subsequent to the removal of Districts from the Scheme<sup>3</sup> and the General Orders of the VMC. This has provided the potential for individual Producers and Agencies to circumvent the existing DA system with an array of current and potential implications.

Contention with Agency designation on Vancouver Island led the VMC to initiate a Supervisory Review of regulated Vancouver Island Vegetable marketing. This Review arose out of intra- and inter-Agency conflict among Vancouver Island Producers and the inability of VMC to mediate or order resolution to the conflicts. Before a decision can be made on the orderly marketing structure on Vancouver Island it is necessary to address a “vision and strategic direction.”

The Supervisory Review goes to the heart of regulated vegetable marketing. The objective of the review is to define a clear shared vision for the regulated vegetable sector on Vancouver Island, evaluate the strategic options for achieving this, and make a recommendation to FIRB on the marketing structure that supports the interests of the industry.

These 2 issues (Delivery Allocation and Agency Designation) impact Producers when Agencies and Producers compete for supply share, and by extension market share, of local Vegetables.

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<sup>3</sup> Scheme – The B.C. Vegetable Scheme. Where "Act" is used it refers to the Natural Products Marketing (BC) Act, R.S.B.C. 1996, c330

## Vision and Strategic Direction

The VMC is seeking a “vision and strategic direction for the Island ... within the provincial context.”<sup>4</sup>

### Purpose

Before exploring and developing a more robust Vision and Strategy it is first necessary to be clear on the Purpose, or Mandate, of the VMC. Mandate consists of at least 3 elements:

Firstly, why does VMC exist? The Natural Products Marketing Act states:

*2 (1) The purpose and intent of this Act is to provide for the promotion, control and regulation of the marketing of natural products, including*

*(a) the prohibition of all or part of that marketing, and*

*(b) the establishment of biosecurity programs, and the imposition of requirements in relation to insurance, for those engaged in the production of natural products.*

*(3) A scheme may relate to all or part of British Columbia and may relate to one or more natural products or to a grade or class of product.*

Secondly, what are VMC’s Products and Services? The Vegetable Scheme states:

*(2) The scheme is for the promotion and regulation in the Province of the production, transportation, packing, storage and marketing of the regulated product.*

And thirdly, what are VMC’s Customer Markets? The Vegetable Scheme states:

*(3) The scheme applies to persons who produce, transport, pack, store or market the regulated product, and to all kinds and grades of the regulated product.*

VMC is a grower controlled entity. It is comprised of growers. It works for growers. However, it is concerned with the collective good of the community of Producers within a broader economic context rather than the good of particular individuals. This points to the core Purpose of the VMC – the fair arbiter of market access and collaboration across all growers such that market failures are minimized.

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<sup>4</sup> See FIRB website - Supervisory Review of CVI Agencies– 2012 January 7, 2013 paragraph 72.

[http://www2.gov.bc.ca/assets/gov/british-columbians-and-our-governments/organizational-structure/boards-commissions-tribunals/bc-farm-industry-review-board/sup\\_rev\\_cvi\\_agencies\\_decision\\_jan07\\_13.pdf](http://www2.gov.bc.ca/assets/gov/british-columbians-and-our-governments/organizational-structure/boards-commissions-tribunals/bc-farm-industry-review-board/sup_rev_cvi_agencies_decision_jan07_13.pdf)

## Vision

VMC, through a series of consultations, has reported a preliminary vision:<sup>5</sup>

### ***Vision for Vancouver Island***

- *Continued growth in all sectors of regulated vegetables for islanders to continue to move forward in their ability to feed themselves.*
- *All growers, both regulated and non-regulated, are a significant and essential part of strategic growth for the agriculture industry on Vancouver Island. The vision is that of a united group of growers committed to producing a variety of premium-quality products while receiving fair returns, allowing for re-investment in farms, infrastructure, and production capabilities. We want agriculture to continue to survive and flourish on Vancouver Island.*

### ***Vision for the BC Vegetable Industry***

- *Vision for the BC vegetable industry is one where growth is promoted and new growers are encouraged and provided assistance wherever possible.*

Central to these quotes is a vision of expanded production with increased market share for local producers.

## Strategic Direction

Key elements of a strategic direction are found in the quotes above – products, markets, growth, quality, profitability, service, grower unity and attractive opportunity – for Vegetables.

Strategy is a widely used, and overused, term. For the purposes of this work, we will define Strategy as “how we compete to win.” This embodies competitors, competition, differentiation (product, service, price), returns, and investment.

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<sup>5</sup> see VMC website – Supervisory Review – The Future of Regulated Marketing on Vancouver Island – What we Heard – January 28, 2016.

## Current Context

1. Districts were eliminated from the VMC General Orders in April 2009.<sup>6</sup> This led to:
  - a. all Producers of Vegetables in BC being licensed across the province rather than by district.
  - b. Agencies no longer being restricted to securing or representing growers on a District basis – they could compete for supply share province wide.
2. Producer numbers and estimated acreages in Vegetable production are illustrated in the Table below.

	# of Producers*	Van Isle Volume	Mainland Volume	Okanagan Volume
Potatoes – all	61	334	3953	467
Carrots	13	26	422	3
Cabbage	24	29	311	13
Beets	17	13	230	20
Rutabagas	10	0	63	0
Other	12	13	82	80
Total	77 Growers	415 Acres	5060 Acres	583 res

\*Based on number of licenses issued. Does not group together multi-registration farms.

3. Agencies (Marketers) are licensed by the VMC to market and sell Vegetables.
  - a. Producers enter into contracts with Agencies to sell their Vegetables.
  - b. Agencies pool returns to ensure all Producers are treated fairly and equitably in sharing the net returns from the market.
  - c. Agencies are private for profit businesses legally structured as partnerships, co-operatives, or limited liability companies.
  - d. Commercially, all Agencies market and sell Vegetables to maximize profits to Producers.
  - e. Agencies licensed to market Vegetables and the number of Producers contracted with each Agency is provided in the Table below.

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<sup>6</sup> See VMC Website District Policy Decision March 2009  
<http://www.bcveg.com/docs/District%20Policy%20Hearing%20-%20VMC%20Decisiion%20-%20March%2026%202009.pdf>

Agency	% of Total Storage Crop Allocation	# of producers
BC Fresh	78%	57
Okanagan Grown Produce Ltd.	9%	5
Island Vegetable Co-operative Association	5%	7
Fraserland Organic	4%	3
V.I.P. Produce Ltd.	2%	2
Vancouver Island Farm Products Inc.	1%	2
Non-Agency Producer	0%	15
	100%	91

4. Delivery Allocation controls the flow of Vegetables from all Producers to the retail, foodservice and industrial market channels through Agencies.
  - a. In practice, DA is a tool used by Agencies to assist manage the supply side of their businesses.
  - b. Previously, under Districts, DA was administered geographically within the province. This meant a Producer was directed to market through an Agency in the District in which they produced Vegetables. Further, each District was geographically linked to an Agency.
  - c. Presently an Agency can sign up or contract with any Producer in the Province. The change is from single Agency Districts to a multi-Agency provincial situation.
  - d. Agencies compete for market share yet DA has been “agency-specific.” The mechanisms by which DA has been earned, grown, and transferred may no longer work in a competitive multi-Agency environment.
  
5. VMC attempted to address some District removal implications on DA through Amending Order 43. This Order stimulated an Appeal which was upheld by FIRB leaving DA administration exposed to system circumvention.
  - a. DA has, until now, been for all intents and purposes Agency specific. Agencies operated regionally (i.e. Vancouver Island, Fraser Valley or Okanagan) in that they contracted only with growers in their region.
  - b. Today, an Agency can contract with a Producer outside their historic region. They can also market that Producer’s Vegetables in the Producer’s region with is outside the Agency’s historic region. And, the Agency may establish the amount it will contract for without reference to the DA.
  - c. The value accrued by Producers in DA results from years of growing and delivering a quantity and quality of Vegetables. It is like seniority rights that are validated and paid up annually by delivery.
  - d. When an Agency can contract with a Producer without regard for the Producer’s DA, or when an Agency can contract with a Producer with a small DA and the Producer can grow a much larger amount without reference to DA, inequity and fairness issues develop.

## 6. Vancouver Island Regulated Vegetable Sector

- a. There are 10 +/- Producers on Vancouver Island producing and marketing Vegetables. Total Vancouver Island production (DA) represents ~5% of provincial production (DA).
- b. Vancouver Island stakeholders identified a vision for the Island Vegetable sector. This has been reported in VMC's "What was Heard" document.
- c. There are 3 Agencies licensed by FIRB/VMC on Vancouver Island
  - i. Island Vegetable Co-operative Association (IVCA)
  - ii. Vancouver Island Produce (VIP)
  - iii. Vancouver Island Farm Products (VIFP)
- d. Historically these Agencies focused [almost] exclusively on marketing Vancouver Island production on Vancouver Island. With the elimination of Districts, these Agencies had the potential to become provincial in scope. One Agency, IVCA, is contracting with Mainland producers and marketing volume on the mainland.
- e. Vancouver Island Producers and Agencies have identified strong local consumer support for Island grown produce with demand exceeding supply and attractive pricing opportunities. Additionally, there is apparently suitable land available for expansion of production on the Island.
- f. Vancouver Island Producers have identified challenges similar to agricultural commodity producers everywhere – input costs, retailer concentration, aging farmers, high investment capital costs and inadequate operating returns.
- g. Given the local market support, Island Producers would appear to have growth opportunities and the ability to capture prices exceeding commodity market minimums.

## 7. VMC – Greenhouse Case Study

- a. Until the early 2000's greenhouse production and marketing in BC was tightly regulated in terms of Producer and Agency Licensing. In broad terms, the industry operated a single desk seller and awarded licenses to produce much like quota found in supply managed sectors.
- b. In the early 2000's several producers petitioned the VMC and FIRB to secure Agency licenses and to exit from single desk selling. These Agencies were awarded Licenses. Later a 4<sup>th</sup> Agency was established largely for the purpose of providing an umbrella for individual producers who wished to direct market.
- c. Shortly after the new Agency licenses were awarded, regulatory pressure arose on the production allocation (PA) processes employed by the industry and VMC. PA had historically controlled production with an intent to avoid over-supplying markets with the predictable negative impact on selling prices and margins. In the 2000's the industry evolved from single desk to multiple Agencies (marketers) with the majority of production destined for export markets. PA became largely a licensing function by the mid-2000's as attempts to control new production were successfully challenged by people wishing to expand.

## 8. Current Example of DA system failure

- a. IVCA has signed with Mainland producers. They are merely growing their business and that nothing restricts them from offering their services to growers on the mainland.
- b. Let's examine how this looks in practice.
  - i. Producer A has farmed on the Mainland for many years and has earned DA.
  - ii. Historically, Producer A shipped through a Mainland Agency.
  - iii. Today, an Island Agency enters into a contract with Producer A. This assumes VMC approves an inter-Agency transfer.<sup>7</sup>
  - iv. The Island Agency then asks for / contracts with Producer A to grow far in excess of their historic DA, which Producer A does.
  - v. The Island Agency then draws from Producer A without concern for the Producer's historic DA.
  - vi. The Agency is free to sell to customers without any apparent restrictive controls or established rights recognition from the VMC.
- c. And so, the outcome of this scenario is:
  - i. increased seller competition in the local market (i.e. market failure); and,
  - ii. increased supply without concern for DA, the tool by which Producers have historically shared growth equitably (i.e. not equitable treatment).
- d. These implications do not include other potential challenges such as:
  - i. Producer A actually using direct channels to compete in the market of his / her previous Agency (i.e. there is no real overall Agency marketing plan involved); or,
  - ii. Producer A selling his / her DA to another Producer, and then growing without any or very little DA (i.e. realizing liquidity for the goodwill / intangible asset value of years of delivery in a controlled market and then continuing to deliver at the expense of others in the pool).

## 9. The Island Agency Questions

- a. There are 3 Agencies on Vancouver Island representing, regionally, less than 5% of provincial production. For many years there were 2 Agencies on the Island – separated north – south at Duncan (or thereabouts). These were IVCA and VIP.
- b. The northern Agency – V.I.P. – evolved over time as production diminished and greenhouse marketing moved away from single desk. Agency governance was determined by shareholding linked to volumes marketed through the Agency. This led to a change in control and pooling at the Agency accompanied by a falling out among the shareholders.
- c. The VIP minority shareholder group, unable to reconcile with the single majority shareholder, applied for an Agency license and became VIFP. Think of it as a reverse expulsion.

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<sup>7</sup> This is a reasonable assumption since it is hard to envision the conditions for denying the transfer request that would stand up to an Appeal.

- d. The VIFP Agency application has led to more than 3 years of Agency licensing confusion as VMC has been unable to resolve Island inter- and intra-Agency conflict,
  - e. At that brings us today - a Supervisory Review, and certain Mainland Producers have stepped in to challenge the fundamentals of the DA system.
10. The VMC has considerable authorities, subject always to FIRB review and approval, although procedural clarity and enforceability have been challenges.
- a. VMC may License Producers and Marketers, including Agencies, direct production, collect levies, collect information, enforce, and provide exemptions, among other things.
  - b. It is apparent that VMC enforcement has been inconsistent. The underlying reasons bear some examination. They likely include a combination of lack of clarity of common purpose and shared vision and goals, excessive focus on process rather than outcomes, and fear of an enforcement action being over-turned on Appeal. Why this is the case bears further examination by VMC.
  - c. For VMC to develop strong, enforceable rules for Delivery Allocation, Agency Licensing, and Agency monitoring and governance, clarity of common purpose between FIRB and VMC is necessary. The answer to this may be found in why Producers wish to have regulation in the first instance. Hence the call for a Vision and Strategic direction.

## Criteria

FIRB has established 6 criteria, or principles, to assist decision making by the VMC and its producers. These principles are summarized below.

Principle	Focus	Sample Questions	Option Assessment
Strategic	Opportunities, Risks, Challenges	How does this option grow the [local market], improve returns? What commercial challenges does this option create?	
Accountable	Authority of VMC  Stakeholder Interests	How does this option serve the interests of: <ul style="list-style-type: none"> <li>- Producers</li> <li>- Agencies</li> <li>- Market Channels</li> </ul>	
Fair	Procedural fairness	To implement this option, what rules are necessary to ensure fairness at the: <ul style="list-style-type: none"> <li>- Governance level <ul style="list-style-type: none"> <li>o representation</li> <li>o rules</li> <li>o Agency oversight</li> </ul> </li> <li>- Administrative level <ul style="list-style-type: none"> <li>o implementation</li> <li>o responsiveness</li> </ul> </li> </ul>	
Effective	Doing the right thing	Does this Option lead to enforceable regulation that ensures fair and equitable market access for Producers <ul style="list-style-type: none"> <li>- Producer supported</li> <li>- Agency supported</li> </ul>	
Transparent	Open & accessible processes	Does this option have the potential for clear rules and procedures? <ul style="list-style-type: none"> <li>- How?</li> <li>- How not?</li> </ul>	
Inclusive	Ensure stakeholder involvement	What consultation process would you envision to finalize the details around this option? <ul style="list-style-type: none"> <li>- Activities</li> <li>- Time lines</li> <li>- Who is involved</li> </ul>	

## **Options / Scenarios**

VMC has identified 4 options, or scenarios, to examine in more detail through a workshop format. The purpose of working through the scenarios is to ground the conversation in clearly plausible options that the participants can relate to in practical terms. The totality of discussion will then be mashed together to look for common themes, areas of agreement and, as is typically the case, greater clarity on areas of disagreement.

The Options to be explored through the Workshop are:

1. Maintain the current situation
2. Establish a Provincial Delivery Allocation
3. Eliminate Delivery Allocation
4. Authorize exemptions targeted to Vancouver Island