

BRITISH COLUMBIA VEGETABLE MARKETING COMMISSION

DECISION REGARDING OVERBASE DELIVERY ALLOCATION

PANEL OF THE COMMISSION:

George Leroux, Chair
Linda Delli Santi, Vice Chair
John Slater, Member
William Cheuk, Member
Tom Reinhart, Member

Issue

1. B.C. Fresh anticipates that it will have fully utilized Period C Potatoes All Other Delivery Allocation for potatoes prior to the end of the period on January 31, 2008.
2. For the above-referenced period B.C. Fresh anticipates that it will require approximately 30% more potatoes than the base delivery allocation to meet its market requirements for Period C. This additional amount is termed “overbase” herein.
3. There are 33 registered, licensed producers in District 1 having a Delivery Allocation for the referenced Delivery Allocation Period.
4. Producer’s share of the Delivery Allocation varies from extremely small (<0.1%) to relatively large (>5%) of total Period C Delivery Allocation.
5. Overbase allocation has been practiced in 2 ways in the past:
 - a. “rolling over quota” (‘pro-rata’), which starts all Delivery Allocations at “0” once 100% of the period delivery allocation has been shipped, and assigns overbase proportionally to each licensed producer’s share of the total Allocation for the period based on their existing Delivery Allocation; and,
 - b. “one for one” (‘equal’), which gives each holder of a Delivery Allocation an equal allocation of overbase regardless of the size of the producer’s base Delivery allocation.
6. In addition, the ‘equal’ approach has contemplated grouping licensees together based on family farm affiliation. In this approach, if there are multiple registrations among a farming family the Commission might consider them as a single unit eligible for only one share of the equal overbase allocation.
7. B.C. Fresh has requested that the Commission clarify the rules for overbase allocation. The existing procedures have resulted in divergent interpretations among producers.

Principles

8. Delivery Allocation is calculated based on a Producers average 5-year shipments for each period. It provides the opportunity for a registered producer to deliver potatoes or other regulated crops, based on their historic market share, to meet the Agency's sales requirements. In turn, this provides cash flow for the producer and reduces storage costs and potential cull rates since the potatoes need to be stored for a shorter period of time.
9. All producers with marketable potatoes in demand by the Agency and in storage during Period C are considered to be seeking to deliver additional volume.
10. All producers have per unit costs of producing and storing potatoes. While large producers may enjoy some efficiencies from scale economies their costs are nevertheless relative to the size of their operation. For greater clarity, large producers can be reasonably expected to have greater investments and greater cash flow needs on an absolute dollar basis.
11. Delivery Allocation is a right granted by the Commission based on prior delivery performance.
12. As a matter of policy, the Commission takes the position that producers with relatively small allocations who are seeking to grow their potato business should be provided an accelerated opportunity to do so.
13. The Commission takes the position that it is more efficient for Agencies to have producers with larger allocations and who are seeking to grow by serving existing, expanding, and new markets.

Options

14. The Commission has the following options to direct storage crop Agencies to provide:
 - a. each of its licensed producers an equal volume delivery opportunity;
 - b. the overbase opportunity to all its licensed producers pro-rata to their existing base Delivery Allocation; and,
 - c. the overbase opportunity on some hybrid basis whereby a proportion of the overbase is allocated pro-rata and a proportion equally.

Equal Allocation

15. The Equal Allocation option provides each producer an equal share of the overbase opportunity irrespective of the producer's investment or existing Delivery Allocation. The Commission notes that allocating equally would provide [35%] of the licensed producers, who collectively represent less than 2% of the base allocation, an overbase allocation greater than their base allocation. Additionally, it would provide the top 20% of licensed producers an allocation of 10-20% of what they would receive under a pro-rata allocation.

Pro-rata Allocation

16. The Pro-rata option allocation provides each producer a share of the overbase opportunity equal to their existing share of the base allocation. The Commission notes that allocating pro-rata would provide 20% of the licensed producers representing 80% of the base allocation a

higher allocation than they would receive under an equal allocation protocol. Additionally, 35% of the licensed producers holding, in aggregate, less than 2% of the base allocation would not receive the 35% of overbase allocation that they would under an equal allocation protocol.

Opportunity to Grow

17. The Commission is aware that certain producers with small allocations may have limited supplies to market in the balance of Period C, while others with small allocations may be seeking an opportunity to grow their base allocation. Producers with small allocations who have limited supplies will not likely be impacted by the allocation approach chosen while those having potatoes in storage have a clear interest in which procedure is chosen. If the procedure is pro-rata their opportunity to grow is materially lower than if the procedure is equal allocation.
18. The Commission takes the position that it is sound marketing policy to provide new and small producers the opportunity to grow their businesses. Nevertheless, this must be balanced with recognition of the investments and commitments made by well established larger producers who have earned their historic market share over time.

Decision

19. The Commission takes the position that a registered, licensed producer is eligible to participate in its own right. Accordingly, the Commission does not endorse a procedure that groups farms together on the basis that they are related by way of family. If families subdivide their businesses for reasons specific to their business plans this should not necessarily advantage or disadvantage them under the Commission's regulations.
20. The Commission directs that storage crop Agencies allocate the overbase opportunity on a pro-rata basis subject to the accelerated growth opportunity to be provided to producers holding smaller allocations.
21. The Commission directs that B.C. Fresh make a reasoned estimate of the amount of overbase delivery that will be required to the end of Period C. This estimate is to be provided to the Commission no later than December 28, 2007.
22. The overbase allocation is to be split into 2 pools:
 - a. 80% of the overbase amount is to be allocated pro-rata to base Delivery Allocation; and,
 - b. 20% of the overbase amount is to be made available to producers holding less than 3% of the total base allocation on an application basis and subject to procedures set down below.
23. Licensed producers eligible for the accelerated growth allocation will be contacted by the Commission by Dec 19, 2007. Each eligible producer will be required to reply to the Commission by no later than Dec 28, 2007 with the following information:
 - a. The volume they have available to deliver during the balance of period C; and,
 - b. The amount, up to 20 tonnes, that they would wish to be allocated for delivery during the balance of period C.

24. Failure to advise the Commission by the close of business on Dec 28, 2007 will result in the producer being ineligible for the 2007/08 Period C overbase pool.
25. The Commission will, upon receipt of all applications by producers eligible for the accelerated growth program, allocate the amount in the 20% overbase pool up to 20 tonnes each based on ability to deliver (i.e. sufficient storage volume).
26. Any amount in the accelerated growth pool not allocated to producers eligible for the pool will be distributed pro-rata to producers not in the pool.
27. The Commission will make all calculations and advise B.C. Fresh of each producers overbase allocation on or before January 2, 2008.
28. Delivery Allocation calculations for the 2008/2009 will be calculated based on actual shipments using the 5-year shipment average for Period C.
29. After the close of Period C, the Commission will seek comment and input from producers concerning the procedure used in 2007/08 Period C overbase allocation for the purpose of amending the policy and procedure, if necessary, for future overbase opportunities.

Issued this 18th day of December 2007 at Surrey, British Columbia



George Leroux, Chair
BRITISH COLUMBIA VEGETABLE MARKETING COMMISSION