

BUSINESS PLAN
BC APPLE MARKETING COMMISSION

Prepared for the

BC FRUIT GROWERS ASSOCIATION

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by

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EXECUTIVE SUMMARY

BC Apple Marketing Commission Business Plan

Rationale

- Returns to apple growers are declining and many growers consider the industry to be unprofitable
- The average return to BC apple growers is less than that in any comparative regions including: Washington State, Michigan, New York, Quebec and Ontario.
- These other growing regions all have successful grower marketing organizations.

Proposal

- The establishment of an Apple Marketing Commission under the Natural product Marketing (BC) Act
- The Commission would have an appointed chair but all other directors would be elected by the growers.
- The powers of the Commission would be broad and enforceable under the Act.
- These powers would be determined in the Scheme approved by the provincial government. In this proposal the three planned powers are:
 - Collection, validation and dissemination of market data
 - Development and enforcement of quality standards
 - Development and implementation of market promotion
- The powers of the Commission can be supported in other provinces and the export market by the federal Agricultural Products Marketing Act. The Commission can provide a forum where packers can openly and legally discuss pricing of apples. The Commission could also provide value in activities that do not require delegated powers, including Ministerial Exemptions (control of bulk, imported apples), and coordinating access to new varieties of imported apples. Finally, a provincial promotion levy makes possible a national levy on all imported apples.

The Scheme

- The *Scheme* (legal term in the Act) is the document submitted by the growers and approved by the provincial government that determines the scope, organization and powers of the Commission.
 - Defines the interpretation of growers and packers
 - Defines the governance structure
 - Sets out the conduct, accountability and role of the board

- Specifies the powers
- Establishes that the commission is under the authority of the Farm Industry Review Board but accountable to the growers.

Budget

- In this model the revenue in year two (first full year of operations) is based on a marketed volume of 186,00,000 pounds of apples marketed and a charge of one cent (\$0.01) per pound the revenue would be \$1,860,000.
- The revenue would be divided between growers and packers as a levy on growers and a licence fee for packers. This would be determined by the board of the Commission.
- With a full staff and all programs underway including: \$800,000 promotion program; industry wide quality inspection program and all of industry participating in the market data program the cost would be \$1,755,000 leaving net revenue of \$105,000.

Next steps

- Consult with growers and packers
- Decide on whether to hold a grower vote
- Hold a referendum
- If positive, apply to the provincial government

BC APPLE MARKETING COMMISSION BUSINESS PLAN

1. Background

The objective of this report is to develop a pro forma business plan and associated budget for a proposed new orderly marketing entity, an apple marketing commission. There has been an interest in calling this organization an alliance or initiative as opposed to a commission however the official term used in the *Natural Products Marketing (BC) Act* is a commission. For the sake of clarity throughout the report will be referring to it as a commission and will make reference to the opportunity to use another name in the report.

A key reason to establish a BC Apple Marketing Commission is to address the problem of declining returns to BC apple growers while their cost of production continues to rise. Grower prices in BC are lower than those in Quebec and Ontario where their industry structure is different and they have greater cooperation within the industry. BC prices are also lower in comparison to their major competitor Washington state.

It is anticipated that the commission would provide coherence among growers and generate greater returns by: implementing industry quality standards; collecting verifying and publishing price and volume data; and expanding on apple promotion through a coordinated industry program for domestic and international markets.

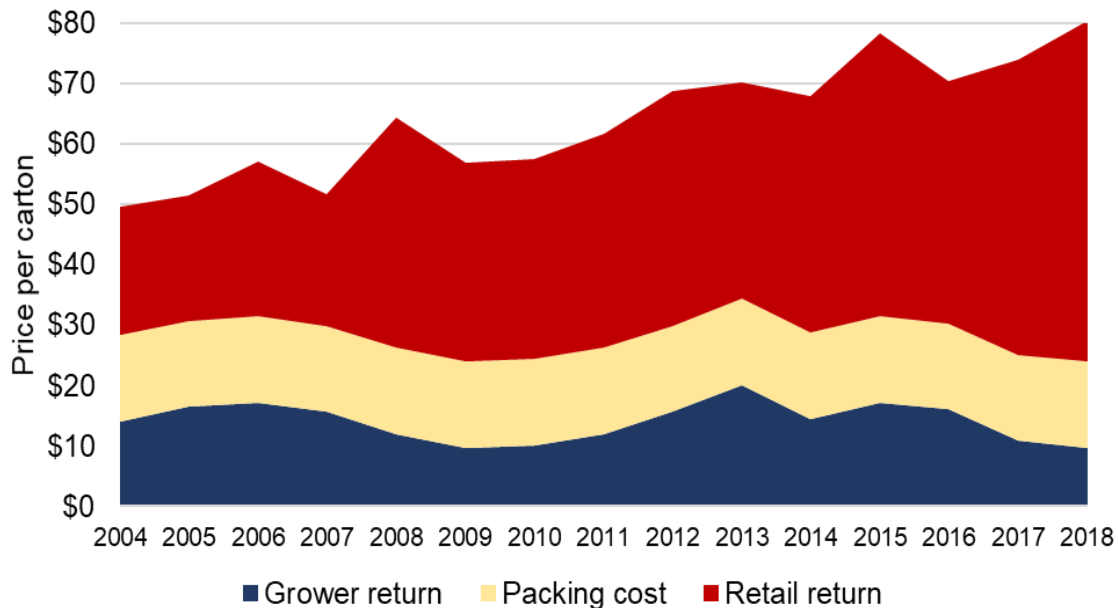
Currently, there are four marketing commissions in BC, each of which have benefitted their producer members through orderly marketing: BC Hog Marketing Commission; BC Cranberry Marketing Commission; BC Broiler Hatching Egg Commission and the BC Vegetable Marketing Commission. The Vegetable Marketing Commission could be a model for apples as it licenses growers and marketing agencies (like packers) and regulates a selection of, but not all vegetable varieties.

2. Rationale for a BC Apple Marketing Commission

Recently there have been two recent relevant studies that investigated orderly marketing options for the BC apple industry: *Development of an Apple Marketing Commission* (FERENCE) and *Orderly Marketing for BC Apples* (Globalwise). These studies detailed the industry concerns that could be mitigated by the creation of an organization that could bring order to the marketing of BC apples.

The Ference report illustrated the problem of the declining share of returns for growers compared to that of retailers.

Figure 1: Distribution of returns from Sale of BC Apples



Source: New Tree Fruit Varieties Development Council

Ference noted that some factors contributing to the declining returns include: price-cutting resulting from packers in BC competing for the same market and an inconsistent quality that has reduced the proportion of BC apples reaching premium markets and, in fact demand of the premium export market is underserved. Moreover, stiff price competition from Washington apple growers has contributed to a decline in prices for BC apples

The retail grocery industry is highly concentrated. As illustrated in Table 1 the six largest retail grocery chains control more than 90% of all food sales in BC. There are different produce buyers in each chain and sub banner (store name). Also, the different grocers may have differing strategies in buying local, price points, merchandising programs, promotion requirements, distribution centres and delivery lead times.

Grocers want to move products through their stores as quickly as possible, stock turnover is important. Also, product quality is important, particularly in produce where spoilage is expensive. Two of the objectives of the apple commission are to ensure quality and to promote the product. These objectives should appeal to grocers and a well-executed promotion strategy that helps to increase sales at the retail level should help the BC apple industry to displace product from other jurisdictions.

Table 1 Retail Grocery in British Columbia
(number of stores in BC)

Jim Pattison Group	Loblaws
Save On Foods (115)	City Market (3)
Urban Fare (6)	SuperStore (16)
Price Smart (2)	Shop Easy (4)
	T & T (12)
	Shoppers Drug Mart (21)
Buy Low Foods (18)	
Choices (10)	
Nestors (14)	
Nature's Fare (7)	
Meinhardt's (2)	
Sobey's	Georgia Main Food Group
Safeway (48)	IGA (24)
Thrifty's (26)	Fresh Street Market (6)
FreshCo (10)	London Drugs (78)
IGA (4)	
Costco (14)	Other stores
Walmart (48)	Stong's Red Barn
Whole Foods (7)	Kin's farm Market
	Fairway Market
	Country Grocer

A survey of BC apple growers conducted by *Ference* reported that 81 percent of respondents were in favour of an apple marketing commission. The survey indicated strong support for: setting quality standards; requesting marketing information from packers; collecting levies from growers and packers; licencing agencies (packers, producer/packers) and setting minimum prices by variety. The growers also supported the implementation of promotion/marketing programs.

The *Globalwise* report discussed a number of issues that support the need for orderly marketing

- Although the 2021 farm price for apples was the highest in the 10 preceding years when it is deflated, accounting for inflation, it is only 5.1% higher than the previous peak prices in 2012-2013, 8 years ago
- The average farm price was lower than Ontario, Michigan, New York and California and was less than 70% of the price received by Washington growers
- The average revenue per acre in BC was 75% of Ontario's and only 37% of that in Washington State

- Data suggests that BC apples represent less than 40% of fresh apple sales in BC
- The price of imported apples strongly influences the price received by BC growers.
- Washington exports to BC mainstream varieties and an increasing volume of proprietary or club varieties
- Canada imports organic apples sold at a premium
- In 2021-22 BC exported \$4.7million of apples to the USA through Washington state (61% of BC export value)
- After the USA, Vietnam was the second largest export market at \$2.4 million (32% of BC export value)
- Washington state exports of apple to BC are 6 times that of BC exports
- The BRMB study, ‘Profitability Analysis for the tree fruit Industry’ found that net income exceeded total revenue for most fruit farms.” Globalwise noted that capital and interest costs were not included in his calculations. Had these costs been included, the measures of profitability would have deteriorated significantly.
- Globalwise quoted from the 2023 study by Advanis “Domestic tree fruit market research” “that 55% of respondents claimed to buy primarily BC apples. Buying decisions were influenced by taste (59%), and price (68%). 78% had tried new varieties and would be encouraged to do so with in store sampling and tasting”.
- Respondents cited the biggest incentives to buy new varieties as “clear product labeling, promotions and discounts, and in-store and shelf signage. They favoured new media like social media, videos etc. for learning about new varieties.
- Globalwise sites an Euromonitor Consulting report “to compete more effectively in the export market Canadian suppliers will have to build greater awareness of Canadian apples, you will have to invest in a marketing program in Vietnam and they will need to make long-term commitments to that effort”
- Euromonitor also noted that “the task for BC apples is to build a unique selling proposition to differentiate its products from competitors and increase of BC apples visibility. Also, they comment Canadian apples have limited awareness among consumers due to a lack of differentiation, marketing and branding”
- Globalwise reported on themes from “The path forward: A Blueprint for BC’s Tree Fruit Industry”

- Lack of industry leadership for a long-term strategy
- Access to labour and a long-term labour strategy
- The need for targeted horticulture and extension services
- A strategy regarding new varieties
- A strategic, coordinated plan for marketing and sales
- The need for a consistent and reliable data for two informed decisions
- The need for a review of government policies and programs

Another opportunity for the BC apple industry, with the establishment of a commission, is the possibility to collect levies on all imported apples if a National Apple Promotion and Research Agency was formed. The establishment of the BC apple marketing commission with mandatory levies, would, if other provincial apple organizations agreed, enable the establishment of a national apple promotion and research agency (PRA).

Other commodities such as beef and pork have established similar promotion and research agencies. As an illustration, the Canadian Pork Promotion and Research Agency (Pork PRA) was recently established to support the competitiveness and sustainability of the pork sector by enabling the implementation of promotion and research activities, with due regard to the interests of producers, importers and consumers. The stated goal of the Pork PRA is to promote the marketing and production of pork, develop new markets for producers and importers, and support research activities.

The benefit of a PRA is that levies from apples both grown and imported into Canada can be used by the PRA to undertake domestic marketing campaigns to increase the consumption of apples in Canada. In order to set up a PRA other apple producing regions in Canada would have to be in agreement. However, this is not possible unless the BC apple industry has a mandatory levy for apple growers. With the establishment of a BC apple marketing commission, it would be possible to establish a national apple PRA and to collect promotion levies on apple imports into BC.

3. Marketing Organizations in Other Jurisdictions

Other apple producing provinces and countries have apple grower organizations with differing mandates and results. These different organizations have been described in detail in both the Ference and Globalwise reports.

- Apple Producers of Quebec (Producteurs de Pommes du Quebec):
 - 563 grower members who pay a levy to fund the association, the levy is collected by the first buyer of the apples, usually the packer
 - Sets quality standards enforced by inspection at packers
 - Significant expenditure to promote Quebec apples
 - Staff of nine

- In co-operation with the Quebec Apple Packers Association, they set a minimum price to growers based on market conditions, variety and grade
- The Quebec Apple Packers Association represents about 30 packers of various sizes. Packers are licenced by Producteurs de pommes du Quebec
- Ontario Apple Growers
 - 200 grower members with over 10 acres of production, total of 1,300 acres of production
 - Pay a levy of \$30/acre to fund the association
 - Activities include marketing, promotion, grower education and research
 - Marketing includes sampling, media outreach, print and digital media, social media and consumer outreach
 - Not involved in setting prices, regulating production or quality standards
 - Seven large packers form Apple Marketing Association of Ontario, packers set prices, (2019 approximately 40 cents/lb average). They provide funding to Ontario Apple Growers for research and promotion
- Nova Scotia Fruit Growers Association
 - Voluntary membership, fees based on type of member (grower, packer etc)
 - Not involved in setting prices, regulating production or quality standards
 - Does promotion, grower education and research
- Apple Growers of New Brunswick
 - 14 growers
 - Not involved in setting prices, regulating production or quality standards
 - Does grower education and research
- Washington Apple Commission
 - Purpose is advertising, promotion, education and market development for Washington apples in export markets
 - Funds export program: 13 in country coordinators of marketing programs in 30 key export markets
 - Collects a mandatory levy of 3.5 cents per box on all fresh apple shipments
 - Analysis indicates that the average return to advertising was \$13.50 per dollar spent
- Washington Apple Growers Marketing Association
 - Group of apple growers, their respective packers and sales representatives who meet weekly to discuss prices, markets, inventory and grower returns and share information to better market the crop and hence grower return
- New Zealand
 - Had orderly marketing in several commodities, including apples, for decades, mostly disbanded in early 2000's

- Pipfruit New Zealand set up with limited powers, part owners of Prevar Limited
- Privatization has worked for New Zealand, large part of the apple and pear industry controlled by a German conglomerate with interests in Washington state
- South Africa
 - The monopoly board that controlled exports and promotion of apples was disbanded following the end of apartheid
 - Large private entities emerged but have had less success than those in New Zealand
- Chile
 - The Chilean Fresh Fruit Exporters Association is a non-profit private company funded by the industry. It has representative offices in major markets around the world.

4. Regulation of a Commission – Natural Products Marketing (BC) Act

The legislation that regulates orderly marketing in British Columbia is the *Natural Products Marketing (BC) Act* (NPMA). This comprehensive Act sets out the rules and powers of marketing boards and commissions in the province.

The establishment of an apple marketing commission would be enabled under the NPMA. The purpose of a marketing commission as stated in the Act is to provide for the promotion, control and regulation of the marketing of regulated products. If an apple marketing commission were established, apples would be designated under the Act as a regulated product. As specified in the Act, each marketing commission must establish a *Scheme* that provides for the promotion, control and regulation of the transportation, processing, packing, storage and marketing of the regulated product within BC.

The Act provides a lot of flexibility regarding the powers that could be exercised by an individual marketing commission, and it is up to industry stakeholders to determine what measures would effectively address the challenges facing their sector, and to then work with government to ensure the specific abilities/powers of the commission established by the Lieutenant Governor in Council, through the *Scheme*, reflect these needs. In establishing an apple commission under the NPMA an apple *Scheme* would be approved that could include:

- Purpose of the Scheme
- Commission members: number, how selected,
- Chair appointed by Lieutenant Governor in Council
- Meeting and quorum
- Powers and duties

The list of powers that may be enabled under the Act are extensive. In particular Section 11 and 14 set out these powers in detail. *Schemes* for different commodities have differing powers that may include all or some of the allowable powers under the Act. Each *Scheme* is specific to the requirements for that commodity. Powers permitted under the Act could include:

- Ability to set quality standards
- Ability to request full information relating to the marketing of a regulated product from all persons engaged in marketing activities
- Ability to set minimum pricing according to grade, size and quality
- Ability to collect levies from growers and licence fees from selling agencies (i.e. packers, producer/vendors) to cover the operating costs of the marketing commission
- Authorize selling agencies (e.g., packers, producer/vendors) to distribute sales proceeds to growers minus levies
- Ability to determine the manner of distribution, the quantity and quality, grade or class of a regulated product that is to be marketed by a person at any time
- Ability to designate and licence all selling agencies (which could include a wide variety of agencies such as packers, producer/vendors, etc.)
- Institute marketing and promotion programs

The powers permitted in the Act cover the orderly marketing objectives of the Apple Marketing Commission including: promotion; collection of levies; development and enforcement of quality standards and the collection of information related to marketing such as price and volume data. An apple marketing commission would also have to comply with the Government of Canada *Agricultural Products Marketing Act* that provides for the marketing of products in interprovincial and export trade.

The NPMA provides a marketing commission with strong enforcement capabilities to better organize and implement its powers and abilities. The Act also establishes the BC Farm Industry Review Board (BCFIRB), which is responsible for the general supervision of all marketing boards and commissions and for hearing appeals from anyone dissatisfied by decision of a board or commission.

In reference to the name of a “*commission*” the only reference in the Act is to either a marketing board or a commission. It makes no mention of an “alliance” or an “*initiative*”. That does not mean that consideration would not be given to allowing an apple commission to “do business as” some other name. This alternative has not been considered before by the BC Ministry of Agriculture and Food (BCMAF) and could be part of the initial negotiation with the Ministry in the application for recognition.

5. Other Commissions in British Columbia

There are four marketing commissions in BC established under the NPMA. Each one has different powers and operates differently, as required to achieve orderly marketing of each of the commodities.

BC Cranberry Commission licences all persons engaged in the production, processing, packing or marketing of cranberries. The Commission establishes quality standards and regulates the quantity of cranberries that can be shipped from each bog. They do not regulate price or production. The Commission licences agencies (currently three) to process, pack, market or store product. The agencies collect levies from growers based on volume shipped and submit those levies to the Commission. Agencies also submit information on payment history and individual grower production. The Commission may establish quality standards and require evidence of compliance from agencies and Grower Vendors. Also, the Commission may fund promotion, grower education and research and development activities. The Cranberry Commission has a chair appointed by order in Council and four licenced growers elected by registered growers.

BC Hog Marketing Commission regulates the thirteen commercial hog producers in BC (any producer shipping in excess of 300 hogs per year). The Commission is funded by levies collected by processors on hogs shipped by each producer (\$1.00/hog). Processors, vendors and transporters provide buying, shipping and transportation information to the commission. The Hog Commission funds the BC Pork Producers Association for promotion, lobbying, producer education and research and development activities. The Commission has an appointed chair and two commissioners elected by registered hog producers (the *Scheme* allows for up to five members). The Commission operates as the BC Pork brand.

BC Broiler Hatching Egg Commission is similar to marketing boards for milk, chicken, eggs and turkeys. Hatching eggs are a federally regulated product with national production quotas and restrictions on imported eggs. The Commission provides orderly marketing of broiler chicken eggs to supply hatcheries who, in turn, supply day old chicks to the broiler chicken producers in BC. The Commission licences producers, hatcheries, processors and transporters. It allots, registers and manages production quota and sets the price of eggs from the producer to the hatchery and the price of the day-old chick from the hatchery to the broiler grower. The Commission is supported by a levy on each saleable chick. The levy is collected by the hatchery and charged to the producer. The Commission has seven employees, an appointed chair and four commissioners elected by registered producers. The powers of the Commission include all of those listed under section 11 of the NPMA plus additional specific powers. The *Scheme* establishes a Pricing and Production Advisory Committee comprised of 3 producers, 3 hatchery representatives and an independent chair.

BC Vegetable Marketing Commission regulates the production and marketing of a specific list of vegetables including: greenhouse (cucumbers, lettuce, tomatoes, peppers); processing (beans, broccoli, brussels sprouts, cauliflower, corn, peas, strawberries); and storage crops

(beets-top off, red and green cabbage, carrots-top off, parsnips, potatoes, rutabaga, white turnips, yellow onions). The *Scheme* and general orders allow for the regulation of the production, transportation, packing, storage and marketing of regulated products. All regulated storage crops are sold through the ten licenced agencies or producer shippers who report a wide range of data to the Commission. The agencies collect the grower levies on behalf of the Commission. The levy for greenhouse products is based on a square metre basis and for storage and processing crops on a per ton basis. The levy varies depending on crop: storage vs processing and by different individual processing crops. The commission sets minimum prices for storage crops. Although the *Scheme* allows for the Commission to be responsible for promotion, the agencies have assumed this function. The powers of the Commission include all of those included in section 11 of the NPMA plus some specific to the industry. Although there are no quotas in the vegetable industry production of storage crops is controlled through delivery allocation (DA) whereby a grower can only deliver a specific amount to an agency, excess production cannot be sold to any approved outlet. The Commission consist of an appointed chair, two independent commissioners and three each from the greenhouse and storage crop sector. There are two important committees: finance and governance and several advisory committees with industry participants.

6. Objectives of the BC Apple Marketing Commission

In comparison to other apple producing provinces in Canada and Washing State, the apple industry in BC is unorganized with the result that prices to growers are below those in comparative regions. In these other regions there seems to be cooperation between the grower organization and a cohesive packer community which seems to be more effective in optimizing marketing for the benefit of all. Discussions under the BC Tree Fruit Stabilization program suggest that the BC apple industry is in a downward spiral and a new and bold initiative is necessary.

Growers/producers who operate in a system of orderly marketing have greater financial stability and market power. Dairy, chicken egg, turkey and hog producers, vegetable and cranberry growers can attest to that. With the concentration of power in the BC grocery industry a more cohesive BC apple industry could work to counter that power. Although there are about 30 different grocery banners (store names) in BC many are owned by the 6 companies representing over 90% of grocery retail sales.

The BC Apple Marketing Commission would have three main objectives:

1. Collection, validation and dissemination of market data
2. Development and enforcement of quality standards
3. Market Promotion Program

Collection, validation and dissemination of market data

Individual growers need to have accurate and timely market information in order to make informed decisions. The grower survey conducted by Ference revealed that growers ranked

receiving full information related to marketing as very important. Timely, valid information including price by variety, sales volume, grade, size of the apples, quantities in storage (and type) is essential to coordinating a diverse industry like apples. Currently this information is collected weekly by the BC Ministry of Agriculture and Food (BCMAF) on a voluntary basis from six packers representing over 70% of the industry. BCMAF consolidates the information and reports it to packers weekly. The information is kept confidential. Prices are reported as highest, lowest, median and weighted average.

The collection and dissemination of market information could be done through an Apple Commission. A commission could have the power enshrined in the *Scheme* to make the provision of information compulsory from all packers and to audit to ensure accuracy. This consolidated market information would be made available to all growers and packers on a timely basis. Having more complete, timely and transparent information will help growers and packers to make better informed decisions about marketing and operations.

Development and Enforcement of Quality Standards

In the Ference survey of growers 81% of respondents believed that a commission should set quality standards and 62% believed that would lead to higher prices. The Globalwise study stated: “fresh apples grown in Canada for domestic sales must be labelled in accordance with the federal grades. However, only buyers review the quality of the apples shipped by BC packers because there is no third-party inspection. Most international competitors (Washington State, New Zealand, Chile) have a system of inspection to check the grade standards. In 2022, BC packers agreed on recommending guidelines for colour, pressure and sizes for Ambrosia, Royal Gala, Honeycrisp, Spartan, and McIntosh varieties. However, without inspection services, any industry developed guidelines are not enforceable.” It is common in the food industry to only export the best quality product while retaining the balance for domestic distribution. Competing against imported apples requires good consistent quality.

Growers and some packers believe the current system invites packers and retailers to move low quality and low-priced apples through the marketing chain. Growers believe they must bear unacceptably low returns as a result and the reputation of the BC apple industry is harmed.

The development and enforcement of quality standards could be done by the Apple Commission. By incorporating the powers of enforcement into the apple *Scheme* the Commission would be able to conduct mandatory inspection at packing houses. This should give buyers greater confidence in the quality of BC apples in comparison to competitors. The quality standard could become part of a consumer-focused promotion program highlighting the superior quality of BC apples. The development of quality standards and their implementation should be done in cooperation with packers to ensure that this initiative does not lead to extra costs or disruption to the industry.

Market Promotion Program

An objective of the Apple Marketing Commission should be to assist the industry to market the greatest volume of product at the best price. In most industries private companies assume the task of promotion of their products and brands. In the case of agricultural commodities, industry associations, boards or commissions often take on this task through generic advertising. Generic advertising refers to the advertising of a commodity (apples, milk, eggs) as opposed to individual brands. Examples of this are the successful promotional campaigns of the Dairy Farmers of Canada and the Egg Farmers of Canada. In this Province the BC Dairy Foundation conducted successful advertising and promotion campaigns to increase milk consumption. In the past there have been promotion campaigns for specific apple varieties.

The key to the success of the promotion campaigns for dairy and eggs, for example, was to use the professional services of a competent advertising agency. In the case of BC apples, the key will be to determine what are the unique characteristics or “selling proposition” that set those apples apart from the competitors’ apples and then how to present that message to consumers. As stated in the Globalwise report, the message will require repetition and continuity. Promotion is a long-term commitment.

The promotion program may entail the development of a brand or logo that identifies high quality BC product and differentiates it from competitors so consumers can readily identify local apples. The BC wine industry has done this with their Vintners Quality Assurance (VQA) designation. An overall industry promotion should enhance any individual packer promotion efforts. Individual variety promotion may still be done under the umbrella of an industry wide generic promotion.

An example of a successful generic apple promotion program is that of the Washington apple Commission. Analysis showed that the campaign increased grower revenue in 2002 (last year of operation) by \$212 million. The average return to growers was \$13.50 for each dollar spent on advertising.

The apple *Scheme* would include the powers to collect levies from growers and to conduct promotion programs.

7. Structure of the BC Apple Marketing Commission

This section is a discussion of the options for the points that make up the Apple *Scheme*, the document that sets up the Apple Commission. In addition, the details of how the Commission implements its powers are discussed under the heading General Orders.

Commission Members

- The NPMA states the method by which the members of a marketing commission are chosen, whether by appointment or election. This must be specified in the *Scheme* that the commission is authorized to administer. However, the chair of the commission must be appointed by the Lieutenant Governor in Council (provincial cabinet) while the rest of the commission members can be elected or appointed by the commercial producers.
- There is no recommended number of commissioners but across all BC marketing boards and commissions the usual number is 4 except for the Vegetable Commission that has 3 for each of storage crops and greenhouse plus 2 independents. In addition to the appointed chair the following is the make up of BC boards and commissions:
 - | | |
|---------------|--|
| Milk | 4 plus 1 independent selected by Industry Advisory Committee |
| Chicken | 4 of which 2 are independents appointed by Order in Council |
| Eggs | 4 |
| Turkeys | 4 |
| Cranberry | 4 |
| Hatching eggs | 4 |
| Hogs | 4 allowed, currently only 2 |
| Vegetables | 8 - 3 each from greenhouse and storage crops, 2 independents selected on merit by the Commission |
- Except for independents, commissioners are registered growers/producers elected by the registered grower/producer population
- In the case of the apple commission, we recommend an appointed chair, four commissioners elected by other commercial registered growers and at least one independent commissioner.
- Interviews with grower members of the Vegetable Commission confirmed the value of independent commissioners. In that case the independents had broad food and agriculture experience other than vegetables. We recommend that the Apple Commission have at least one independent commissioner selected by either an industry advisory committee or by the commission itself.
- No other commission has a commissioner from the packer/processor sector nor from the government. The Chicken Board has two independent directors appointed by Order in Council (same as all board/commission chairs) but they are independent of government.
- The chair and commissioners will be responsible for managing the activities of the apple marketing commission. The commissioners will be paid for the time that they spend on commission activities.

- The Apple Commission would have to decide on the compensation for commissioners. The Council of Marketing Boards issues a confidential survey of per diems and stipends that are paid to chairs and members (commissioners). These vary widely: chairs \$550-\$312 per day, stipend \$3,000 - 0 per month; for members \$450 – \$250 per day, stipend \$2,250 – 0 per month

Committees

- Based on the structure of other commissions it is recommended that an Industry Advisory Committee with an independent chair and equal representation by growers and packers be established. This committee can advise the Commission on any industry matter, the details to be determined, and would provide a conduit for packer opinions to be heard.
- Finance and Audit Committee to report to the board on finances and to work with the auditors

Staff

- The Commission would hire the General Manager who in turn would hire and manage the staff. The General Manager is responsible for the management of all activities of the commission and is the only individual that reports to the board.
- Market Promotions Officer: develops and implements promotion plans, manages professional agencies in the execution of marketing plans, collaborates with packers.
- Market Analysis and Communication Officer: collects, analyzes and distributes industry data from packers and growers on a timely basis
- Quality Assurance and Licencing Officer: develop and implement the quality assurance plan including inspections, administer licences
- Office Administrator: manage office routine and assist other staff

Licences

- Need to decide on whether there are different types/classes of licences: grower, packer, transporter, grower-packer etc
- Need to establish costs for different licences
- Need to determine policies on the cancellation or suspension of a licence

Powers

- The NPMA covers many powers available to a commission. Sections 11 and 14 of the Act lists specific powers that the Apple Commission could request in their application. Other powers specific to the apple industry could be added. The Apple *Scheme* will specify the powers vested in the Commission.
- The *Scheme* of some commissions have simply referenced all of the powers under Section 11 with the addition of more powers while other have chosen specific powers denoted by the subsection from (a) to (v) in Section 11.
- In developing the *Scheme*, growers should review each of the 22 subsections in Section 11 and 14 and decide which ones they wish to retain. If the growers do not want to control pricing, Section 11 (k) in reference to price setting could be deleted. However, the inclusion of all of the powers under section 11 may be prudent in case, in the future, the Commission decides to expand its mandate. As the *Scheme* has to be approved by Cabinet it is best to get all possibilities covered initially rather than having to go back with new requests at a later date. Individual powers listed in the scheme do not have to be implemented but the option is always there.
- The objective of collecting marketing data from packers is covered in Section 11 (j) *to require full information relating to the marketing of regulated product from all persons engaged in marketing activities*
- Section 14 addresses additional powers including (a) *establishment of quality standards and (b) carrying out advertising, educational and research programs*. These cover two of the objectives of the Commission.
- The subject of levies is covered in Section 11 (o) *to set and collect levies or charges from designated persons engaged in marketing of the whole or part of a regulated product*.
- In summary, all of the objectives of the Commission can be covered under the powers available under the NPMA in Sections 11 and 14.

Levies

- Most other marketing boards and commissions have made the applications of levies as simple as possible using a charge per unit of volume that is common in that industry such as per ton, pound, kilogram, litre, dozen, saleable chick. The levy for organic or specialty products is no different to that of mainstream.

- The BC Vegetable Commission has a more complicated system of levies varying with greenhouse producers levied on a square metre basis with storage and processing crops on a per ton basis. Levies differ between storage and processing and among different processing crops.
- Except for the Vegetable Commission other commissions have kept the application of levies simple and equal across differing products (eg organic, specialty) using the accepted measure of volume. This seems to be the most practical approach.
- The Apple Commission could have differing levies according to variety but that could be very complicated to determine on what basis levies may differ.
- Charging a levy on a percent of sales would require knowing the revenue of each grower. Growers may consider this approach too intrusive as it would mean each grower revealing their gross revenue.
- Ontario Apple Growers collect levies on a per acre basis. Considering that different varieties have different yields and returns per acre this approach may not be fair. Also, as it is contemplated that packers would collect the levy and submit it to the commission, they would have to know the acres held by each grower.
- The recommended approach to levies is for the packers to collect the levies based on a charge per pound (or box) deducted from the payment to the grower and then to submit the levy collected to the commission.

8. Draft Scheme and General Orders

Scheme

A *Scheme* is the document approved by the Lieutenant Governor in Council (provincial cabinet) under the NPMA that determines the scope, organization and powers of the commission. Although the schemes for each of the commissions in BC differ in specific details, they are usually brief (4-5 pages). There are similarities in headings. Typical headings include all or some of the following:

1. Interpretation meaning a glossary of terms used.
2. The name, purpose and application of the *Scheme*
3. Make-up of the commission, appointments and elections
4. Definition and qualification of a commercial producer/grower
5. Powers and duties of the commission
6. Definition of any standing committees if any (optional)

In the establishment of a commission the apple growers would work with the Ministry of Agriculture and Food to develop the *Scheme* to ensure that it includes the details required to

effectively operate the commission. The following is an abbreviated example of the sort of information that could be in a BC Apple Marketing Scheme:

1. Interpretation
 - “commission” means the British Columbia Apple Marketing Commission
 - “grower” means a person who operates a farm that produces XX quantity of apples
 - “Registered grower” means a grower who has been registered and granted a licence by the commission
2. Purpose of the Scheme
 - The purpose of this scheme is to provide for the promotion, control and regulation, in any or all respects and to the extent of the powers of the Province, of the transportation, processing, packing, storage and marketing of the regulated product.
3. Commission
 - (1) A commission named the British Columbia Apple Marketing Commission is established and shall administer this scheme under the supervision of the Provincial board.
 - (2) The commission consists of:
 - (a) a chair appointed by the Lieutenant Governor in Council
 - (b) 4 members who are registered growers, elected by the registered growers
 - (c) 1 member who is not a registered grower appointed by the commission
4. Definition and qualifications of a registered grower
 - A registered grower is – definition
5. Powers and duties of the commission
 - (1) The commission is vested with the power in the province to promote, control and regulate in any respect the production, transportation, packing, storage and marketing of a regulated product
 - (2) Without restricting the generality of subsection (1), the commission is vested with the powers described in section 11 of the Act (*referring to NPMA*) and section 14 (a)
 - (3) Other powers as specified

General Orders

Every marketing board and commission in BC has developed a set of general orders which set out the rules and requirements for growers/producers to follow. When the apple commission is established, the commissioners would develop the general orders. Although each commodity has different requirements the headings of the general orders are very similar. For example, general orders may cover the following:

1. Purpose and authority
2. Definitions

3. Requirements to keep records
4. Licence requirements and classifications
5. Levies and service fees
6. Agency designation
7. Agency responsibilities and review
8. Production planning
9. Marketing orders
10. Promotion and research
11. Quality standards and enforcement
12. Compliance
13. Election procedures
14. Miscellaneous

9. Governance

Good governance is a framework composed of structures, processes, rules, and practises from which the Board operates and is directed. Effective board governance involves competent board leadership, efficient management processes and strategies to attain the goals of the commission. Good governance will help the apple commission to effectively meet their mandate, goals and objectives.

The BC Farm Industry Review Board (BCFIRB) have set out clear guidelines to assist with good governance in marketing boards and commissions. The following useful guides can be found on the BCFIRB website (firb@gov.bc.ca):

- BCFIRB Code of Conduct
- BCFIRB Accountability Framework
- BCFIRB Chair to Boards letter re. Governance Expectations

Moreover, BCFIRB has set out a principles-based approach to supervision and regulation of agricultural commodity boards and commissions through which decisions can be evaluated. The six principles are known as SAFETI:

- S Strategic:** identifying key opportunities and systemic challenges, and plan for actions to effectively manage risks and take advantage of future opportunities.
- A Accountable:** maintaining legitimacy and integrity through understanding and discharging responsibilities and reporting performance.
- F Fair:** ensuring procedural fairness in processes and decision making.
- E Effective:** ensuring clearly defined outcomes with appropriate processes and measures
- T Transparent:** ensuring that processes, practices, procedures, and reporting on how the mandate is exercised open, accessible and fully informed
- I Inclusive:** ensuring that appropriate interests, including the public interest are considered.

A guidance document that defines BCFIRB's SAFETI principles, [PBR guidance document](#), can be found on the BCFIRB website.

Good governance practices dictate that the apple marketing commission should develop a Board Governance Manual that will assist all directors/commissioners in carrying out their duties in an orderly manner. The Manual may include the following headings:

1. Role of the Board

- Define the purpose of the commission
- Develop and maintain the strategic plan containing the vision, mission, values, goals and objectives (naming responsible party and timelines)
- Hire and conduct annual evaluation of the General Manager
- Recognize that the role of the board is to direct not to manage staff, that is the role of the general manager
- Develop the general orders and keep them up to date
- Develop and approve the budget and financial information
- Establish necessary committees
- Establish policies
- Conduct annual performance reviews of board members

2. Job descriptions

- The job description of the appointed chair will be prescribed in the appointment by the Order in Council
- A job description for the board directors (commissioners) will be helpful setting out expectations and in guiding their performance
- The board should approve the job description of the general manager

3. Confidentiality

- All matters discussed by the board should be held in confidence.

4. Code of Conduct and ethics

- Rules for conduct at meetings
- Solidarity of board decisions, when a decision has been made by the board, even if it is not unanimous, all directors must publicly support it
- Consequences for behaviour unacceptable to the board e.g. breaking confidentiality or a criminal charge

5. Conflict of interest

- A section that describes what would be considered a conflict of interest

- Have a signed affidavit from each director that declares any potential conflicts of interest

6. Meetings

- List of meetings that a director is expected to attend
- Penalty for non-attendance

7. Committees

- Naming of permanent committees: finance, other
- Duties of committee eg finance: review financial statements, report to board periodically, work with the auditors

8. Director orientation

- Establish a formal new director orientation process
- Understand the strategic plan
- Current issues
- Financial status
- Role of BCFIRB
- Role of the commission in the industry
- Role of the board versus staff

10. Pro Forma Budget

The proforma budget for the Apple Commission is based on an analysis of the budgets and financial data of commissions and marketing boards of similar size and structure including: BC Vegetable Marketing Commission, BC Broiler Hatching Egg Commission and the BC Turkey Marketing Board.

Table 2 illustrates the budget for year one and for subsequent years. Although most of the operating numbers are similar the differences and assumptions are explained below:

Revenue

Revenue will come from both growers and packers. The revenue from growers will be in the form of a levy on volume (pounds) marketed to packers. The packers will deduct the levy amount and submit it to the Commission. As the Commission will licence packers, their contribution would be the licence fee.

If the latest market production data for 2021 from the BC Ministry of Agriculture and Food is used, the marketed production of apples was 83,344 metric tonnes or 186,000,000 pounds (a more common unit in the industry). The example used herein is to charge \$0.01 per pound for a total revenue of \$1,860,000. Obviously, the revenue will change depending upon the apple crop year to year. How that revenue is distributed between the growers and the packers will be a decision of the Commission.

The levy and licence amounts used in this example illustrate one combination of how to collect sufficient revenue to operate the Commission. It will be one of the first decisions of the new Commission to decide on how to equitably set levies and licence fees. The budget is based on the marketed production each year and the levies and licence fees will have to be adjusted to reflect changes in that volume

Expenses

Salaries and benefits: It is assumed that during the first year the General Manager will be employed for the year but it will take some time to hire the balance of the staff. It is assumed that the total salary amount will be \$450,000 in year one, less than the \$550,000 in subsequent years. These salary estimates are based on similar positions and salaries in the Vegetable and Hatching Egg Commissions and the Turkey Marketing Board plus a differential to attract persons to Kelowna.

Chair/commission per diems: The board (commissioners) will need to devote more time to setting up the Commission during year one, therefore their per diems will be \$100,000 in the first year and \$70,000 in succeeding years.

Legal: It is assumed that there will be more requirements for legal services in year one (\$35,000) than in following years (\$25,000).

Quality inspection: Although one of the staff to be hired will be responsible for developing and implementing the proposed quality guidelines it is assumed that actually carrying out inspections is more than a one person job. There is a \$100,000 provision in year two and subsequent years for the hiring of staff (contract or employees) to implement the quality inspection program. This provision is reported here not counted in salaries.

Promotion and Advertising: One of the goals of the Commission is to implement an industry promotion program. The details of such an initiative are to be developed by the staff responsible and approved by the Board. Effective promotion and advertising programs are expensive so an allowance of \$800,000 per year has been provided in the budget in year two and onward (this is an example and will vary with the program). As referred to previously, the services of an outside promotion agency should be retained. As it takes time to develop a professional promotion program it is assumed that there will be little implementation in year one where only \$100,000 is budgeted. If, however, the commission has a more ambitious promotion program in its first year than this part of the budget will require adjustment.

Rent: Based on the current rate (triple net) for 1,500 square feet of office space in Kelowna.

Meetings: Annual meeting and, perhaps, regional meetings.

Travel: Includes accommodation, for regional or other meetings

Insurance/miscellaneous: Director liability insurance and other operating expenses

Table 2 Pro Forma Budget

Revenue	Year One	Year Two
Grower levies (portion of total)		
Packer licence (portion of total)		
TOTAL REVENUE	\$1,860,000	\$1,860,000
Expenses		
Salaries & benefits	\$450,000	\$550,000
Rent	\$50,000	\$50,000
Chair/commission per diem	\$100,000	\$70,000
Meetings	\$10,000	\$10,000
Legal	\$35,000	\$25,000
Accounting	\$15,000	\$15,000
Telephone/internet	\$10,000	\$10,000
Office supplies/services	\$30,000	\$30,000
Travel	\$15,000	\$15,000
Insurance/miscellaneous	\$30,000	\$30,000
Utilities	\$10,000	\$10,000
Amortization	\$40,000	\$40,000
Quality inspection		\$100,000
Promotion & advertising	\$100,000	\$800,000
TOTAL EXPENDITURE	\$895,000	\$1,755,000
Excess revenue over expenses	\$965,000	\$105,000

Year 1 Start up costs

Setting up the commission's office and running the organization during the start up period will require money for capital expenditures and for operating capital until the cash flow is positive. Capital expenses will include: computer hardware and software; office furniture and equipment and leasehold improvements. The following are estimates of these costs:

Computer hardware and software	\$300,000
Office furniture and equipment	\$30,000
Leasehold improvements	<u>\$70,000</u>
Total capital cost	\$400,000

Depending upon the office lease it may be possible to negotiate the leasehold improvements into a longer-term payment to be included in the rent. An amount for office supplies has been included in the first year's budget.

At the commencement of the Commission there will be no revenue to cover expenses. If the Commission uses a search firm to fill the staff positions this could cost at least \$50,000. As the Commission will be funded by levies and licence fees applied to the crop as it is sold to packers the timing of the Commission income is dependent on the timing of those sales. The Commission will require sufficient operating capital to cover expenses for six months which is \$400,000 or approximately half of the first years budgeted expenses.

In summary, at the start of year one the Commission will require:

Capital cost	\$400,000 (unless reduced as above)
Search	\$50,000
Operating capital	<u>\$400,000</u>
Total	\$850,000

The budget for year one suggests an excess of revenue over expenses of \$965,000 unless the Commission decides to do more aggressive promotion in the first year. This surplus could be applied to the capital set-up requirement of \$400,000 and the possible employee search fee of \$50,000. However, these capital expenses will occur as the commission is established, as will the requirement for operating capital of \$400,000 (spread over the early months of the Commission until it starts receiving levies).

11. Next Steps

These are the recommended next broad steps towards the establishment of the BC Apple Marketing Commission after the Business Plan has been adopted, points 1,2 and 3. may be conducted simultaneously:

1. Hold discussions with apple growers to explain the Plan and to address any concerns.
2. Hold discussions with packers to explain the Plan and to address any concerns.
3. Hold discussions with senior staff of the BC Ministry of Agriculture and Food (BCMAF) to determine their requirements in order to move the initiative forward. Explore funding alternatives with the Ministry.
4. Hold a referendum of grower support for establishing the commission.
5. Assuming that the referendum is positive, establish a committee of growers to work with BCMAF in developing the Scheme.
6. The Scheme will be submitted to the Lieutenant Governor in Council for approval

