

# Atlantic Canada Safeguard Agreement (ACSA)

OCTOBER 2019



# Timelines, purpose and methodology

- » **WHEN: Last minute addition to the differential growth (DG) discussions in 2014**
- » **WHY: to obtain support from Atlantic provinces for proposed DG solution**
  - » ensure that the allocations of Atlantic provinces will not decrease too much in comparison to the previous pro-rata allocation methodology
  - » safeguard future production in Atlantic Canada
- » **HOW: by allocating safeguard kgs**
  - » when the differential growth (formula-based) allocations result in the individual Atlantic provinces receiving fewer kgs in excess of agreed upon thresholds of growth during the 66 periods covered by the agreement compared to the previous pro-rata allocation methodology
  - » one kg of safeguard allocation for every two kgs of growth not received versus the pro-rata methodology (once past the threshold)
  - » safeguard kilograms deducted from other six provinces

# Agreement

- » **Separate document, signed by all province in late 2014**
- » **Not part of the actual Operating Agreement (OA) document**
  - » Reasoning:
    - » not expected to be triggered until very late into the 66 period agreement, if at all (projections were based on annual growth of 1½%)
    - » number of kgs resulting from agreement expected to be very small and not change the numbers from the new DG agreement in a significant way
    - » DG discussions took several years and concern that adding the agreement to the OA would complicate and potentially jeopardize the new DG agreement

# Agreement (continued)

- » **Allocation growth has been well above 1½% in the last couple of years**
  - » Resulting in the safeguard being triggered for the first time much sooner than expected
    - » New Brunswick in period A147, Nova Scotia and Newfoundland & Labrador in period A151
  - » Resulting in provincial allocations that were slightly different from DG formula calculated allocations

# FPCC request and CFC follow-up

- » **FPCC has indicated that ACSA should be incorporated into the OA**
  - » because of it being an important part of CFC's allocation methodology
- » **CFC has decided it will incorporate the ACSA by making it an addendum to the Operating Agreement and to seek the approval from all signatories in 2019**
- » **It is very important to recognize that this undertaking does NOT change the way we set allocation going forward**

# Triggers, thresholds, allocations and deductions

- » Agreement triggered once the cumulative allocations (starting in period A127) according to allocation formula and discrete supply to Ontario in comparison with cumulative allocations calculated using the previous “pro-rata” methodology exceed agreed upon thresholds:

NB	1,384,446 kgs
NS	1,764,391 kgs
PEI	163,271 kgs
NL	587,892 kgs

- » Once these provincial thresholds are reached, CFC will allocate 1 kg of growth for every 2 kgs of difference as calculated above
- » Safeguard kgs will be deducted from other six provinces based on the provincial shares of combined base allocations for the period

# Implementation and calculations – three steps

- » **STEP 1** - keep track of actual allocations (allocation formula & Ontario discrete supply) versus pro-rata allocations. When the amount for the Atlantic province(s) exceed the threshold, go to...
- » **STEP 2** - calculate the amount of kilograms allocated to the Atlantic provinces under the safeguard provision (and the amount of kilograms deducted from the other eight provinces), and then...
- » **STEP 3** - account for and incorporate already allocated safeguard kilograms in future allocations to avoid duplication (double-counting) of safeguard kilograms

# STEP 1 – determine when safeguard is triggered

- » For every subsequent block of six allocation periods, compare the Atlantic provinces' actual allocations for the six periods (calculated using formula and Ontario discrete supply) with what their allocations for the six periods would have been under the previous pro-rata system
- » Once this difference for a block of six periods for (a) Atlantic province(s) exceeds its/their respective threshold, the province(s) will be allocated safeguard kilograms
- » Using New Brunswick as an example:



# STEP 1 – New Brunswick example

<b>A127-132</b>	<b>A127</b>	<b>A128</b>	<b>A129</b>	<b>A130</b>	<b>A131</b>	<b>A132</b>	<b>A127-132</b>	
actual (formula) allocation	4,411,528	4,429,117	4,534,230	4,737,181	4,619,274	4,577,102	27,308,432	
pro-rata allocation	4,451,302	4,475,433	4,597,625	4,776,525	4,673,281	4,621,560	27,595,726	threshold
difference	-39,774	-46,316	-63,395	-39,344	-54,007	-44,458	-287,294	-1,384,446



<b>A133-138</b>	<b>A133</b>	<b>A134</b>	<b>A135</b>	<b>A136</b>	<b>A137</b>	<b>A138</b>	<b>A133-138</b>	
actual (formula) allocation	4,611,998	4,483,175	4,674,518	4,799,630	4,837,083	4,786,960	28,193,364	
pro-rata allocation	4,730,346	4,611,348	4,797,043	4,921,639	4,954,028	4,895,831	28,910,235	threshold
difference	-118,348	-128,173	-122,525	-122,009	-116,945	-108,871	-716,871	-1,384,446



<b>A139-144</b>	<b>A139</b>	<b>A140</b>	<b>A141</b>	<b>A142</b>	<b>A143</b>	<b>A144</b>	<b>A139-144</b>	
actual (formula) allocation	4,617,600	4,616,348	4,785,925	4,943,898	5,105,484	4,974,692	29,043,947	
pro-rata allocation	4,791,127	4,814,542	4,842,846	5,042,957	5,194,523	5,168,542	29,854,537	threshold
difference	-173,527	-198,194	-56,921	-99,059	-89,039	-193,850	-810,590	-1,384,446



<b>A145-150</b>	<b>A145</b>	<b>A146</b>	<b>A147</b>	<b>A148</b>	<b>A149</b>	<b>A150</b>	<b>A145-150</b>	
actual (formula) allocation	4,954,855	4,947,495	4,843,871	4,911,882	5,034,069	5,137,409	29,829,581	
pro-rata allocation	5,197,690	5,193,442	5,098,177	5,160,975	5,302,169	5,368,458	31,320,911	threshold
difference	-242,835	-245,947	-254,306	-249,093	-268,100	-231,049	-1,491,330	-1,384,446

New Brunswick's actual versus pro-rata allocations difference for A145-150 block of periods exceeds threshold → safeguard kgs allocated

## STEP 2 – calculate safeguard allocation

- » Determine whether, realistically speaking, the safeguard threshold will be triggered for the block of six periods
- » Calculate the actual (formula) versus pro-rata difference for the period and compare it to the per period threshold (= six period threshold / 6)
- » Allocate safeguard kilograms when the actual versus pro-rata difference exceeds the per period threshold
- » Use the last period of the block of six to balance the totals for the 6 period block
- » Using New Brunswick as an example (periods A145-150):

# STEP 2 – New Brunswick example – A145-150

	formula alloc	pro-rata alloc	difference	A145-150 threshold (5) -1,384,446	alloc vs pro-rata MINUS period threshold	allocated safeguard kgs	allocation incl safeguard kgs
	(1)	(2)	(3)=(1)-(2)	(4)=(5)/6	(6)=(3)-(4)	(7)=(6)x50%	(8)=(1)+(7)
<b>A145</b>	4,954,855	5,197,690	-242,835	-230,741	-12,094	0*	4,954,855
<b>A146</b>	4,947,495	5,193,442	-245,947	-230,741	-15,206	0*	4,947,495
<b>A147</b>	4,843,871	5,098,177	-254,306	-230,741	-23,565	11,783	4,855,654
<b>A148</b>	4,911,882	5,160,975	-249,093	-230,741	-18,352	9,176	4,921,058
<b>A149</b>	5,034,069	5,302,169	-268,100	-230,741	-37,359	18,680	5,052,749
<b>A150</b>	5,137,409	5,368,458	-231,049	-230,741	-308	13,803**	5,151,212
<b>total</b>	<b>29,829,581</b>	<b>31,320,911</b>	<b>-1,491,330</b>	<b>-1,384,446</b>	<b>-106,886</b>	<b>53,442</b>	<b>29,883,023</b>

\* At time of setting allocation, safeguard threshold not expected to be triggered

\*\* Safeguard allocation kgs adjusted to balance total number of safeguard kgs for block of six periods

## STEP 3 – avoid double-counting of safeguard kgs

- **Account for and incorporate already allocated safeguard kilograms in future allocations to avoid “duplication or double-counting” of safeguard kilograms**
  - Once the safeguard threshold has been reached, the safeguard kgs are added to the allocations during the current block of 6 periods and become part of the base allocation for the following block of periods
  - Without an adjustment to account for the safeguard kilograms that have already been allocated, there will be a duplication of the amount of safeguard kilograms allocated in future blocks of periods

## STEP 3 – continued

- **To ensure there is not double counting, the safeguard threshold for the next block of periods will be calculated as follows:**
  - The safeguard threshold of the province for the previous block of 6 periods plus 2 times the amount of safeguard kilograms allocated to the province during the previous block of 6 periods.
  - For example, if a province was allocated 100 kgs of safeguard kilograms, it would mean that it had passed the safeguard threshold by 200 kilograms
  - Using New Brunswick, periods A145-150 and beyond as an example:

# STEP 3 – New Brunswick example

<b>A145-150</b>	<b>A145</b>	<b>A146</b>	<b>A147</b>	<b>A148</b>	<b>A149</b>	<b>A150</b>	<b>A145-150</b>
allocation	4,954,855	4,947,495	4,843,871	4,911,882	5,034,069	5,137,409	29,829,581
pro-rata allocation	5,197,690	5,193,442	5,098,177	5,160,975	5,302,169	5,368,458	31,320,911
difference	-242,835	-245,947	-254,306	-249,093	-268,100	-231,049	-1,491,330
threshold	-230,741	-230,741	-230,741	-230,741	-230,741	-230,741	-1,384,446
alloc vs pro-rata MINUS threshold	-12,094	-15,206	-23,565	-18,352	-37,359	-308	-106,884
safeguard kgs	0	0	11,783	9,176	18,680	13,803	53,442
alloc incl safeguard kgs	4,954,855	4,947,495	4,855,654	4,921,058	5,052,749	5,151,212	29,883,023

threshold previous block of periods	+	2 x allocated safeguard kgs previous block of periods	=	threshold current block of periods
-1,384,446		-106,884		-1,491,330

<b>A151-156</b>	<b>A151</b>	<b>A152</b>	<b>A153</b>	<b>A154</b>	<b>A155</b>	<b>A156</b>	<b>A151-156</b>
allocation	5,202,082	5,064,747	5,133,971	4,909,409	4,978,695	5,252,878	30,541,782
pro-rata allocation	5,533,792	5,358,565	5,429,850	5,158,379	5,273,135	5,533,437	32,287,158
difference	-331,710	-293,818	-295,879	-248,970	-294,440	-280,559	-1,745,376
threshold	-248,555	-248,555	-248,555	-248,555	-248,555	-248,555	-1,491,330
alloc vs pro-rata MINUS threshold	-83,155	-45,263	-47,324	-415	-45,885	-32,004	-254,046
safeguard kgs	41,578	28,646	23,662	208	22,943	9,986	127,023
alloc incl safeguard kgs	5,243,660	5,093,393	5,157,633	4,909,617	5,001,638	5,262,864	30,668,805

threshold previous block of periods	+	2 x allocated safeguard kgs previous block of periods	=	threshold current block of periods
-1,491,330		-254,046		-1,745,376

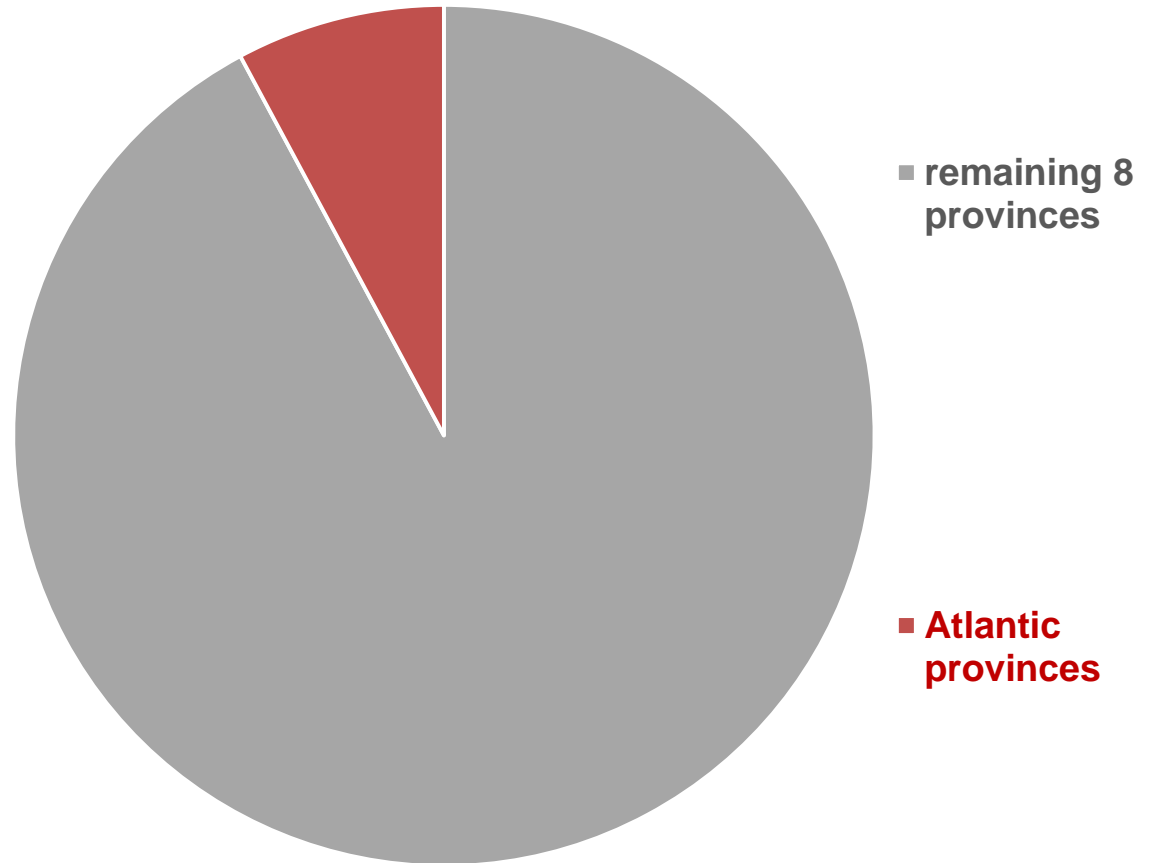
<b>A157-162</b>	<b>A157</b>	<b>A158</b>	<b>A159</b>	<b>A160</b>	<b>A161</b>	<b>A162</b>	<b>A157-162</b>
allocation	5,266,510	5,234,188	5,206,515	5,001,422	5,176,824	5,260,265	31,145,724
pro-rata allocation	5,574,279	5,531,770	5,524,621	5,283,559	5,492,182	5,573,996	32,980,407
difference	-307,769	-297,582	-318,106	-282,137	-315,358	-313,731	1,834,683
threshold	-290,896	-290,896	-290,896	-290,896	-290,896	-290,896	-1,745,376
alloc vs pro-rata MINUS threshold	-16,873	-6,686	-27,210	8,759	-24,462	-22,835	-89,307
safeguard kgs	8,437	3,343	13,605	0	12,231	7,038	44,654
alloc incl safeguard kgs	5,274,947	5,237,531	5,220,120	5,001,422	5,189,055	5,267,303	31,190,378

# Impact of Atlantic Canada Safeguard Agreement

## base A157-162 (Mkg)

BC	157	14%
AB	112	10%
SK	39	3%
MB	46	4%
<b>WEST</b>	<b>353</b>	<b>31%</b>
ON	384	34%
QC	299	27%
<b>CENTRAL</b>	<b>683</b>	<b>61%</b>
NB	31	3%
NS	38	3%
PE	4	0%
NL	15	1%
<b>ATLANTIC</b>	<b>88</b>	<b>8%</b>
<b>TOTAL</b>	<b>1,124</b>	<b>100%</b>

## base allocation A157-162



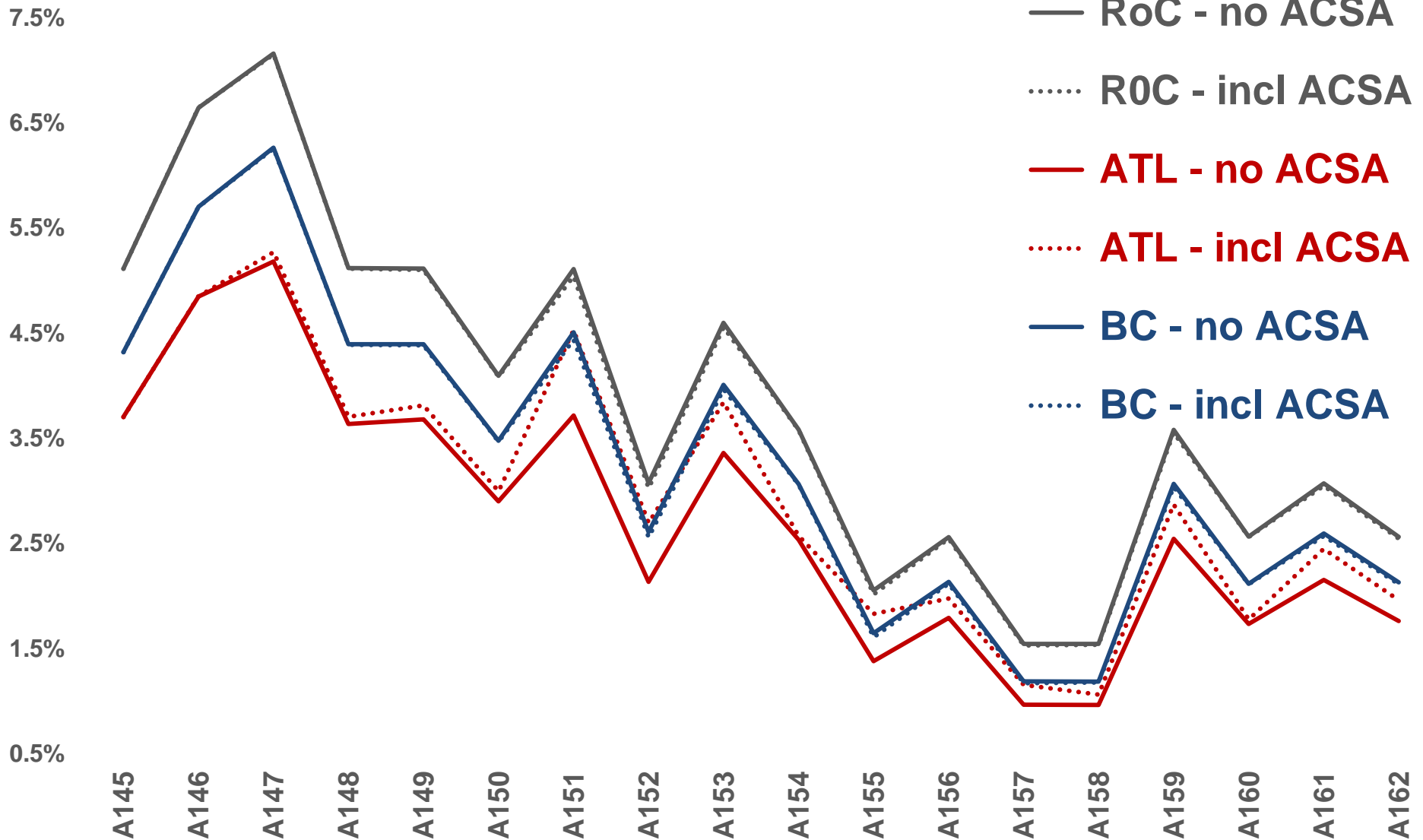
# Impact of Atlantic Canada Safeguard Agreement

	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
<b>A145</b>	0	0	0	0	0	0	0	0	0	0
<b>A146</b>	0	0	0	0	0	0	0	0	0	0
<b>A147</b>	-1,778	-1,259	-456	-523	-4,330	-3,437	11,783	0	0	0
<b>A148</b>	-1,406	-967	-355	-415	-3,363	-2,669	9,176	0	0	0
<b>A149</b>	-2,889	-1,975	-725	-851	-6,824	-5,417	18,680	0	0	0
<b>A150</b>	-2,099	-1,460	-533	-614	-5,072	-4,026	13,803	0	0	0
<b>A145-150</b>	<b>-8,172</b>	<b>-5,661</b>	<b>-2,069</b>	<b>-2,403</b>	<b>-19,589</b>	<b>-15,549</b>	<b>53,442</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>A151</b>	-18,004	-12,436	-4,513	-5,285	-43,113	-33,774	41,578	56,418	0	19,128
<b>A152</b>	-12,174	-8,565	-3,060	-3,564	-29,473	-23,088	28,646	39,360	0	11,918
<b>A153</b>	-10,456	-7,383	-2,592	-3,058	-25,518	-19,990	23,662	34,700	0	10,636
<b>A154</b>	-748	-550	-195	-223	-1,895	-1,485	208	4,889	0	0
<b>A155</b>	-9,895	-6,813	-2,441	-2,851	-23,451	-18,371	22,943	31,686	0	9,192
<b>A156</b>	-4,091	-2,902	-1,034	-1,210	-10,037	-7,863	9,986	15,453	0	1,698
<b>A151-156</b>	<b>-55,368</b>	<b>-38,649</b>	<b>-13,835</b>	<b>-16,191</b>	<b>-133,487</b>	<b>-104,571</b>	<b>127,023</b>	<b>182,506</b>	<b>0</b>	<b>52,572</b>
<b>A157</b>	-4,279	-3,041	-1,072	-1,272	-10,482	-8,146	8,437	9,792	0	10,064
<b>A158</b>	-2,171	-1,558	-548	-633	-5,351	-4,158	3,343	3,458	0	7,618
<b>A159</b>	-7,227	-5,152	-1,815	-2,093	-17,728	-13,777	13,605	17,496	0	16,690
<b>A160</b>	-918	-663	-232	-264	-2,282	-1,773	0	0	0	6,133
<b>A161</b>	-6,507	-4,583	-1,601	-1,909	-15,856	-12,322	12,231	15,441	0	15,106
<b>A162</b>	-4,444	-3,141	-1,106	-1,307	-10,865	-8,443	7,038	8,635	0	13,633
<b>A157-162</b>	<b>-25,546</b>	<b>-18,138</b>	<b>-6,374</b>	<b>-7,478</b>	<b>-62,564</b>	<b>-48,619</b>	<b>44,654</b>	<b>54,822</b>	<b>0</b>	<b>69,244</b>



# Impact of Atlantic Canada Safeguard Agreement

## allocation vs base – no ACSA vs ACSA



# Impact of Atlantic Canada Safeguard Agreement

	<b>A145-150</b>	<b>A151-156</b>	<b>A157-162</b>
<b>BC allocation before ACSA</b>	152,623,786	156,928,461	159,753,512
<b>BC contribution to ACSA</b>	(8,172)	(55,368)	(25,546)
<b>final BC allocation</b>	152,615,614	156,873,093	159,727,966
<b>% of final allocation</b>	-0.005%	-0.035%	-0.016%
<b>BC - % over base before ACSA</b>	4.73%	2.99%	2.04%
<b>BC - % over base after ACSA</b>	4.73%	2.96%	2.02%

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