

# Natural Products Marketing (BC) Act Mandatory Notifiable Avian Influenza Insurance Review

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*Work Plan  
January 27, 2016  
(October 28, 2016 Update)*





# *Natural Products Marketing (BC) Act*

## Mandatory Insurance for Registered Poultry Producers

### Work Plan

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#### **Sponsors:**

- BC Broiler Hatching Egg Commission (BCBHEC)
- BC Chicken Marketing Board (BCCMB)
- BC Egg Marketing Board (CEMB)
- BC Turkey Marketing Board (BCTMB)

#### **Stakeholders:**

- All licenced BC poultry producers
- BC Broiler Hatching Egg Producers Association (BCBHEPA)
- BC Chicken Growers Association (BCCGA)
- BC Egg Producers Association (BCEPA)
- BC Turkey Association (BCTA)
- BC Poultry Association (BCPA)
- BC Primary Poultry Processors Association (BCPPPA)
- BC Egg Processors Council (BCEPA)
- Allied Trades

#### **Purpose:**

The poultry boards and commission have the absolute discretion to make any decisions within the powers and duties conferred under the *Natural Products Marketing Act (NPMA)*. This work plan is intended to provide the boards and commission with a process to assemble the information and analysis as well as engage and consult stakeholders to make decisions whether or not to use the authorities provided under the *NPMA* to require producers to have disease insurance. In this regard, the purpose of the work plan is

- To undertake the requisite due diligence incumbent on the poultry boards and commission in consideration of implementing mandatory Avian Influenza disease insurance in the regulated poultry industry in British Columbia.

#### **Outcomes:**

While it remains in the discretion of the poultry boards and commission to make any decisions regarding disease insurance, the expected outcomes of this work plan include:

- The poultry boards and commission having duly engaged stakeholders and acquired the requisite information upon which to make an informed decision on whether or not to exercise the authority granted under the *NPMA* to require licenced poultry producers to maintain disease insurance as a condition of licence.
- In the event that the poultry boards and commission have determined that requiring mandatory disease insurance is in keeping with sound marketing policy:
  - Seek and receive prior approval of the BC Farm Industry Review Board (BC FIRB) to amend the general/consolidated orders of each of the four schemes to require mandatory Avian Influenza disease insurance.

## Scope:

The scope of the undertakings proposed in the work plan is limited to:

- What are the risks to sound marketing policy associated with Notifiable Avian Influenza (NAI) discoveries in BC.
- Assessing whether insurance contributes to a return to a system of orderly marketing
- Assessing the need for mandatory NAI disease insurance that contributes to maintaining a system of orderly marketing.
- Identifying and assessing options other than insurance as a means to mitigate and manage risk of NAI discoveries in British Columbia.
- Identifying and assessing the absence or sufficiency of available disease insurance to address mandatory Avian Influenza disease insurance requirements.

The undertaking is not intended to address the implementation of the disease insurance requirement, nor is it intended to support the creation of an insurance entity to provide disease insurance.

## Background

Considerable time, energy and work has been undertaken by the poultry industry at the urging of government since the 2004 Highly Pathogenic Avian Influenza (HPAI) outbreak to identify, plan and implement measures to mitigate the risks of future AI discoveries. Subsequent discoveries in 2005, 2009 and 2014 have reinforced the need for the industry to have an effective risk mitigation strategy in place.

Following the 2004 HPAI outbreak, at the urging of government the industry initiated a risk assessment process with the objectives to:

- Identify and assess risk factors which predispose the poultry industry to infectious disease outbreaks.
- Provide opportunities and risk management options for industry and government.
- Minimize impact of disease outbreaks on public confidence in poultry produced in BC.
- Maintain expansion of domestic and international markets for poultry products produced in BC.

The risk analysis was built in four major phases:

- Identifying and ranking a broad range of risk factors which could impact on the frequency and intensity of future animal disease outbreaks. This phase led to the identification of some 34 risk factors facing the industry.
- Assessing and evaluating the gaps that exist with respect to the mitigation of these risks from industry structure, policy and management practice perspectives. This phase led to the consolidation of the risk analysis into a range of possible options and alternatives by which risk could be mitigated or eliminated.
- Conducting an economic and financial evaluation of a limited number of possible and practical response options. This phase identified that an “effective risk management response will necessarily involve an integration of a number of related and complementary actions, that collectively will lead to a positive impact on risk reduction.” Three risk response options were identified for further analysis and consideration by decision makers.
- Developing a series of strategies, recommendations and actions for consideration. Six interrelated options were recommended.

## **Risk Analysis Steering Committee**

A joint industry/government steering committee including BC FIRB representation received the Serecon Risk Analysis for approval. The steering committee unanimously adopted the report and in recognizing the significant implications of the recommendations, directed the development of a risk mitigation strategic plan that built on the Serecon recommended integrated risk management model of:

- Universal biosecurity system
- Active surveillance program
- Responsive financial management and compensation system

## **Universal Biosecurity**

Serecon recommended the “BC poultry industry develops a “universal biosecurity program which encompasses the full value chain of the sector”.

## **Active Surveillance**

Serecon recommended “as a mechanism for early detection and to reduce the intensity of animal disease outbreaks, the industry establish an on-going active surveillance program, inclusive of all production sectors, and supported by a compensation system that compensates industry for their economic losses and recovery costs in the event of detection and business disruption/closure.”

## **Shared Risk Management System**

Serecon recommended “the industry and government develop, and implement an integrated financial management and compensation program. “The Shared Risk Management System”, that provides funding mechanisms for recovery from disaster, self-insurance, government supported production insurance, private insurance, and compensation that substantively protects the industry from the significant perils it will face due to disease risks, and which will serve to sustain and grow the industry.”

## **Emergency Response**

In addition to the recommendations contained in the Serecon Risk Analysis, the BC Poultry Association has put in place an emergency response plan that mirrors the federal/provincial Joint Emergency Operations Centre (JEOC) utilizing an Incident Command System (ICS) approach. Industry has received training in ICS and continually updates the emergency response plan based on reviews of recent events. The industry and government based on the 2014 HPAI outbreak are examining options for including industry in the JEOC to combine resources and improve the overall effectiveness of the response to future discoveries.

## **Sound Marketing Policy**

Notwithstanding the poultry boards and commission joint submission in January 2014 on the Use of Regulatory Authority in Disease Insurance, the approach taken and work done by the BC poultry industry on the Risk Mitigation Strategy adopted the objective to manage/mitigate risk of NAI. The work was predicated on an integrated framework for the three key elements (biosecurity, surveillance and shared risk management).

Given the May 2015 amendments to the *Natural Products Marketing Act* that now explicitly enable the poultry boards and commission to consider implementing disease insurance

requirements, it is clear that the boards and commission must turn their focus on applying due diligence and sound marketing policy in making a conscious decision on whether or not to require disease insurance as a condition of licence.

## Process

The poultry boards and commission will take into consideration direction provided by the BC Farm Industry Review Board (BC FIRB) in various letters on mandatory insurance:

- August 14, 2014 – Supervisory Decision – Sound Marketing Policy and Board Authority – Mandatory Poultry Disease Insurance
- March 3, 2015 – Poultry Disease Insurance – Supervisory Decision Follow-up
- May 12, 2015 – Amendments to the *Natural Products Marketing (BC) Act*, Poultry Disease Insurance and August 14, 2014 Supervisory Decision
- September 12, 2015 Mandatory Disease Insurance Review and Assessment – Draft Work Plan.
- October 13, 2015 Mandatory Disease Insurance Review and Assessment - Next Steps.
- October 11, 2016 Mandatory Disease Insurance Review and Assessment – Assessment Completion Schedule and Updates.

The substantive directions provided by BC FIRB include:

- “Use of an appropriate SAFETI process to determine what, if any, insurance may be required to help ensure orderly marketing.”
- The need for mandatory insurance within the context of sound marketing policy.
  - How to effectively return the poultry industry to a system of orderly marketing?
- Consideration of the impact of mandatory insurance on the industries as a whole, including competitive pricing, foregone opportunities, the availability (or lack thereof) of government funding and related considerations.
- Decisions and rationale are publicly available in a timely manner.

A five-phase approach is proposed to address the BC FIRB directions. A comprehensive stakeholder engagement strategy will be implemented that encompasses the following points:

- Utilize the poultry boards and commission websites for posting information and reports on the Review and to receive industry stakeholder and public comment.
- Distribution of information to and presentations to the five poultry associations for input and comment.
- Distribution of information to and direct follow-up with the allied trades for input and comment.
- Compilation of input and comment into a report with response where appropriate and posted to the poultry boards and commission websites for validation.

### *Phase 1 – Why is a financial response needed?*

Serecon’s Risk Analysis identified the need for industry and government to develop and implement an integrated financial management and compensation program. Determining why a financial response is required is important to answering the sound marketing policy question.

The key questions to be addressed in this Phase include:

- How to effectively and efficiently return the poultry industry to a system of orderly marketing?
  - Is a financial response necessary?
  - What other options/tools are available to the boards and commission?

## Approach

This Phase will assess the work done to date and compile a summary to address the questions related to sound marketing policy. Given the uncertainty with respect to the finalization of the Canadian Food Inspection Agency's (CFIA) revised compensation formula under the *Health of Animals Act*, the primary focus for the Review will be on the costs of cleaning and disinfection (C&D) which are not compensated for by the CFIA.

The Ministry of Agriculture (BC AGRI) will be approached to provide information on C&D and Agri-Recovery costs from the 2014 NAI event.

The commercial index premises (IPs) will be approached and asked for input with respect to the need for a financial response.

Engage stakeholders:

- Notification of the Review posted to board and commission websites
  - Post the Work Plan and invite comment
- Questionnaire to IPs
- Post the Phase 1 Report (TBC)

## Expected Outcome

The report and stakeholder feedback would enable the poultry boards and commission to make a determination that a financial response to a NAI discovery is required to effectively and efficiently contribute to a system of orderly marketing following a NAI discovery.

## Deliverables

- A report on the financial response to NAI and options for response.
- A report on the stakeholder and public feedback on the need for a financial response to NAI.

## Timing

Despite the ongoing CFIA review of compensation formulas, the report on financial response will focus on the costs of C&D and timing is subject to BC AGRI release of the information. It is expected the report for this Phase will be completed by December 23, 2016 subject to BC AGRI providing the C&D and Agri-Recovery cost information by November 4, 2016.

## Limitations

The financial response and residual impact on infected premises cannot be accurately established until such time that CFIA has confirmed its formula for compensation. As of September 2016, the CFIA was in final discussions with the national feather agencies. From the discussions it appears that the CFIA is reverting to a formula similar to that used in 2004 for compensation. If this is the end result, there will be significant residual difference between fair market value and compensation levels.

The lack of conclusion and outcome of the national level discussions will impact the ability to provide a comprehensive analysis of the full costs and impacts of NAI.

## Phase 2 – Scope of Financial Response

Serecon's Risk Analysis identified that the scope of a financial response is not limited to the costs of enhanced cleaning and disinfecting infected premises. Poultry producers have gained a better understanding and experience through the various NAI outbreaks on the requirements and costs of C&D of infected premises. The significance of the requirements and associated cost can affect the system of orderly marketing. This Phase will attempt to address the scope of the financial response required, as well as analyze the various options identified in Phase 1 that the boards and commission have to respond with. The key questions to pursue in this Phase include:

- What risks of NAI affect sound marketing policy decisions by the boards and commission?
- What would be the scope of the response to maintain a system of orderly marketing?
  - What needs to be compensated?
  - Is it more than just C&D required and why?

The options analysis would include addressing questions such as:

- Why current board authority/orders are not able to maintain orderly marketing in the event of a disease outbreak?
- Why is a predictable financial response to avian influenza needed?
- What mechanisms already exist to provide required compensation?
  - *Natural Products Marketing Act and Regulations*
  - Contingency Funds
  - *Health of Animals Act*
  - Business Risk Management Programs
  - Private insurance
- What new mechanisms are possible?
- What conditions must exist to enable the mechanisms to work efficiently and effectively?
  - Is mandatory participation required and why?
- What are the implications of adding mandatory insurance requirements on:
  - Industry cost competitiveness?
  - Pricing?
  - Foregone opportunities?
  - Availability of government funding?
  - Other related considerations?

## Approach

Focus will be on assessing work from Phase 1 and identifying and filling any gaps to present the findings by way of a report to the boards and commission on:

- The key questions regarding the scope of the financial response.
- The options to address the scope of the financial response.
- The conditions required to enable the mechanisms to work efficiently and effectively.

Engaging stakeholders:

- Distribute and present the findings to the five poultry associations for input and comment.
- Distribute the information to and direct follow-up with the allied trades for input and comment.



- Compile the input and comments into a report with response where appropriate and post to the poultry boards and commission websites for validation.
- **Post the Phase 2 report (tbc).**

### Expected Outcome

The report and stakeholder feedback would enable the poultry boards and commission to determine the scope of the response to maintain a system of orderly marketing; in particular, what needs compensating and the range of options to provide an effective and efficient financial response as well as identifying other considerations as part of the decision making process.

### Deliverables

- A report on the sound marketing policy rationale for mandatory requirements to effectively respond to a NAI discovery:
  - Identifying gaps in maintaining a system of orderly marketing in the event of a major disease outbreak.
  - Options for satisfying a system of orderly marketing.
  - Analysis of the options.
  - Recommended option(s).

### Timing

Work on Phase 2 can occur in concert with Phase 1. It is expected that the Phase 2 report on the financial response and options will be completed by January 31, 2017 at which time engagement of stakeholders can commence for feedback on the findings and report.

### Limitations

As with Phase 1, the full extent of the financial implications is sensitive to the CFIA completion of compensation discussions with the national poultry agencies. Delays in the finalization of the CFIA compensation formula will impact the ability to provide a report on the full financial impacts of a NAI discovery.

### ***Phase 3 – Do the Conditions of Insurance Exist?***

If a financial response is required to maintain orderly marketing, and if insurance is to provide a viable response mechanism, the poultry boards and commission must be satisfied that the conditions of insurance exist.

The key questions to be addressed in Phase 3 include:

- Do the conditions of insurability exist?
  - Ability to confirm cause of loss
  - Ability to measure loss
  - Establishing the loss rates
  - Defining coverage
  - Equal knowledge between insured and insurer
- What does the insurance product need to look like to be acceptable to the majority of industry?
  - What must it cover?
  - Are the costs acceptable?
  - Is it actuarially sound?

- Is it administratively feasible?
- Can the excess loss be reinsured?
- How do the specific components of an insurance product fit within the requirements of sound marketing policy?
- How would mandatory insurance affect the competitiveness of the BC poultry industries?

### Approach

The approach will involve two separate assessments of the existing work. Any gaps in knowledge and information will be addressed. The findings will be presented by way of reports to the boards and commission that determine whether or not the conditions of insurability exist.

- Assessment of the costs of cleaning and disinfection.
- Assessment of the other costs associated with a NAI discovery that is compensated under the *Health of Animals Act*, as and when information comes available upon conclusion of the CFIA's work on finalizing the compensation formulas.

Actuary assessments are costly activities. Work to determine actuarially sound insurance premiums and policies will be held in abeyance until such time as the CFIA's compensation formulas are completed. Approaches involving insurance industry specialist advice will be used to provide an "opinion" on the insurability of the segregated loss streams (market loss and C&D costs).

Engaging stakeholders:

- Producers, industry associations and allied trades input is critical in answering the questions regarding what an insurance product needs to look like to be acceptable. Potential differences between sectors will be identified.
- Distribute and present the findings to the five poultry associations for input and comment.
- Distribute the information to and direct follow-up with the allied trades for input and comment.
- Compile the input and comments into a report with response where appropriate and post to the poultry boards and commission websites for validation.

### Expected Outcomes

The reports and stakeholder feedback would enable the poultry boards and commission to determine whether the conditions of insurability exist.

### Deliverables

- Components of an insurance product
  - The ability to segregate components
- Loss Quantification Model Update
  - Establishing the basis for measuring losses
  - Establishing what could be covered
- Actuarial Soundness of a BC only approach
  - Establishing loss rates
  - Estimated losses based on coverage options
  - Establishing the basis for premium structure
  - Conditions for insurability
    - Capital requirements

- Reinsurance feasibility/requirements
- Need for mandatory participation

### Timing

Work will commence immediately on the C&D component, with an analysis of the 2014 experience. It is expected that the C&D component of the Phase 3 report will be completed by January 31, 2017 that would include the feedback and findings from stakeholders engagement.

The report on the remaining financial response will follow with timing subject to availability of information flowing from the completion of the CFIA compensation formulas.

### Limitations

Work on the LQM was commenced in February 2016 but finalization of the model cannot be completed until such time that the CFIA revised formula is completed. It is not prudent to commence the actuarial soundness activities without the results generated by the revised LQM.

The C&D insurance related work will be undertaken irrespective of the CFIA completion of compensation discussions with the national poultry agencies. The other compensation response will be completed once the LQM results become available. The actuarial soundness activities can be initiated once the full extent of losses has been compiled.

### ***Phase 4 – Do Viable Insurance Delivery Mechanisms Exist?***

Considerable work on insurance mechanisms has been previously conducted. Work in this Phase will focus on analyzing and providing a summation and update of previous work. This work will provide the basis for assuring the poultry boards and commission that viable delivery mechanisms exists to enable an informed decision.

There are a limited number of poultry disease insurance products and/or entities that can provide insurance. Other provincial poultry organizations have initiated work to build an insurance based product based on the previous BC model. The poultry boards and commission must analyze what is currently available and decide which mechanism if any will achieve the desired outcomes of mandatory disease insurance in the BC regulated poultry industry. The key questions to be addressed include:

- What insurance mechanisms are currently available?
  - How applicable are they to achieving BC's desired outcomes for mandatory insurance?
  - How would use or reliance on these affect the pricing and cost competitiveness of the BC poultry industry?
- Is a BC only approach is necessary and why?
- Are there any residual legal implications/considerations that the boards and commission must take into consideration?

### Approach

Assess the work done to date and present an evaluation of the full range of options available to the boards and commission. The evaluation will include:

- Legal considerations

- Financial (tax) implications
- Administrative considerations
- Producer acceptance

Engaging stakeholders:

- Distribute and present the findings to the five poultry associations for input and comment.
- Distribute the information to and direct follow-up with the allied trades for input and comment.
- Compile the input and comments into a report with response where appropriate and post to the poultry boards and commission websites for validation.

### Expected Outcomes

The reports and stakeholder feedback would enable the poultry boards and commission to confirm whether viable insurance products can be delivered by viable business entities and whether that entity exists at this time.

### Deliverables

- Evaluation of the existing financial response mechanisms.

### Timing

The report on the Phase 4 evaluation of financial response mechanisms with the limitations as noted below will be completed by January 31, 2017

### Limitations

The assessment may be incomplete depending upon the timing of the conclusion of the CFIA's work on finalizing compensation formulas and the ability to secure information on the existing disease insurance products.

### ***Phase 5 – Mandatory Insurance Delivery Mechanism***

It is understood by the poultry boards and commission that it is not possible to demonstrate at this time that the establishment of the BC Poultry Captive Insurance Company is work that falls under orderly marketing. Work on this aspect must occur concurrently but it is understood that levies collected under the NPMA authority cannot be used for these tasks. The poultry associations will be required to find alternate funding for industry share of the cost of these works.

Should the poultry boards and commission determine in Phase 4 that a captive insurance company is the best mechanism to support maintaining orderly marketing following a NAI discovery it will be incumbent on the poultry boards and commission to demonstrate how such an insurance program would be implemented. The focus must be on clearly defining the roles, responsibilities and relationships between the boards, commission and the delivery mechanism within the scope of orderly marketing policy.

### Approach

The poultry boards and commission will define the roles, responsibilities and relationships between them and the captive insurance company. This may include:

- Clearly stated expectations, roles, responsibilities, accountabilities of each party.

- Roles, responsibilities and accountabilities of associations.
- Information sharing requirements.
- Contracts for services, i.e. premium collection, audit and inspection.

### Expected Outcome

All parties, the poultry boards, commission, associations and captive insurance company have a clear understanding of expectations, roles, responsibilities and relationships as it relates to board and commission mandatory disease insurance requirements.

### Deliverables

- A Memorandum of Understanding outlining the respective roles, responsibilities and relationships between all parties.
- Service agreements between the boards and commission and the captive insurance company.

### Timing

Work on this Phase will not commence until such time as the boards and commission have made their respective decisions on the question of mandatory insurance requirements. The Stage 5 activities would commence once all four prior stages have been completed and decisions posted for comment.

The timing of initiation of this Phase will be confirmed after the completion of Phase 4.

## Cost Estimates

The expected cost of activities to complete all four phases is \$200,000. A portion of the costs of all phases may possibly be recovered through the BCPA's BC Poultry Captive Insurance Company federal Agri-Risk Initiative funding. The Agri-Risk Initiative may cover up to two-thirds of the cost of eligible activities.

The industry share of costs (\$67,000) would be covered by the boards and commission, provided that Agri-Risk Initiative funding can be applied to the activities that fall within the scope of the BCPA's project.