

British Columbia Milk Marketing Board

Response To

Recommendations
For
Managing Specialty Agri-Foods Products
In
B.C.'s Supply Managed System

**Report Prepared For Discussion
March 31, 2005**

Specialty Production and Marketing in the Regulated Marketing Sector
British Columbia Milk Marketing Board
March 31, 2005

Preamble

The Farm Industry Review Board (FIRB) acting on direction of the Minister of Agriculture, Food and Fisheries has directed the commodity boards to present plans to ensure Specialty Product market demands are filled. For the British Columbia Milk Marketing Board (the 'Board'), this consists of milk that is substantively different from the mainstream product (from production through to the end consumer product) and third party verified as such. The Specialty Product, Certified Organic milk, is by definition substantively different from the mainstream product and not a variant of an existing product. The Board relies on third party certification for validation of this differentiated product.

Background

The British Columbia Milk Marketing Board has been a pioneer in the development and implementation of new entrant and Specialty Product programs. The new entrant program is called the Graduated Entry Program (GEP) and has been in existence for better than twenty years in one form or another. The Board maintains a Wait List of people who are interested in starting a dairy farm operation. Under the GEP the Board allocates permanent, non-transferable quota to assist the new producer upon start-up.

Some new entrants have chosen to become producer/processors and to accommodate these new entrants the Board utilized the Cottage Industry Program (CIP) to assist new producers' intent on processing their own milk on the farm-site. The CIP as it is known also provides a temporary allocation of non-transferable quota.

In 1998 the Board initiated a program to encourage the production of Certified Organic milk to fill an identified market demand. The Board introduced the concept of a processor Organic Premium payment for organic milk to encourage producers to enter the market. The Organic Premium was set at an amount deemed appropriate to offset the additional production costs for Certified Organic milk at the producer level. As the premium was a pass-through to the retail market the processor was able to recover the added cost of the Certified Organic milk. At that time there were two producers interested in entering this new market who were Transitionally Certified organic. During the transitional start-up period, the Board subsidized the Organic Premium payment with a direct payment to producers as processors were not able to recover the Organic Premium from the market.

1. Specialty Production - Organic Milk

Certified Organic milk is the only Board recognized Specialty Product at this time (see section 7 for further discussion). Organic milk production started in 1998 supported by a Board initiated Organic Milk Premium payment. This initiative helped develop two producers who supplied Transitional Organic milk to two licenced dairies for the retail market. Acceptance of the respective processors into the Domestic Dairy Product Innovation Program (DDPIP) helped to

grow Certified Organic milk production with innovative new products. The DDPIP is a national program administered by the Canadian Dairy Commission (CDC) that commits the province to the supply of milk to an approved processor for the manufacture of an innovative industrial dairy product not currently produced in Canada. This program is only accessible to processors, excludes fluid milk and butter and operates for a period of sixty months. However, the DDPIP does not currently recognize as a Specialty Product, dairy products manufactured from milk whose sole attribute is that it is Certified Organic. Today there are four commercial size producers of organic milk shipping over 4,500,000 litres per annum or 1% of provincial production; however, 80% of this amount is shipped by only two producers. By comparison, there are 43 producers in Ontario producing 9,600,000 litres of organic milk.

Existing Organic Sector

There are two large processors being supplied organic milk by four producers. Approximately 40% of the organic milk is currently produced via mainstream quota. Two of these producers are temporarily allotted quota for the supply of milk according to the terms of the Domestic Dairy Product Innovation Program. The two producers supplying milk under the terms of the DDPIP provided an Undertaking & Declaration (U&D) to the Board that defines the temporary allotment of quota for the supply of milk. The temporary allotment covers a period of sixty months after which the quota reverts to the province according to a schedule as shown in the Undertaking & Declaration. It is the expectation of the Board that as the market further develops and the demand for organic milk increases new producers and existing mainstream producers will respond to the opportunity. Some existing mainstream producers will convert their farms to organic production while the additional new Specialty Product producers may be names from the GEP Wait List.

Growth of the Organic Sector

The Board has received information from processors on expected growth of the organic sector. Processor expectations for an annual growth of 10,000 kg will bring additional producers and new producers into the sector. Annual consultation meetings with processors to review market sector development will become the basis for current and new producers to enter the organic milk market. The Board will initiate a process following consultation to establish a plan of action to invite producers to enter the Specialty Product market. Commensurate with this, the Board proposes to grant existing producers who convert to Certified Organic and new entrant producers of organic milk an allotment of 5,000 kg of permanent, non-transferable quota with an additional allocation of 2,000 kg of non-transferable quota upon the purchase of 2,000 kg of transferable quota for a total allocation of 9,000 kg. New producers may come from the current Graduated Entry Program Wait List or may be new producers who have purchased quota and choose to operate an organic farming operation.

The Board intends to expand producer participation in the organic sector commensurate with processor initiated growth of new listings, new products and new markets. It bears noting that growth of the organic market is based on consumer demand and the processor's ability to fill the demand. The retail organic market reacts in response to product purchases, 'Pull Strategy'. In the CIP market the producer/processor is solely responsible for his/her products, packaging, legislative approvals, distribution, store listings, research and development, marketing, consumer contact and sales, 'Push Strategy'.

Specialty Production Supply Plan

The Board understands processor Specialty Product growth estimates to be 10,000 kg per year of milk quota. Return of quota provided under DDPIP to the province, called claw-back, continues to be required by processors. As a result, there is a total incremental requirement for organic milk projected for the coming years as shown in Table 1.

Table 1 Claw-back & Growth Schedule

| Processor | Year | Claw Back | Growth | Total Requirement | Cumulative Total |
|-----------------|---------|-----------|--------|-------------------|------------------|
| | 2005-06 | - | - | - | - |
| DDPIP 1 | 2006-07 | 9,600 | 10,000 | 19,600 | 19,600 |
| DDPIP 1 | 2007-08 | 9,600 | 10,000 | 19,600 | 39,200 |
| DDPIP 1/DDPIP 2 | 2008-09 | 19,600 | 10,000 | 29,600 | 68,800 |
| DDPIP 1/DDPIP 2 | 2009-10 | 19,600 | 10,000 | 29,600 | 98,400 |
| DDPIP 1/DDPIP 2 | 2010-11 | 19,600 | 10,000 | 29,600 | 128,000 |
| DDPIP 2 | 2011-12 | 10,000 | 10,000 | 20,000 | 148,000 |
| DDPIP 2 | 2012-13 | 10,000 | 10,000 | 20,000 | 168,000 |
| | 2013-14 | - | 10,000 | 10,000 | 178,000 |
| | | 98,000 | 80,000 | 178,000 | |

Specialty Permits

Table 2 illustrates as an example, how the Board may address this incremental demand through an allocation to existing Specialty Product producers and to the new entrant program (GEP). The current projection also assumes that some existing producers will convert from mainstream to organic milk based on growing market demand and the price premium provided for Certified Organic milk. The Board will support the conversion from mainstream to organic by funding the price premium as outlined below.

For a producer to receive the Board allotment of non-transferable quota of 5,000 kg and 2,000 kg there must be a matching purchase of 2,000 kg. The resultant 9,000 kg is the amount that a new producer will supply the market. An existing mainstream producer who converts to organic production will be given the same opportunity and benefit of 5,000 kg plus 2,000 kg with a matching amount of 2,000 kg. Since an existing producer is likely to have a larger amount of transferable quota the amount of organic milk will be more than the 9,000 kg allocated here.

Table 2 Specialty Permits

| Year | Cumulative Total | Existing SP 1 & 2 | NEW GEP | Existing Producers | Cumulative Total | Balance |
|---------|------------------|-------------------|---------|--------------------|------------------|---------|
| 2005-06 | - | | | | | |
| 2006-07 | 19,600 | 20,000 | - | - | 20,000 | 400 |
| 2007-08 | 39,200 | - | 9,000 | 20,000 | 49,000 | 9,800 |
| 2008-09 | 68,800 | - | 27,000 | - | 76,000 | 7,200 |
| 2009-10 | 98,400 | - | - | 20,000 | 96,000 | (2,400) |
| 2010-11 | 128,000 | - | 18,000 | 20,000 | 134,000 | 6,000 |
| 2011-12 | 148,000 | - | 18,000 | - | 152,000 | 4,000 |
| 2012-13 | 168,000 | - | 18,000 | | 170,000 | 2,000 |
| 2013-14 | 178,000 | - | 18,000 | | 188,000 | 10,000 |

Transitional Cost

A producer wishing to acquire organic certification by COABC or another recognized certifying body under authority of the Agri-Food Choice and Quality Act must present a farm and animal management plan and agree to regular, on-site farm audit by the certifying body. On acceptance, the producer will be required to go through a transitional period lasting from one to three years depending on prior farm management practices. During the transitional period, producers may be unable to receive the Organic Milk Premium prescribed by the Board and payable by the processor receiving the Certified Organic milk. The processor may not be able to collect the premium from the marketplace on transitional milk. The Board will require existing producers to subsidize the production of transitional milk. Levies imposed on producers will fund the premium cost to the producer on all qualifying, in-quota milk processed during the transitional period subject to the presentation of a valid certificate from COABC or another recognized certifying body. The transitional premium will continue for three years while the milk is shipped to the pool or until the milk is certified whichever is less, at which time the Organic Milk Premium is payable by the processor.

2. Cottage Industry Program (CIP)

The Cottage Industry Program (CIP) was introduced as a means of allocating temporary quota to a start-up producer/processor who wished to produce milk and process it into a manufactured milk product (excluding fluid milk) on the farm, hence Cottage Industry. To assist this new venture the Board allocates quota on a temporary basis and reduces the allocation over time. The maximum quota allocation is 10,000 kg which reduces at the rate of 20% per year after the first full dairy year of participation in the program. It has always been assumed that as the temporarily allotted quota reduces the producer would replace it with transferable quota to maintain the production level. Participation in the CIP is governed by a written agreement with the producer. There are currently four producers licenced under the CIP. In some cases the production is in the Specialty Product category but this is not a requirement of the program. Quota of 30,000 kg is set aside for the CIP and is temporarily allocated as required. Qualification for the CIP is conditional on the producer’s ability to process milk on the farm into a manufactured milk product; fluid milk is not included in the program.

Current CIP producer/processors have proposed that there should be a recognition of their investment to grow the industry in a clearly defined market supplied exclusively by products produced on the farm with the producers own milk. Unlike traditional processor initiated growth, this expansion was realized by the efforts of the CIP producer/processor. However, to remain within the Specialty Product initiative framework, only producer/processors of a Specialty Product, namely Certified Organic milk operating under the terms of the Cottage Industry Program would receive an allotment of 10,000 kg of permanent, non-transferable quota. This quota allocation is sufficient to licence a stand alone on-farm processing operation while permitting the CIP producer/processor to acquire additional quota as the market develops.

CIP producer/processors with a DDPIP agreement will be able to grow their Specialty Product business helped by the temporary allotment of quota authorized by the CDC under the terms of the DDPIP. On the fifth year anniversary of a producer/processor's participation in the DDPIP the producer will receive an allocation of temporary, non-transferable quota equal to the quota equivalent of the milk used for the manufacture of the approved product(s) in the final year of the DDPIP to the maximum specified in the Undertaking & Declaration. Quota temporarily allocated in excess of the Board's initial allotment of 10,000 kg will be returned to the Board according to the schedule in the U&D.

3. General Exemptions

All milk producers in British Columbia are obligated to hold a Milk Board Producer Licence along with the BC Ministry of Agriculture, Food and Fisheries, Dairy Farm Licence. All licensed producers and producer/processors are required to remit the appropriate levies as per the BCMMB Consolidated Order and applicable legislation. There are no exceptions. The Board is strongly opposed to any exemption level. **Raw milk is not an agricultural product sold at the farm gate.** Under the Milk Industry Act non-pasteurized milk is a health hazard and may not be sold to consumers.

4. Graduated Entry Program (GEP)

The purpose of the Graduated Entry Program is to assist new producers who wish to become dairy farmers with an allocation of quota. British Columbia is the only province with a new entrant program supported with an allotment of quota. The Graduated Entry Program has been in existence for in excess of 20 years. The Program was modified in 1999 to ensure the objectives of the program were being achieved.

Further to the above, in May 2004, following extensive consultation with producers and interested parties and with the approval of the FIRB, the Board revised the program to include a permanent allocation of non-transferable quota. Quota allocated under the GEP is for the beneficial use of the entrant and consists of 5,000 kg of permanent, non-transferable Total Production Quota (quota) along with 2,000 kg of non-transferable matching quota upon the purchase of 2,000 kg of transferable quota. Thus a GEP producer with the maximum benefit will hold 9,000 kg of quota, enough for approximately twenty-seven cows. All current GEP producers with temporary quota have been granted the option to convert to the current program with the allotment of permanent, non-transferable quota.

5. Quota Management

Assessment on Transfers

The Board instituted an assessment of quota on the transferable amount of quota to help fund the new entrant program. Funded by the transferring producer, it was thought by some to be a way to return to the industry, some of the benefit a producer derived by reason of growth in the domestic market. Upon application by a producer to transfer quota to an unrelated party there is an assessment of 5% on the transferable amount of the quota. There is no assessment on quota transferred via the Quota Exchange (QE) or transfers to family descendants. The decision to exempt QE transfers from assessment was made to encourage producers to buy and sell quota on the QE to produce viable QE volumes. This would assist producers, particularly those in the outlying areas and make it easier to purchase quota in both large and small quantities. The Board currently exempts the QE from assessment to encourage producers to put their quota transfers on the Quota Exchange. However, an assessment of 1% on the QE could be used to partially fund the new entrant program. Quota transfers and assessments for the 2003-2004 dairy year are summarized in Table 3.

Table 3 2003-2004 Quota Transfers (kilograms)

| Going Concern | Partial Transfers | Family Transfers | Name Change | Mergers & Splits | Total Off Exchange | Total On Exchange | Total Transferred |
|---------------|-------------------|------------------|-------------|------------------|--------------------|-------------------|-------------------|
| 195,992 | 38,472 | 353,100 | 343,441 | 24,253 | 955,258 | 563,529 | 1,518,787 |
| Assessment | Assessment | No Assm't | No Assm't | No Assm't | Assessment | No Assm't | |
| 9,800 | 1,924 | 0 | 0 | 0 | 11,724 | 0 | |

General Quota Allotment

Periodically, the Canadian Milk Supply Management Committee (CMSMC) makes a general allotment of quota to the provinces based on estimated domestic requirements. BC in turn allocates the quota to producers on a pro-rata basis according to transferable quota allocation. In the event there is a shortfall of quota obtained from assessments for new entrant start-up, the Board would rely on the general allotment to start new Specialty Product producers as required.

It should be noted that British Columbia currently does not have sufficient quota to meet its industrial needs. This is because BC currently holds only 6.5% of MSQ allotments even though it has approximately 13% of the Canadian population. As such, it may be unreasonable to expect British Columbia to supply 100% of its Specialty Product needs given that it cannot supply 100% of its industrial milk requirements.

6. Organic Milk Premium

When the Board first became involved in establishing organic milk production in British Columbia there were incentives given to processors to partially offset the additional cost of transitional organic milk. There is no dispute that input costs are higher for the supply of Certified Organic milk. The Board also recognized that Certified Organic milk can attract significantly higher retail pricing in the specialty market. Although market forces would

normally influence milk supply and producer returns, the Board felt compelled to establish a minimum premium to be paid to producers for organic milk supplied under a contract with a processor. It was and remains the position of the Board that producers would not necessarily receive the Organic Milk Premium from organic processors unless it was mandated by the Board.

Financial Impact

In a report commissioned by COABC in May 2004 on the organic dairy industry in B.C., Dr. Barichello, UBC, alludes to the additional costs for organic milk supply at 50% higher than conventional costs of production. He writes “In litre terms, the cost of producing organic milk at the farm level was found to be approximately 30 cents per litre higher than the cost of producing conventional milk.” The Board recognized this in 1998 and established a \$0.30 per litre premium for all contracted organic milk. Further, Barichello states “It turns out, perhaps fortuitously, that our cost differential estimate is equal to the price premium.” On this basis, the BCMMB is assured that the producer is being compensated for the additional costs of producing organic milk.

The Board, producers and processors agreed on a premium of \$0.30 per litre for Certified Organic milk delivered by a producer to a processor under a supply contract. The amount of the premium was fixed in 1998 when the first two producers commenced production of transitionally certified milk. It was the decision of the Board that the Organic Milk Premium should be regulated via the Consolidated Order to avoid the loss of the premium to the producer as the market expanded. Although margins at the retail level are managed by the retailers and the manufacturers, producer margins may otherwise have eroded if the amount was not fixed in the Consolidated Order.

The Organic Milk Premium will be reviewed periodically by the Specialty Milk Products Advisory Committee.

Consolidated Order, Organic Milk Premium, Section 33

33. (1) Where organic Qualifying Milk is received by a Pool Participant Vendor from a Certified Organic Producer who has a contract with that Pool Participant Vendor for the supply of a specified quantity of organic Qualifying Milk, the Pool Participant Vendor shall, on or before the 19th day after the end of each month, pay directly to that Certified Organic Producer a minimum premium of \$0.30 for each litre of contracted organic Qualifying Milk determined by the Board to be within quota production and received by the Pool Participant Vendor from that Certified Organic Producer during the previous month.
- (2) The premium payable by a Pool Participant Vendor under subsection (1) is in addition to any amounts due by that Pool Participant Vendor to the Board, on behalf of that Certified Organic Producer, under section 32.

7. Certification

The Board currently recognizes only one Specialty Product, namely Certified Organic milk that is certified by an authorized third party. Other types of differentiation do not offer “... substantively different product but may be characterized as a variant of an existing product”.

Examples of this type of differentiation are pastured cows and BCSPCA certified. The Board does not have policing functions and relies on third party verification of certified organic milk.

In the event that an existing organic producer loses their certification, the Specialty Milk Products Advisory Committee will review the situation and make recommendations to the Board.

8. Transportation

There are currently four farms producing Certified Organic milk that is segregated and delivered to processors. The additional cost for transportation is borne by the processors who recover the cost in the marketplace. The Specialty Product producers pay their share of freight cost through the Equalization Pool at the same level as other producers in BC. Expansion of the industry in the number of organic milk producers may affect the overall transportation costs and may reduce the cost to processors. Nevertheless, any incremental freight is borne by those who benefit from the sale of the product. Continued growth of this sector is expected to bring transportation efficiencies resulting in lower delivery costs.

9. Regionality

The highest volume of Specialty Product, namely Certified Organic milk is produced in the Fraser Valley and delivered to local processors. Opportunities may exist for Certified Organic production in the rest of the province that may be filled by existing producers and new entrants. However, regionally produced Certified Organic milk must be viewed in the context of dedicated bulk milk transporters for segregated delivery to processors. Since incremental costs are borne by processors the only restriction on growth of the market in the regions is the ability of local processing to expand. In future, the loss of a regional processor could result in the Certified Organic milk producer paying the incremental transportation cost to bring the Specialty Product to another region.

Table 4 shows the breakout of producers and quota allocation on a regional basis. Although producers in the regions may have an interest in becoming Certified Organic it is important that the transportation provisions for the incremental cost of transporting Certified Organic milk are clearly understood.

Table 4 Producers & Quota Allocation - Regional Statistics as at July 31, 2004

| Region | Number of Producers | TPQ Allotted (kg) |
|----------------------------|---------------------|-------------------|
| 1 - Fraser Valley | 464 | 16,223,476 |
| 2 - Vancouver Island South | 47 | 1,686,902 |
| 3 - Vancouver Island North | 24 | 1,025,258 |
| 4 - Bulkley Valley | 13 | 245,422 |
| 5 - Cariboo | 9 | 314,804 |
| 6 - Kootenays | 13 | 512,431 |
| 7 - Okanagan | 97 | 2,812,790 |
| 8 - Peace River | 5 | 123,207 |
| Total | 672 | 22,944,290 |

10. Specialty Product Advisory Committee

Management of production, quota and pricing is a function of the Milk Marketing Board for all levels of production without exception. However, the Board recognizes that Specialty Product production has its own unique parameters that do not always align themselves with mainstream production. To address the Specialty Product market the Board will create a Specialty Milk Product Advisory Committee (SMPAC) chaired by a member of the BCMMB and consisting of representatives from the specialty market sector – producers, processors and distributors. The role of the SMPAC is to advise the Board on matters affecting pricing, production, quota allocation, transportation and levies. The SMPAC will meet regularly and separate from the Board. Milk Marketing Board staff will provide secretarial and administrative services as required. All licensed producers, including Specialty Product producers, have the opportunity to be nominated and elected as members of the BCMMB.

11. Organic Milk Pool

In October 2001 the Milk Board took over the responsibilities for first receiver of milk. As such, the Board coordinates milk pick up at the farm and its delivery to processors. Four licensed Certified Organic milk producers currently have contracts with processors. The Board plans to create a separate pool for the premium on Certified Organic milk. This pool will keep the Certified Organic milk premium and expenses separate from mainstream milk production and remit proceeds to organic producers.

12. Action Plan

In responding to the needs of the Specialty Product market the Board will implement the following measures:

- i. There are currently two producers of a Specialty Product, namely Certified Organic milk responding to the production requirements of the two processors under the terms of the processors' DDPIP. The Board will allocate 10,000 kg of permanent, non-transferable

quota that is conditional on the producer continuing to ship the Specialty Product, namely Certified Organic milk from the farm-site to which the allocation has been made. Quota temporarily allocated in excess of the Board's initial allotment of 10,000 kg will be returned to the Board according to the schedule in the Undertaking & Declaration provided by the producer participating in the DDPIP. The quota allotted by the Board may not be transferred to another farm-site without the expressed written permission of the Board delivered not less than one year in advance of the transfer. The quota allotted by the Board is classified as Specialty Product quota and may not be traded, sold or otherwise transferred to another producer in any manner.

- ii. Producer/Processors of a Specialty Product, namely Certified Organic milk operating under the terms of the Cottage Industry Program for the on-site manufacture of an industrial dairy product, will be allotted 10,000 kg of permanent, non-transferable quota that is conditional on the producer/processor continuing to manufacture an industrial dairy product using the Specialty Product, namely Certified Organic milk on the farm-site to which the allocation has been made. The quota allotted by the Board may not be transferred to another farm-site without the expressed written permission of the Board delivered not less than one year in advance of the transfer. The quota allotted by the Board is classified as Specialty Product quota and may not be traded, sold or otherwise transferred to another producer in any manner.
- iii. A Cottage Industry Program producer/processor who has been approved for the on-site manufacture of an innovative dairy product within the terms of the DDPIP and using a Specialty Product, namely Certified Organic milk will be allotted 10,000 kg of permanent, non-transferable quota. In addition to this allocation, the producer/processor will receive an allocation of temporary, non-transferable quota equal to the quota equivalent of the milk used for the manufacture of the approved product(s) in the forty-ninth month to the sixtieth month of the DDPIP to the maximum specified in the Undertaking & Declaration governing the allocation of quota under the terms of the DDPIP. Quota allocated in excess of the Board's initial allotment of 10,000 kg will be returned to the Board according to the schedule in the Undertaking & Declaration. The quota allotted by the Board is conditional on the producer/processor continuing to manufacture dairy products using a Specialty Product, namely Certified Organic milk on the farm-site to which the allocation has been made. The quota allotted by the Board may not be transferred to another farm-site without the expressed written permission of the Board delivered not less than one year in advance of the transfer. The quota allotted by the Board is classified as Specialty Product quota and may not be traded, sold or otherwise transferred to another producer in any manner.
- iv. The Board will cause to be established a Specialty Milk Product Advisory Committee (SMPAC) to make recommendations to the Board on matters respecting the production of a Specialty Product to fulfill the needs of a growing market.
- v. Following consultation, the Board will develop an incentive program for existing producers of a Specialty Product using mainstream quota as at January 1, 2005. The incentive will take the form of an allocation of 5,000 kg of permanent, non-transferable quota and will further match up to 2,000 kg of non-transferable quota on a one for one basis with the purchase of up to 2,000 kg of transferable quota. The quota allotted by the

Board is conditional on the producer continuing to ship a Specialty Product, namely Certified Organic milk from the farm-site to which the allocation has been made. The quota may not be transferred to another farm-site without the expressed written permission of the Board delivered not less than one year in advance of the transfer. The quota allotted by the Board is classified as Specialty Product quota and may not be traded, sold or otherwise transferred to another producer in any manner.

- vi. The Board will also develop an incentive program for mainstream producers to convert to Certified Organic milk production. The incentive will take the form of an allocation of 5,000 kg of permanent, non-transferable quota and will further match up to 2,000 kg of non-transferable quota on a one for one basis with the purchase of up to 2,000 kg of transferable quota. The quota allotted by the Board is conditional on the producer continuing to ship a Specialty Product, namely Certified Organic milk from the farm-site to which the allocation has been made. The quota may not be transferred to another farm-site without the expressed written permission of the Board delivered not less than one year in advance of the transfer. The quota allotted by the Board is classified as Specialty Product quota and may not be traded, sold or otherwise transferred to another producer in any manner.

The Board will require existing producers to subsidize the production of transitional milk for producers converting to Certified Organic milk by paying the Organic Milk Premium on each litre of qualifying in-quota milk shipped by the producer that is classified Transitionally Certified Organic according to the following schedule:

1st Year Transitional - \$0.15 per litre of qualifying in-quota milk,
2nd Year Transitional - \$0.30 per litre of qualifying in-quota milk,
3rd Year Transitional - \$0.30 per litre of qualifying in-quota milk,
until such time as the milk is Certified Organic or for a total subsidy period of three years whichever is less.

The Board will review the Organic Milk Premium subsidy schedule in three years to evaluate its effectiveness and may choose to continue the subsidy schedule, modify the schedule or discontinue the schedule at the sole discretion of the Board.

- vii. The Board may encourage Graduated Entry Program new entrants to start as Specialty Product producers and will require existing producers to subsidize the milk with the Organic Milk Premium on each litre of qualifying in-quota milk shipped by the producer that is classified Transitionally Certified Organic according to the following schedule:

1st Year Transitional - \$0.15 per litre of qualifying in-quota milk,
2nd Year Transitional - \$0.30 per litre of qualifying in-quota milk,
3rd Year Transitional - \$0.30 per litre of qualifying in-quota milk,
until such time as the milk is Certified Organic or for a total subsidy period of three years whichever is less.

- viii. The Board will work with the certifying organizations to bring equality to the certification process to ensure that all Specialty Product producers are audited for compliance using the same and highest compliance criteria.

- ix. Mainstream producers who convert to Specialty Product may transfer their quota as conventional quota or as Specialty Product quota.

Quota allotted by the Board and classified as Specialty Product quota may not be traded, sold or otherwise transferred to another producer in any manner. Furthermore, Specialty Product quota allotted by the Board will always remain as Specialty Product quota.

- x. Processors of a Specialty Product, namely Certified Organic milk pay the Organic Milk Premium to the producer on all qualifying, in-quota milk processed regardless of how it is marketed. By-product of the processing of the Specialty Product, excluding butterfat will be allowed to enter the mainstream market if it can be shown that the by-product is excess to the processor's Specialty Product requirements.
- xi. The Board will create a separate Specialty Product pool for the premium and related pool expenses.
- xii. Because of their small volume unique requirements, Specialty Product producers will be charged the greater of the compensatory rate or the mainstream pooled rate for transportation.