



B. C. Milk Marketing Board

April 13, 2006

By E-mail: firb@gov.bc.ca

Richard Bullock, Chair
Farm Industry Review Board
PO Box 9129 Stn Prov Govt
Victoria, B.C., V8W 9B5

Dear Mr. Bullock

Re: Review of Specialty Production and New Entrant Programs – Improving Access to the Supply Management System/Quota Transfers

The British Columbia Milk Marketing Board has reviewed your March 13, 2006 letter on the above noted issue and is pleased to provide further comment and information to assist the Farm Industry Review Board in their deliberations. The following material is presented in condensed form as each of the points raised in your letter have been more thoroughly addressed in previous correspondence. A number of these issues are not addressed in the Consolidated Order (CO) because the CO is restricted to the overall operation of quota management and pooling on a provincial basis. The specific sections on the GEP and CIP have been addressed in our previous responses. Specific decisions relative to individuals benefiting under this review will be accommodated by the Board on an ad hoc basis without inclusion in the CO. For clarification, the Board will agree to include the unique treatment for individuals in a separate letter to FIRB as there is no need for it to be publicized in the CO.

For reader convenience the following comments are grouped as per the numbered paragraphs in the March 13, 2006 letter to the Milk Marketing Board.

1. Exempt producers – The Board reserves the right to exempt certain persons from the transfer assessment in response to unique circumstances, i.e. death or disability.
2. Specialty Milk Products – The Board confirms that at present there is only one class of milk designated Specialty Product and that is certified organic milk. It is the position of the Board that no other milk will be granted this status unless the milk is designated Specialty Product by the Board which can only occur with independent third party review and certification by a provincial authority operating in conjunction with other national certifying bodies for the class or type of milk under review. In prior correspondence the Board clarified that feeding and husbandry programs do not confer specialty product status on milk.

3. Specialty Product Total Production Quota (STPQ) – Under the terms and conditions being proposed by the FIRB, processors with excess milk received from producers under contract to the processor for the manufacture of a Specialty Product may be sold into the mainstream market to avoid the risk of dumping the milk. The mainstream pool will ensure payment to the producer for this milk without the premium as defined in the Consolidated Order.
4. Licensing – For clarification purposes, the Board has always paid producers of milk for Specialty Product via the Equalization Pool and will continue this payment practice without change. The reference to pooling organic milk production and marketing refers to the supply and availability of the milk to Specialty Product processors. It is the Board's considered opinion that processors should have equal access to milk supply and that all Specialty Product milk producers should have the assurance that their milk will be utilized. Shortages of milk for processing and excess milk needs to be administered on an equal basis to avoid windfall benefits to some while introducing risk of business failure for others. Working with the Specialty Milk Product Advisory Committee (SMPAC), the Board will determine how best to fill processor requirements to reduce the risks of supply. All producers of SP milk will have an equal chance to fill their quota and receive the premium payment as authorized by the Board. Excess milk directed to the mainstream market without the premium will be apportioned pro-rata to the producers such that they will all share the loss on the premium. However, processors will be required to pay the premium on 95% of the milk ordered into production to minimize the risk to producers and to ensure that processor demands are realistic. The Board is the only authority to ensure equalization of both supply and delivery to all concerned.
5. Allotment of TPQ among quota holders - Acting on the recommendation of the SMPAC, the Board will invite the three new producers each year from the Wait List to consider producing milk for Specialty Product use. If processor requirements remain unfilled the Board will accept requests from mainstream producers who wish to convert to Specialty Product milk.
6. The role of the Specialty Milk Production Advisory Committee (SMPAC) in Allotment of TPQ – The SMPAC will be expected to review processor requirements and make recommendations to the Board relative to the supply of Specialty Product milk. The Board will expect the SMPAC to make recommendations on mainstream conversion if there is insufficient current or projected future supply of SP milk. It is not the intention of the Board to issue all new quota as restricted TPQ.
7. Declining Quota Transfer Assessment (10/10/10) – The Board encourages the FIRB to drop the 10/10/10 requirement on the general allocation of quota to existing mainstream producers (see Consolidated Order Sections 14(2) & (3)) as it will be quite onerous on both the Board and the producer. Quota management is at best a challenge, and this principle would compound the problem. The Board does not require this to fund the Graduated Entry Program (GEP) which is adequately funded through the 2.5% assessment provision. It may be worth noting that the GEP has been in existence for in excess of thirty years and the Board has always funded new entrants regardless of the

level of assessment. The Board is committing to starting three new producers annually regardless of the amount of quota received through the assessment policy. However, in responding to prior FIRB directives, the Board has considered the application of 10/10/10 to the GEP producers who choose to exit the industry prematurely. It is worth repeating here that the Board's previously stated position is for the quota to be issued as non-transferable until the final year of the program at which time 90% would be converted to transferable TPQ. It would remain as such regardless of the length of time the quota is held by the producer.

8. Transfers through the Quota Exchange (QE) – Producers now have the option of transferring quota via the Quota Exchange without assessment or via private transactions with a 5% assessment. All non-exempt transfers except on the QE are subject to assessment which is used to start GEP producers. It is the Board's position that applying an assessment now on the QE will reduce the amount of quota offered for sale on the QE as producers will enter into direct sale agreements. This will have a detrimental impact on the out-lying producers who until now have had a ready access to quota offered via the exchange.
9. Transfer Assessment – The Board has determined that a 2.5% quota assessment on all quota transfers including Going Concern and Quota Exchange transactions is sufficient to fund the Graduated Entry Program. The Board is committing to starting three GEP producers annually regardless of the amount of quota received through the assessment policy.
10. Transfer Assessment Exceptions – The transfer assessment will apply to all 'arms length' transactions not involving family members, including siblings when more than one farm is involved. The sibling exception only applies when a sibling intends on leaving the family farm and wishes to transfer quota to another sibling for so long as the quota remains on the family farm. There are instances when the Board uses its discretion to designate a transfer exempt in the case of hardship, i.e. upon death or exit from the industry when the child is not able or capable of operating the farm.
11. DDPIP – The Board has not introduced new concepts into the Consolidated Order which is our operational legislation. The Board is not objecting to the FIRB directive for allocation of the DDPIP quota for pioneer producers as stated in the September 1, 2005 directives. Under the current practice, growth is restricted to those producers operating under written agreements between the Board, the CDC and the Processor. All other producers are currently excluded as they are not covered by a supply agreement for DDPIP milk. Under the Board proposal for supply pooling, any producer with the ability to supply SP milk who is inside the Freight Zone occupied by the processor will have the opportunity to share in this market. It is the stated intention of the Board to work with the SMPAC to bring more SP milk to market to fulfill the needs of processors, see Par. 4, 5, 6 above.
12. Organic Milk Premiums – The Board proposes that the supply of organic milk be pooled and distributed to processors without regard to contractual arrangements. Existing

contracts will remain in place to July 31, 2007 at which time this milk will be added to the supply pool. Producers will see no change in milk payment from the Board as all in-quota milk will receive the same return regardless of status. However, the organic milk premium will also be pooled for the first time and the proceeds will be distributed to producers on a pro-rata basis for in-quota milk shipped regardless of use. That being said, it means that even though 100% of a producer's milk is delivered to mainstream use the producer will receive a share of the premium. This could become quite an issue if for some reason a processor refused or reduced delivery for SP milk for a period of time. Failure to receive the premium could in some cases result in serious financial consequences for the producer. Therefore, processors will be held accountable for payment of the premium on 95% of the milk ordered into production.

13. Conversion from mainstream to specialty production – The Board is not restricting an existing producer who wants to convert his dairy farm to the production of milk for specialty product. The barrier to entry is high and is not for everyone. A producer will only convert after much research and assurance of the long term health of the market. Having said this, the Board sees no reason for limiting entries to supply the specialty product market in responding to SMPAC requests for more milk. If the GEP producers are able to fill the market requirements with their 9,000 kg allotments then the opportunities for mainstream conversion will of necessity be limited.
14. Graduated Entry Program – The Board has not addressed regionality in the GEP for mainstream milk producers as all milk is pooled for transportation. If a GEP Producer outside of a zone containing a processor indicated a desire to produce milk for a specialty product the Board would not segregate the milk unless the SMPAC, acting on processor requirements recommended the Board segregate the milk for transportation for processing. It being understood however, that the additional transportation cost is borne by all speciality product processors through the concept of pooling.
15. Cottage Industry Program – The Board is committing to start one CIP per year upon application. Currently, there are four producer/processors with a Class D License. Three have some quota allocated by the Board via the DDPIP and only two have CIP quota. Based on prior FIRB directives, the DDPIP quota utilized in 2004 will be permanently assigned to the participants with subsequent additional usage subject to reduction over a reasonable period of time. Since the four Class D Licensees do not all report usage to the Board it is not possible to predict what amount of quota is required. We do know that two producer/processors will need to replace the approximately 4,000 kg they are currently allocated via the CIP. Granting 5,000 kg with a further match of up to 2,000 kg will resolve the outstanding quota requirement as much as we can determine while offering the participant the optional benefit to sell the quota.
16. Cottage Industry Program – It is not the intent of the Board to allow existing CIP participants the option of selling the allocation of quota thereby shutting down the dairy operation only to have the property sold and the new buyer making application for participation in the program with a new allocation of quota. This requirement prevents

‘churning’ the dairy to obtain quota for eventual sale. Transfer of the allocation could occur with the sale of the dairy to ensure the operation continues.

17. Quota Exchange – Producers now have the option of using the non-assessable QE or an assessable private treaty transaction for the transfer of quota. Since there is currently no assessment on quota transferred through the QE it is an attractive alternative for some producers. The Board sees the real advantage of the QE lying with the remote region producers who have the opportunity to compete on quota purchases, something they would not have without the QE. With the majority of producers in the lower mainland, quota will transfer with the help of brokers to other lower mainland producers. The remote region producers have always complained about the unequal access to quota transaction opportunities.
18. Specialty Milk Production Advisory Committee (SMPAC) – The Mandate of the SMPAC will be the first order of business. The Board is not restricting the SMPAC by defining their role but on the contrary is inviting the SMPAC to determine how they can best service the industry in a consultative role. The Board is receptive to expanding the mandate and will conduct discussions once the SMPAC is created. The Board will expect the Specialty Product industry stakeholders will comprise the majority of the SMPAC.

The BC Milk Marketing Board appreciates the opportunity to bring clarity to the above issues and welcomes further dialogue. Anything not answered here is an inadvertent omission or best dealt with by Memorandum from the Board to the FIRB. Some portions of our agreements should not be included in the Consolidated Order but are nonetheless commitments by the Board to industry stakeholders.

If we have failed to provide adequate response in some areas or you wish further dialogue, please contact us accordingly.

Yours truly

(Signed original)

Blaine Gorrell

BG/jb