a) Harmonization of producer quota policies

Mr. Emmott introduced a recommendation to create the P5 Producer Quota Committee.

It was moved by Mr. Emmott and seconded by Mr. Groleau that the P5 Supervisory Body:

a) Acknowledge the P5 Harmonized Producer Quota Policy (Appendices 1 to 3 inclusively), subject to its interpretation and implementation by relevant provincial authorities according to their respective laws and regulations.

b) Establish the P5 Producer Quota Committee (as described in Appendices 1 to 3 inclusively, and subject to the limitations of paragraph (iii) of this motion) with the mandate to:
   i. develop protocols to assist P5 producer boards in their administration and implementation, within their province, of the P5 Harmonized Producer Quota Policy;
   ii. provide reports on same to:
      a. the Supervisory Body.
      b. P5 producer boards for follow up and implementation in accordance with the laws of the relevant province.
   iii. Any complaints or appeals concerning recommendations of the P5 Producer Quota Committee shall be addressed to the relevant provincial authority and dealt with under the laws of the province, it being understood and agreed that producer quota issues remain the exclusive jurisdiction of the authorities established within each province and that no inter-provincial or other additional rights of appeal are created hereby.

**The motion was carried unanimously.**

*Part (a) of this decision will be added as article 2.15 (a) and part (b) of this decision will be added to article 2.68(e) in Part II of the Agreement on the Eastern Canadian Milk Pooling. Appendices 1 to 3 will be available as Appendix to the Minutes of the October 19, 2010 P5 SB Meeting.*

# APPENDIX 1

# P5 HARMONIZED PRODUCER QUOTA POLICY

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**DEFINITIONS**

Extraordinary situation: a production or market situation that is unforeseen and the P5 would deem the situation as extraordinary.

Filling all markets: to plan production in such a way that P5 leads and meets short-term and long-term markets.

Short-term market: the CDC forecasted demand of the market less than 8 months, including current market conditions.

Long-term market: the CDC forecasted demand of the market greater than 8 months, including other relevant market information.

## 1. EFFECTIVE DATE

This policy takes effect on August 1, 2009, unless otherwise indicated.

## 2. GENERAL POLICY STATEMENT

Provincial milk marketing Boards that are signatories to the Agreement on the Eastern Canadian Milk Pooling will collectively manage producers' quotas in accordance with this policy so that the obligations and privileges associated with one kilogram of quota are the same for all producers in the pool.

## 3. APPLICATION

This policy applies to the provincial milk marketing Boards that are signatories to the Agreement on the Eastern Canadian Milk Pooling namely those of Prince Edward Island, Nova Scotia, New Brunswick, Quebec, and Ontario.

## 4. PRINCIPLES AND OBJECTIVES

(i) **Principles**: The three main principles of this policy are:

- Same benefits and responsibilities for P5 producers.
- That the price of quota reflects its value as a right to a market and enables to achieve profitable growth.
- Best for the benefit of P5 market and for the fulfillment of the P5's national market share.

(ii) **Objectives**: The seven main objectives of this policy are:

- Easy to understand and administer.
- As much quota as possible over the quota exchange.
- Best for current and future producers.
- Fair and equitable access to quota.
- Quota must generate its benefit through production, not trade.
- Accessibility, transparency, and credibility.
- Should facilitate inter-generational transfers.

## 5. HARMONIZED QUOTA POLICIES

For ease of presentation, quota policies are grouped into five categories: (i) individual quota policies; (ii) quota transfer policies; (iii) other quota policies; (iv) pooling; and (v) pool management.

### A. INDIVIDUAL QUOTA POLICIES

**Quota Issuance**: (common quota issuance will start on December 1, 2009) **The P5 Producer Quota Committee will decide how much quota has to be issued pool wide in order to fill the market**. Issuance will be expressed as a percent of the pool sum of provincial quotas and the innovation milk for the pool marketed under the Domestic Dairy Product Innovation Program (DDPIP). Each province, subject to agreed adjustments for provincial programs, shall issue the same percent of its provincial quota and its pooled share of innovation milk to producers. Quota will be issued in kilograms per day using two (2) decimal places. The monthly quota for producer payment purposes is equivalent to the number of days marketed in that month.

**Over Production / Under Production Credits:** Total flexibility will be 25 days, made up of 15 days of under-production credits and 10 days of over-production credits.

**Incentive Days:** There will be fall incentive days. They will be announced as far in advance as practically possible. The number of days and the period during which they apply can be changed if warranted by circumstances, remembering that as a pool the **objective is first to produce enough milk to fill the P5 quota**, while meeting the requirements of the national continuous quota management system. Additional days, outside the fall period, could be considered under exceptional circumstances.

**Over-Quota Production**: The penalty for over-quota production will be "zero pay" in the month the over-quota milk is produced. Producers will also be charged the normal administration, promotion, transportation, etc. fees and charges.

**SNF/Butterfat Ratio**:
There is a two-tier level of ratios administered on a monthly basis.
A producer is paid the within-quota rates for SNF less than or equal to 2.20 kg for every one kilogram of within-quota butterfat.
There are within-quota rates for SNF less than 2.0 and market rate for SNF between 2.0 and 2.20.
There is zero payment for SNF above the ratio of 2.20 and there is zero pay for over-quota SNF and butterfat.

## B. QUOTA TRANSFER POLICIES

**Price Cap:** It was agreed that a cap on the price of quota would be established at $24,000 per kilogram per day.

Quota exchange will occur within provinces. The “new entrants” borrowing quota under a program are given one opportunity the first time they present an offer to purchase on the quota exchange to buy their initial quota. Individual provincial Boards are permitted to implement alternative allocation procedures.

**Quota Transfers**: Clearly, with a cap it is essential to have as much quota going through the exchange as possible. Provincial Boards will make every reasonable effort to implement policies that prevent circumvention of the quota exchange. The following will be permitted: same site transfers, transfers from parents to children on a new or existing site, and one-time transfers to a previous business partner on a new site.

**Non-Saleable Quota:** Effective August 1, 2015 all non-saleable quota was converted to saleable quota.

## C. OTHER QUOTA POLICIES

**Minimum / Maximum Quota Holdings:** The minimum quota holding will be 10 kilograms per day. There will be no maximum quota limit. Producers currently holding less than 10 kilograms will be grandfathered.

**Catastrophe**: All provinces have provisions for catastrophes such as barn fires, major operator issues, death and similar situations. All seem to operate effectively. This aspect of quota policy is not harmonized for the moment and the staff responsible for quota administration is asked to bring forward a policy proposal.

**New Entrants:** The P5 New Entrant Program has the following elements:

- The P5 pool will lend quota to a maximum of 20 new entrants per year
- These new entrants are distributed as follows:
  Quebec: 9; Ontario: 8; New Brunswick: 1; PEI: 1; and Nova Scotia: 1. Provincial Boards can start additional farms at their discretion using their own provincial quota.
- Quota for the “loan” portion will come from the P5 pool.
- Individuals will be loaned 20 kilogram of quota.
- Individuals must buy 20 to 30 kilograms of quota.
- Starting in Year 11, new entrants must return 0.1 kilogram of quota per month, up to a maximum of 1.2 kg per year.
- New entrants must never have owned quota before.

- If taking over an immediate family facility, the farm must have been out of production for a minimum of five years.
- New entrants must be approved by a provincial selection committee.
- If the number of successful applicants is greater than the number of opportunities, they will be selected by lottery.
- Provincial Boards must adhere to the pool rules to be eligible to get this quota from the pool. Deviation from the rules means that the quota has to be sourced from the Board.

**Quota Credit Exchange / Transfers**: PEI, New Brunswick and Nova Scotia all have policies that permit the transfer of under-production credits to producers who have either used their over-production credits or want to change their over-production credit status. This type of program allows a level of flexibility for producers to make individual production decisions for the short-term without having to invest in quota. On the negative side, producers have to pay to produce the underproduction of another producer when otherwise quota would have been made generally available to offset provincial under-production resulting from producers not filling their quota.

The provincial Boards did not agree to a pool-wide inter-provincial credit exchange.

Each of the Maritime Provinces can continue with their own program. The Maritimes are encouraged to develop a common approach to operating a credit exchange. The Committee did not entirely rule out further work on an inter-provincial credit exchange.

**Quebec's Succession Program**: Quebec has a program that provides, under specific circumstances, for quota to be given, for a fixed period of time, to new producers who acquire a significant financial interest in the dairy operation. No other province has a comparable program. Quebec will be permitted to continue with their succession program for the indeterminate future. Quebec will give consideration to phasing out this program.

**Inter-Provincial Quota Exchange**: There is no agreement to create an inter-provincial quota exchange as part of this policy. However, a harmonized quota policy is a prerequisite that creates the potential to consider an inter-provincial quota exchange at a later date. That time will be no sooner than the end of the phase-in period for harmonizing quota policies.

However, for there to be an inter-provincial quota exchange, all policies have to be completely harmonized. Where there are differences (the credit exchange, the succession program, the level of non-saleable quota), there would need to be harmonization, whether through the elimination or, alternatively, adoption at the pool level of certain policies.

**D. POOLING (Starts December 1, 2009)**

The following has been agreed to:

- → all consequences of being over quota as a pool will be pooled
- → under-production will be pooled
- → dollars collected from zero-pay for over-quota production at the producer level will be pooled
- → zero-pay dollars generated from the application of the SNF:BF ratio will be pooled.

**E. POOL MANAGEMENT**

- Once the quota policy is in place, all production targets will be established at the pool level. In other words, if it is determined that a quota increase or decrease is needed, the decision will be made at the pool level and will apply to all producers in the pool.
- Similarly, any change to the number of incentive days issued will be done at the pool level.
- Staff has been instructed to develop a method for monitoring and projecting milk supplies, the resulting milk movements and quota utilization at the P5 level.
- As identified earlier, each province, subject to agreed adjustments for provincial programs such as quota leasing, shall issue the same percent of its provincial quota and its pooled share of innovation milk to producers. The intent is to allow provinces to issue the same per cent of their provincial quota and shared innovation milk to producers, while permitting provincial Boards to implement internal redistributions for provincial policies such as additional new entrants or the Québec succession program, that are not specifically recognized by the pool.
- Between August 1 and December 1, 2009, all P5 provincial Boards agree to consult with other P5 provincial Boards if unusual circumstances require a change in producer quota policy in that province. Starting December 1, all provincial Boards agree to follow the recommendation of P5 Producer Quota Committee and to jointly issue quota to their producers, adjusting for the new entrant quota requirements, the quota leasing programs, and pool-wide over/under issuance.

**6. IMPLEMENTATION**

The effective date of the policy is August 1, 2009. Changes to harmonized policy will be made with the agreement of all P5 provinces.

## 7. DECISION-MAKING

There are two principles for decision-making.

The first is that to implement the harmonized producer quota policy, there has to be unanimity, meaning all five boards have to agree. Once the policy is in place, recommendations for changes can be made by double majority vote at the P5 Producer Quota Committee As outlined in Appendix 3.

It is proposed that a P5 Producer Quota Committee be established with two votes for each of Ontario and Quebec and one vote for each of the Maritime Provinces.

**Recommendations to change a policy would require a "double majority" meaning four out of seven votes AND three out of five provinces.**

# APPENDIX 2

## TERMS OF REFERENCE OF THE P5 PRODUCER QUOTA COMMITTEE

### MANDATE

The mandate of the P5 Quota Committee (hereafter “the Committee”) is to administer the P5 Harmonized Producer Quota Policy.

The P5 Producer Quota Committee will recommend to the P5 Boards how much quota has to be issued pool wide in order to fill the market.

The Committee develops protocols to assist P5 producer boards in their administration and implementation, within their province, of the P5 Harmonized Producer Quota Policy and provides updates to the Supervisory Body and to P5 producer boards for follow up and implementation in accordance with the laws of the relevant province. In doing so, the Committee is to emphasize the requirement to treat equitably all producers of the P5 and ensure that the privileges and duties associated with one kg of quota are the same for every P5 producer. The Committee will address extraordinary situations that affect provincial or regional milk production.

The Committee will request guidance and direction from the P5 Chairs and GMs Committee, when required.

The Committee may take other items into consideration when making recommendations, keeping in mind the main mandate of filling the market.

### MEMBERSHIP

The Committee is made up of:

- 2 representatives from Ontario (could be 1 person with 2 votes)
- 2 representatives from Québec (could be 1 person with 2 votes)
- 1 representative from Nova Scotia
- 1 representative from New Brunswick
- 1 representative from Prince Edward Island

Committee members are chosen by their respective provincial milk marketing board and remain part of the Committee until their board decides otherwise. Marketing boards must ensure that their representative(s) on the Committee have the necessary knowledge and skills to contribute to the work of the Committee. The Committee will have access to advice from technical staff from the P5 Boards.

The Committee chooses one of its members to act as the leader of the Committee. This role will rotate among the provinces every two years.

Each province may choose observers of their respective provincial marketing boards to be committee members. The role of the observers is for future succession and to act as a voting member only in the instance when their respective voting member is unavailable for a meeting.

Each province will be provided with the opportunity to lead the role of the analytical work required, which is expected to represent the interest and position of all P5 provinces; with sufficient notice given to the current province acting in that role. This role is to be confirmed every 5 years, with the transition period from the current province to the new province excluded from the 5 years.

Each province will be provided with the opportunity to have the role of the committee secretary, which is expected to represent the interest and position of all P5 provinces; with sufficient notice given to the current province acting in that role. This role is to be confirmed every 5 years, with the transition period from the current province to the new province excluded from the 5 years.

A province may opt out of any of the Committee positions.

The Chair of the provincial Board would advise the Committee of the representatives for their province.

**MEETINGS**

The Committee meets as needed but no less often than every two months. These meetings can occur by phone, webinar, face to face or any other mean that the Committee deems appropriate. The Committee's leader is responsible for convening the meetings.

The technical Committee members meet monthly to be able to provide production and market update to the provincial Boards.

If technical members are unanimous in their decision to cancel or call a meeting, the Committee secretary is to request the Chair/Lead approval, prior to the meeting invite being sent or cancelled.

**RECOMMENDATION MAKING**

The Committee's recommendations must follow the decision matrix (Appendix 3). These recommendations are then communicated to the P5 Boards for approval. A double majority vote means that in order for a motion to pass, 4 out of 7 representatives AND 3 out of 5 provinces must vote in favour of it.

Information for consideration during recommendation making process:

- The Committee's recommendation must consider the technical analysis presented during their meetings.

- The technical members must include the supply and demand information in their preparatory meetings, and provide the supply and demand information to the Committee prior to each meeting.

- The Committee is to develop a dashboard with benchmarks.

**CONSULTATION PROCESS**

The provincial Boards will commit to consult other provincial boards through the P5 Producer Quota Committee on any issues arising from the harmonized policy as well as any other potential quota policy changes being considered irrespective of whether or not those elements have been harmonized.

The Committee will conduct a formal P5 Quota Policy Review producer consultation every 5 years.

The formal P5 Quota Policy Review is to be conducted with the following elements:

- Each P5 province reviews current quota policy principles.
- Each P5 province identifies main policy areas for consideration in the review.
- Information from each of the five provinces from previous steps is reviewed by the P5 Quota Committee.
- Analyze the trends and effectiveness of current policy.
- Identify policy areas of focus and survey provincial delegates.
- Review the results of the initial survey and finalize policy changes proposals.
- Survey grassroot producers.
- Review the results of grassroot producer survey and make recommendations for policy change.
- Communicate final decisions.
- Initiate any policy changes.

Provinces are permitted to consult on non-harmonized policies outside of this process and are to advise the committee of their provincial quota policy consultations.

## APPENDIX 3

## DECISION MATRIX – P5 PRODUCER QUOTA COMMITTEE

### Principles

- All decisions concerning the adoption of additional elements for harmonization which have not been already agreed to in the P5 Harmonized Producer Quota Policy require unanimity.
- All decisions concerning changes or modifications to the elements of the P5 Harmonized Producer Quota Policy agreed upon by each P5 province and each P5 Producer Board shall be made by a double majority vote except for modifications to the level of the quota price cap and changes in the saleable quota threshold. The latter two elements can only be changed by a unanimous vote.

| Decision | Decision process |
|---|---|
| **SECTION 1 : GENERAL PRINCIPLES** | |
| Implementation of the Policy | Each provincial board decides on transition and submits a calendar of implementation by August 1, 2009. |
| Adoption of new elements of policy which have not been agreed to in the P5 Harmonized Producer Quota Policy | Must be agreed to by each provincial board |
| **SECTION 2: INDIVIDUAL QUOTA POLICIES** | |
| Changing the P5 production target | Double majority by the P5 Producer Quota Committee.<br>Applied by each provincial board. |
| Changing the model of quota issuance to producers | Double majority by the P5 Producer Quota Committee.<br>Applied by each provincial board. |
| Monitoring and allocating P5 quota to meet market conditions | Double majority by the P5 Producer Quota Committee.<br>Applied by each provincial board. |
| Changing over/ under production credits | Double majority by the P5 Producer Quota Committee.<br>Applied by each provincial board. |

| Decision | Decision process |
|---|---|
| Issuing and removing incentive days, including timing | Double majority by the P5 Producer Quota Committee.<br>Applied by each provincial board. |
| Changing penalties for over quota production | Double majority by the P5 Producer Quota Committee.<br>Applied by each provincial board. |
| Adoption of a SNF/Butterfat ratio policy<br>*No single policy as of August 1, 2009* | Must be agreed to by each provincial board |
| **SECTION 3: QUOTA TRANSFER POLICIES** | |
| Changing the quota price cap | Unanimity by the P5 Producer Quota Committee.<br>Applied by each provincial board. |
| Changing the exceptions permitted outside the quota exchange mechanism | Double majority by the P5 Producer Quota Committee.<br>Applied by each provincial board. |
| Issuing all market growth and over-allocation as non-saleable if above the saleable quota 2009 threshold | Double majority by the P5 Producer Quota Committee.<br>Applied by each provincial board. |
| Changing the mechanism from the 2009 threshold for saleable quota | Unanimity by the P5 Producer Quota Committee.<br>Applied by each provincial board. |
| **SECTION 4: OTHER QUOTA POLICIES** | |
| Minimum /maximum quota holding | Double majority by the P5 Producer Quota Committee.<br>Applied by each provincial board. |
| Changing the new entrant policy | Double majority by the P5 Producer Quota Committee.<br>Applied by each provincial board. |
| Adoption of a single catastrophe policy<br>*No single policy as of August 1, 2009* | Must be agreed to by each provincial board |
| Adoption of a single quota credit | Must be agreed to by each provincial board |

| Decision | Decision process |
|---|---|
| exchange/leasing policy<br>*No single policy as of August 1, 2009* | |
| Adoption of an Interprovincial Quota Exchange<br>*No single policy as of August 1, 2009* | Must be agreed to by each provincial board |