

**DFPEI 2017-04**  
DAIRY FARMERS OF PRINCE EDWARD ISLAND

BOARD ORDER: 2017-04

EFFECTIVE: 01 February 2017

Under the *Natural Products Marketing Act*, R.S.P.E.I. 1988, Cap N-3, the Dairy Farmers of Prince Edward Island Regulations thereunder, Dairy Farmers of Prince Edward Island makes the following Order:

**Component Price Application Order**

Application

1. This order establishes the methodology for applying the pricing structures approved in the harmonized billing mechanism approved for implementation by the Canadian Milk Supply Management Committee “(CMSMC)”.

Definitions

2. The words herein shall have the meanings as found in the *Natural Products Marketing Act*, the Dairy Farmers of Prince Edward Island Regulations under that Act unless differentiated herein and as hereinafter defined:
  - (a) “Canadian Milk Supply Management Committee” or “CMSMC” means the federal-provincial organization created under the authority of the National Milk Marketing Plan to provide administrative governance to the operation of the plan;
  - (b) “Class 1A” means a category of milk products defined under the DFPEI Milk Classification Order;
  - (c) “Class 3” means a category of milk products defined under the DFPEI Milk Classification Order that includes all sub classes from 3A to 3D;
  - (d) “Class 7” means a category of milk products defined under the DFPEI Milk Classification Order;
  - (e) “DFPEI” means Dairy Farmers of Prince Edward Island;

(f) “harmonized billing mechanism”, or “HBM”, means a system created to allow competitive pricing of milk components or ingredients that may be used in the manufacture of Canadian dairy products;

(g) “milk” includes whole milk and such products of milk that are supplied, processed, distributed or sold in any form;

(h) “milk buyer” means a processor that purchases milk directly from DFPEI;

(i) “milk components” means the three identified types of solid material derived and marketed from milk, referred to as butterfat, protein and other solids;

(j) “milk utilization audit” is the verification process that confirms processors’ milk utilizations have been recorded accurately and in compliance with Milk Utilization Standards;

(k) “milk product” means any product derived in whole or in part from milk;

(l) “Milk Utilization Standards” is a document created by the Canadian Dairy Commission that records all established requirements for recording milk utilizations in the Canadian Dairy industry;

(m) “National Milk Marketing Plan” is a federal-provincial agreement created for the governance of the dairy industry;

(n) “non-milk buyer” means a processor that does not purchase milk directly from DFPEI;

(o) “processing” means heating, pasteurizing, sterilizing, evaporating, drying, churning with other substances by any process, or otherwise treating milk in the manufacture or preparation of milk products and for clarity, includes any reworking, reprocessing or repackaging of previously manufactured dairy products.; and

(p) “processor” means a person or partnership performing any processing of milk.

Component Billing

3. All milk components sold to processors shall be billed in accordance with the harmonized billing mechanism established under this order.

Billing at Regular Product Class prices

4. Unless otherwise indicated in this order, all milk components used in the manufacture of dairy products shall be billed at regular class prices as determined by DFPEI from time to time.

Harmonized Billing Ratios

5. Harmonized billing ratios, or "HBR", are established nationally to permit components and ingredients derived from milk components to be priced competitively to processors in the portions permitted for ingredients under Canadian law. Billing ratios will be determined by the CMSMC from time to time and shall be recorded in the Milk Utilization Reporting Manual established under this order.

Application of Class 7 Pricing

6. Class 7 Prices apply to:
  - (a) milk components utilized in products classified in class 7 that are sold as finished products;
  - (b) milk components utilized in products sold as ingredients for use in the manufacture of non-dairy food products;
  - (c) milk components utilized in the manufacture of animal feed; and
  - (d) milk components utilized as ingredients in dairy products classified in other classes by the Canadian Harmonized Milk Classification System, on a skim milk equivalent basis and within the limits imposed by HBR.

Other Milk Product Classes

7. When an ingredient ratio is created for application to any milk or milk products not classified in Class 7, then the ratio will be applied to the milk components identified in the ratio and the Class 7 component prices shall be applied to the portion of those milk components identified as eligible for ingredient pricing.

Declaration of All  
Components from All Sources

8. Processors must declare all milk components from all sources used in any milk product to be eligible for Class 7 Pricing for that product. However, for purposes of calculating protein utilization in Class 3 and all Class 3 sub-classes, proteins sourced from whey or whey by-product sources are not included in the eligible milk components calculation.

Ingredient Sellers  
Responsibility

9. Processors that sell Class 7 ingredients are responsible to ensure that any such product is eligible for that classification. Purchasers of Class 7 products shall confirm that they will make records available and permit audit to verify that eligibility. If eligibility can not be demonstrated through the purchaser's records or audit, then the seller shall be subject to assessment of a billing adjustment to revise the product price to Class 1A prices.

National Centralized Registry  
System

10. A National Centralized Registry System (NCRS) will be established by the Canadian Dairy Commission for milk buyers and non-milk buyers. Upon completion, a valid registration number from this system will be required to conduct Class 7 milk component transactions. During transition to the NCRS, records must be kept in accordance with requirements specified by the CMSMC.

Revenue calculated in  
Accordance with the HBR

11. If a processor uses more Class 7 ingredients than specified by the HBR for any milk product, that processor shall be subject to a price adjustment from Class 7 to the higher class milk component prices on the volume of Class 7 milk components that exceed the Class 7 utilization permitted in the HBR.

Requirement for Audit

12. All milk utilizations reported by milk buyers and non-milk buyers are subject to verification by audit. Utilization audits shall be conducted in accordance with direction from CMSMC and shall meet all guidance established in the dairy industry's Milk Utilization Standards.

Adoption of Decisions of the  
CMSMC

13. DFPEI, as a member of the CMSMC, is party to all

decisions of the CMSMC. Consequently, decisions of the CMSMC regarding the HBM and HBR shall be considered amendments to policies of DFPEI recorded in the Milk Utilization Reporting Manual.

Milk Utilization Reporting  
Manual

14. Details and clarifications of reporting procedures established by the CMSMC will be aggregated in a Milk Utilization Reporting Manual prepared by DFPEI. This manual will contain the HBR, and detailed interpretations of the HBM, together with expanded instructions and rules for milk utilization reporting. This manual will be updated from time to time by DFPEI as interpretations and operating procedures related to utilization reporting and the HBM evolve.

Commencement

15. This Order comes into force on the first day of February 2017.

DATED at Charlottetown, Prince Edward Island, this 31st day of January 2017.

<Original signed by>

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Harold MacNevin, Chair

<Original signed by>

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Ronald Maynard, Secretary