



QUOTA TOOLS ASSESSMENT REVIEW (QTAR)  
**STAGE 2 – IDENTIFYING SOLUTIONS**

BC MILK MARKETING BOARD  
MAY 26, 2017

## Quota Tools Assessment Review (QTAR) Stage 2 – Identifying Solutions

Using the written submissions and the verbal discussions generated through the stage 1 of the consultative process, the Board has developed the following options for your review and comment. Please note that these options reflect what was heard during the Stage 1 process of the consultation and the Board is now seeking clarity on the various policy provisions provided to the Board. The Board is not committing to any of the options below in their entirety and will present balanced recommendations for the future of the dairy industry following the input received during Stage 2 of the consultation -*Identifying Solutions*.

### Transfer Assessment Structure

#### Current Policy and Objective

The declining transfer assessment was applied to all commodity Boards following the specialty review in 2005. The current policy as directed by FIRB (C.O. September 2013; Section IV 23(B) allows a producer to earn 10% of his/her quota allocation over a 10-year period resulting in a 10% assessment after 10 years.

The declining transfer assessment is designed to ensure producers “produce milk”, quota is equitably transferred and windfall profits are prevented. This assessment was intended to support long-term farming, innovation, specialty and market development and penalise those producers wanting to sell some quota or all quota in a short period.

The following options reflect feedback from the Stage 1 consultative process as tools that could reduce barriers to entry and increase quota availability. Please review each option and provide comments that reflect policy support or opposition and with some rationale. If specific elements within a policy are in issue, please identify why.

### Policy Option #1

- A. **Keep the 10/10/10 transfer assessment on all allocations** to keep producers engaged in production and limit the ability to sell allocations soon after receiving them.
- B. **Change the order the quota can be sold from LIFO (last in first out) to FIFO (first in first out)** to promote flexibility for on-farm management, engaged production and the availability of transferable quota on the quota exchange.
- C. **Remove the Quota Transfer Assessment Policy** (currently 5%) the Board will fund programs through growth or the producer production pool.

## Policy Option #2

- A. **Remove the 10/ 10/10 transfer assessment on all allocations** as the policy is punitive for on-farm management. The policy does not guarantee production of quota; producers transfer out production opportunity through credits or underproduce to right-size their farm. The policy does not transfer quota equitably to those who can produce it and bring milk to market.
- B. **Keep the Quota Transfer Assessment (new option)** as a percentage determined by the Board based on the market environment; for example, if the dairy industry is experiencing growth, the assessment policy would be set at 0% because quota would be available through growth to fund new entrant programs. If the market is experiencing a decline, then a 5% assessment policy could be applied by the Board (if required) to fund programs.
- C. **10/10/0 transfer Assessment (new option)** is applied to all Board Incentive Programs (i.e. Graduated Entrant and Specialty) for 10 years, earning 10%/year with 100% ownership following year 10. This policy will continue the accountability and fairness for Board allocations and support the effectiveness of these types of programs.

## Policy Option #3

- A. **Remove the 10/ 10/10 transfer assessment on all allocations** as the policy is punitive for on-farm management. The policy does not guarantee production of quota; producers transfer out production opportunity through credits or underproduce to right-size their farm. The policy does not transfer quota equitably to those who can produce it and bring milk to market.
- B. **Remove LIFO (last in first out)** to promote flexibility for on-farm management and create the availability of transferable quota on the quota exchange. Quota will transfer to those who can produce it immediately through Quota Exchange and all producers have equal access to quota on the exchange. This creates a transparent environment where all producers have equal opportunity to right-size their farm operation as required.
- C. **Remove the Quota Transfer Assessment Policy** (currently 5%) the Board will fund programs through growth or the producer production pool.
- D. **10/10/0 transfer Assessment (new option)** is applied to all Board Incentive Programs (i.e. Graduated Entrant and Specialty) for 10 years, earning 10%/year with 100% ownership following year 10. This policy will continue the accountability and fairness for Board allocations and support the effectiveness of these types of programs.

## Policy Option #4

- A. **Remove the 10/ 10/10 transfer assessment on all allocations** as the policy is punitive for on-farm management. The policy does not guarantee production of quota; producers transfer out production opportunity through credits or underproduce to right-size their farm. The policy does not transfer quota equitably to those who can produce it and bring milk to market.

- B. **Remove LIFO (last in first out)** to promote flexibility for on-farm management and create the availability of transferable quota on the quota exchange. Quota will transfer to those who can produce it immediately through Quota Exchange and all producers have equal access to quota on the exchange. This creates a transparent environment where all producers have equal opportunity to right-size their farm operation as required.
- C. **Apply a flat rate assessment policy on all quota transfers** (for example, 5%) to all quota transactions with only family transfers being exempt. This type of policy allows quota to move freely with a tax every time it changes hands. In theory, quota could move into farms that can produce it and the tax will ensure quota availability for Board Incentive Programs.

### Policy Option #5

- A. **Keep the 10/10/10 transfer assessment on all allocations** to keep producers engaged in production and limit the ability to sell allocations soon after receiving them.
- B. **Keep LIFO** to ensure no windfall profits from quota transfers.
- C. **Keep the 5% Quota Transfer Assessment** as a tax to all industry participants as the policy does not ensure milk production, transferability or active engagement.

## Industry Entry

In British Columbia, many farms have a very complex structure which includes corporations, many limited companies and several family trusts. The farms have gone through succession and brothers, cousins, aunts, uncles are all intertwined as shareholders of quota.

Intergenerational transfers under this premise become challenging and the exempt transfer provision is not a policy option for many farms. There is no current policy for a transfer of shares to a non-related person.

The following options reflect feedback from the Stage 1 consultative process as tools that could reduce barriers to entry and increase quota availability. Please review each option and provide comments that reflect policy support or opposition and with some rationale. If specific elements within a policy are in issue, please identify why.

### Policy Option # 1

- **Create a policy to allow non-related farm workers to invest in a farm using the following parameters:**
  - **On Farm Worker**  
The non-related shareholder is working on the farm in a significant capacity. For example, a herdsman.
  - **Verified years of service**  
The non-related shareholder is working on the farm for a minimum length of time and the employment is verifiable, for example, 5 years of T4s.
  - **Residency**  
The non-related shareholder resides in the province of British Columbia
  - **Ownership limits**  
A maximum percentage is applied for transfers. For example, 5% of the total quota on the farm can be owned by a non-related shareholder.
  - **Board Approval**  
All transfers to non-related shareholders are subject to BC Milk Board approval.

### Policy Option # 2

- Conduct an Industry Entry evaluation in conjunction with GEP program consultation in the fall of 2017.

### Policy Option #3

- Do not develop a policy for non-related shareholders (Status Quo) and review the need for the policy following the results of the Transfer Assessment Evaluation.

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#### Policy Option #4

- Allow corporations to add shareholders with no restrictions.

#### Policy Option #5

- Allow corporations to add shareholders subject to Board Approval.