

## Introduction

The BC Milk Marketing Board (the Board) is currently conducting a consultation, to assist in the development of a (new) New Entrant Program. The Board's previous new entrant program was the Graduated Entry Program (GEP), which provided approved GEP entrants with 13.7 kgs of incentive Continuous Daily Quota (CDQ), plus a matching grant of up to 5.5 kgs of additional incentive CDQ, if the entrant purchased 5.5 kgs of CDQ.<sup>1</sup> All previously waitlisted GEP candidates from that program were invited (by January 2017) to begin the approvals process, and those approved are expected to begin production by 2019 under the current GEP program rules.<sup>2</sup> With the conclusion of that program, the Board is now consulting on the components of a (new) New Entrant Program.

The policy objective of a New Entrant Program (NEP) is simply to encourage and facilitate people to enter the dairy industry as new producers. Other higher-level objectives include: increasing access to the industry, renewal -- promoting innovation and new ideas, and ensuring the ongoing milk supply in BC. An effective NEP will thereby support the sustainability and social license of the dairy industry, by increasing the number of (*or slowing the decrease in the absolute number of dairy farms*). Ensuring that such a program is set up in a fair and transparent manner, with clearly stated objectives (and a proposed means to evaluate policy outcomes) is important to the credibility of a supply managed sector such as dairy.

Consultation increases the level of transparency around policy decisions and it may help to improve the quality of the policy, thereby ultimately improving the policy outcomes that the industry and society is trying to achieve. It does so by bringing any interested parties into the discussion, including various levels of expertise, experience and perspectives on the issues, by helping regulators to balance opposing interests and by identifying possible unintended consequences of a policy action (including the potential practical difficulties of implementing a policy action).

The intention of the NEP consultation is to encourage input on the components of a new NEP from dairy producers and other interested industry stakeholders, including the public, throughout the seven-month consultation process. The Board is looking to create a program

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<sup>1</sup> Please see the BCMMB's [Consolidated Order](#), Schedule 1, for the GEP rules and [Amending Order 28](#), July 9, 2015, which amends Schedule 1.

<sup>2</sup> Please see above links for the GEP rules.

that will balance the interests of all stakeholders in the dairy industry. This is especially important in a supply-managed system, which is generally seen to be a “closed system.”

### **Consultation Process: Overview**

The Board’s consultation was launched on October 5, 2017 with an email campaign and an online survey, which closed October 22, 2017. However, the BCMMB website will remain open for comments until the conclusion of the consultation (April 30, 2018). The survey results will be posted to the BCMMB website.

For more focused input, an NEP Committee made up of representatives from the BC Dairy Association and each of the producer regional associations in the province was tasked with making non-binding recommendations to the Board on a future new entrant program. These recommendations are included later in this discussion paper. Producers and other stakeholders will have an opportunity to provide feedback on these (and/or provide additional recommendations) in-person at the BCMMB Fall Producer Meeting of December 8, 2017 in Vancouver or online at [New Entrant Program](#) anytime through to April 30, 2018.

Following a review of the input received at the Fall Producer Meeting, the Board will also consult on a draft policy document at its regional Spring Producer meetings held throughout the province in March 2018. The document will also be posted to the website. The schedule for these meetings will be announced in early 2018. For the detailed consultation schedule, please see the [NEP Consultation Plan](#).

The final NEP program is expected to be approved by the Board and posted to the BCMMB website by Summer 2018, with applications for the new program being accepted by Fall 2018. The goal is to have successful applicants of the new NEP program entering the dairy industry by 2019.

If you are unable to make any public meetings during the consultation, comments to any issues raised in this document are invited from interested parties and can be forwarded to:

Vicki Crites, BCMMB Manager of Policy and Communication: [vcrites@bcmilk.com](mailto:vcrites@bcmilk.com) Please use “NEP Consultation” in the subject line of the email.

### **Purpose of the Discussion Paper**

This discussion paper is not in itself stated Milk Board policy. It is a consultative document designed to provide some background and guidance to the policy issue and raise issues and questions to support the consultation process. It also includes some specific policy suggestions provided by the NEP Committee, about which the Board is seeking input. However, the Board does not wish to limit discussion to only those suggestions; rather it is a useful focal point from which to start.

## **Background**

### ***The Graduated Entrant Program (GEP)***

The Board has had in place some form of assistance program to help new entrants to the BC dairy industry for more than 25 years. The most recent version of that program—the Graduated Entry Program (GEP) was reviewed as part of the Board’s overall BC Dairy Quota Policy and Governance Review (2013-2014). The Board noted stakeholder support for change to the GEP based on some key and oft-mentioned observations from stakeholders, including:

- the GEP waitlist was too long to be effective (42 names in 2013—and it had been closed since 2005)
- the need to be more transparent
- the need to prevent new producers under the program from selling out too soon
- should be more effective
- the issue of producers benefitting from both GEP quota allocations and exempt family transfers

In its final submission from the Quota Policy and Governance Review (April 2014) to the BC Farm Industry Review Board (BCFIRB),<sup>3</sup> the Board committed to consult on a revised new entrant program, and, at that time, included the following recommendations for proposed program parameters for a revised program (once the *existing*-GEP waitlist was exhausted):

1. “Producer selection will take place through a lottery system administered by an independent audit firm as directed by the BCMMB.
2. Potential candidate must reside in BC and be the age of majority to apply
3. 3-5 Candidates will be chosen per year as directed by the BCMMB
4. \$10,000 deposit required if selected
5. Program length will remain 10 years
6. Initial allotment will remain 13.7kg/day
7. Matching quota will be increased to a maximum of 13.7kg/day
8. Declining Transfer Assessment will continue to be applied to all quota
9. No exempt transfers will be permitted for a period of 10 years
10. The farm production unit must be on a new location”

With respect to stakeholder support for expediting the GEP waitlist, as an interim measure, the Board recommended inviting all remaining waitlisted candidates to provide potential start dates in a staged priority approach within the next five years, with no extensions provided beyond 2019. As mentioned in the introduction to this paper, the Board completed these invitations by January 2017.

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<sup>3</sup> Under s. 7.1 of the *Natural Products Marketing (BC) Act (NPMA)*, BCFIRB is responsible for the general supervision of all marketing boards and commissions in the province, including the Milk Board.

Also of note, subsequent to the Quota Policy and Governance Review, and following a BCFIRB policy directive, the Board implemented, effective May 1, 2015, the following policy amendment to the GEP program:

that if a GEP entrant received an exempt family transfer within 10 years of the Board allocating GEP quota, then the Board would retract from that entrant all GEP benefits, including, but not limited to the initial GEP quota allocation, matching quota allocations, plus allotments from the matching quota allocation.<sup>4</sup>

## **The Goalposts: Factors to Consider for a New Entrant Program**

Under s. 7.1 of the *Natural Products Marketing (BC) Act (NPMA)*, BCFIRB is responsible for the general supervision of all marketing boards and commissions in the province, including the Milk Board. Therefore, in consideration of new or revised policy, it is imperative to refer to the policy framework provided by BCFIRB, as well as to all specific policy directives and guidelines that have been issued with respect to new entrant programs.

BCFIRB and the Board agree that a principles-based approach to policy-making is preferable to a prescriptive approach to policy-making, because it allows for greater freedom for individuals within the regulated market, while providing a fair and transparent regulatory landscape in which to make business decisions. In theory, this should also generate desired policy outcomes that adhere to the considered principles. However, to successfully achieve this requires a clear understanding of how your proposed policy meets the overall principles.

### ***The SAFETI Principles<sup>5</sup>***

SAFETI is an acronym that refers to the stated six principles, which BCFIRB has provided to all marketing boards and commissions to assist them in developing principles-based regulations:

- **Strategic** – Ensure policies take into account evaluation of short and long-term risks and opportunities;
- **Accountable** – Policies are consistent with the NPMA, NPMA Regulations, the Board’s Orders and other relevant legislation;
- **Fair** – Procedural fairness in processes and decision-making;
- **Effective** – Ensure clearly defined outcomes with appropriate processes and measures;
- **Transparent** – Ensure that process, practices, procedures are open, accessible and informed;
- **Inclusive** – Ensure that appropriate interests, including the public interest are considered.

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<sup>4</sup> Please see: link to Notice to Producers, May 4, 2015: GEP “Double Dipping” Consultation Summary and Board Decision.

<sup>5</sup> Please see [BCFIRB](#) website for a more thorough discussion of these principles.

## Specific Policy Directions

The challenge faced by Boards in determining the amount is finding a balance in providing for a number of new entrants, providing a meaningful incentive amount, ensuring the operation has a chance to be viable, and respecting the rights of established producers. (p.37)<sup>6</sup>

In 2005, BCFIRB conducted a review of specialty products and markets in BC's supply-managed sectors. As a result, a comprehensive guide outlining FIRB directions with respect to specialty markets and new entrant programs was issued.

The following excerpts are provided here, because they are relevant for our NEP discussions:

With respect to **New Entrant Programs**, the following policy directions are given:

1. *The Boards' proposed new entrant programs are to provide for a defined minimum number of new entrants per year, or per quota cycle in the case of the BCBHEC.*
2. *The incentive quota amounts offered are sizable in most cases, and care should be exercised that there is integrity in the programs and that entrants remain actively engaged.*
3. *All incentive quota provided by the new entrant programs is to be subject to the declining transfer assessment schedule. (p. 38)*

With respect to **New Entrant Eligibility**, the following policy direction is given:

*Eligibility criteria for new entrant status should include, at a minimum, residency, not having been previously involved in supply management quota ownership, and a commitment by the applicant to be actively involved in the farming operation. (p. 38)*

In addition to the specific directives provided from the Specialty Review, all boards and commissions were directed by the FIRB in May 2007<sup>7</sup> to **respect the following principles when designing any new entrant programs:**

- *New entrant programs exist because they are desirable as a matter of sound marketing policy to encourage persons to enter the supply management systems;*
- *These persons should be genuine new entrants to that system and not have personally, profited from that system by having previously held quota either personally, or through their financial interests in a corporation or partnership;*

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<sup>6</sup> BCFIRB Specialty Market and New Entrant Submissions: Policy, Analysis, Principles and Directions, September 1, 2005. This document is often referred to as the FIRB Specialty Review 2005.

<sup>7</sup> FIRB Correspondence to All Marketing Boards and Commissions – Eligibility Criteria for New Entrants; FILE 44200-60/SPEC REV; May 3, 2007.

- *New entrant programs should recognize that diversification of the producer base is equitable and desirable having regard to the history and development of the quota system; and*
- *Making new entrant quota available to new producers encourages innovation, regional priorities and diversity, new ideas and new voices in the supply managed system.*

## **Feedback So Far**

Please refer to the BCMMB website for more detailed results of the [NEP online Stakeholder Survey](#).

Below is a general overview of the answer data and key themes from both the questions and the comments provided by respondents.

### ***Stakeholder Online Survey October 5-22, 2017 Response Summary:***

1. A revised new entrant program is strongly supported by respondents
2. Access to industry main reason for an NEP, but sustainability a close 2<sup>nd</sup>
3. Minimum qualifications strongly supported; dairy farming is not to be taken lightly—experience and business plan a must
4. Ensuring “legitimate” farmers a big concern— using a manager for quota “grab” was a clear issue
5. A lot of support for an outside selection committee, however many of those also indicated with Board final discretion
6. Many comments encouraging Vancouver Island starts, but cautious overall on regional incentives otherwise
7. Clear that previous quota grant was NOT enough for new entrants to become a viable producer, although it was also stated by some that the Board is not responsible to make the new entrant successful—a new entrant program and incentive quota are not a guarantee of success
8. Overall strong support for either “non-transferable” incentive quota or longer period than 10 years before can sell incentive quota
9. Many comments about maintaining/encouraging long-term commitment to dairy farming and discouraging “windfall” mentality

10. Many comments that new entrants should NOT have to work an outside job while starting a dairy farm, and concerns with debt load, real costs of farming in BC
11. Many comments proposed that a minimum incentive quota amount should be 40-50 kgs to start and/or increase the matching grant opportunity

### **NEP Committee**

The NEP Committee met on October 24, 2017. Its mandate is to develop and make non-binding recommendations to the Board on a future new entrant program. The committee is expected to work on a consensus model, but could decide to offer more than one recommendation, where not necessarily all the recommendations are compatible.

The Terms of Reference for the NEP Committee and the list of members, as well as the Summary Notes from the October 24<sup>th</sup> meeting are available on the BCMMB website.

Some initial policy considerations for a New Entrant Program that the committee has put forward from their October 24<sup>th</sup> meeting are stated below:

#### **Initial Suggested Policy Considerations from NEP Committee**

- Buy 15 kgs quota; receive 35 kgs incentive quota grant
- Initial incentive quota grant (35 kgs) non-saleable forever; but growth is saleable
- No mergers
- Exempt family transfers by the existing NEP producer (to sons, daughters, nieces, nephews) of the incentive quota grant OK
- Create a “high bar” for initial qualifications (eg. mandatory proAction® training; agricultural experience/education components; 5-10-year business plan; recommendation dependent on interview with an independent selection committee)
- A lottery if enough qualified candidates (from above rigorous screening process)
- No regional priorities
- Annual audits
- Board decides number of entrants based on market opportunities

## Discussion Questions

- 1) Is 15 kgs of CDQ too great a financial obstacle for a new entrant to start a dairy farm? Is it an unreasonable debt load (assuming that a financial lender would provide the funding required?)
- 2) What exactly do we mean by legitimate? What type of administration is required to ensure that NEP entrants are “legitimate”? And for how long is this required to be monitored/audited?
- 3) Does this policy encourage long-term producers? What is *long-term*?
- 4) Is it fair and reasonable to impose non-transferable restrictions on the incentive quota of NEP producers, when existing producers may transfer their quota (dependent on current assessment policy)? If yes, why is it reasonable to treat the two differently?
- 5) Should sons/daughters/nieces/nephews of dairy farmers be eligible for an NEP program, which provides incentive quota?
- 6) Who would you suggest sit on an outside selection committee? Why?
- 7) What are the positives and the drawbacks of having quota in the system that is ***non-transferable*** forever?
- 8) Any other policy suggestions or additions/adjustments to the NEP committee suggestions?