



Quota Tools Assessment Review (QTAR) Stage 1 Summary “Evaluating the Need for Change”

The BC Milk Marketing Board is conducting a consultation which was initiated by the BC Farm Industry Review Board (BCFIRB) that will be used to evaluate policies related to the current transfer assessment structure and barriers to industry entry.

The Milk Board provided questions to the industry in support of the consultation, and invited all industry stakeholders to participate through written and verbal means. The Board conducted regional face-to-face consultations from March 28th -April 12th, 2017 regarding the subject matter and provided guidance on the areas of focus and the 2005 policy objectives as directed by FIRB.

A Board staff member acted as the facilitator of the session with a brief presentation outlining the 2005 and 2013 policy objectives for the policies under review. Attendees were then given time during the meeting to discuss the transfer assessment, industry entry policies and any related policies through the questions provided online to all industry stakeholders. The facilitator at each meeting reviewed the questions with the group following the individual discussion. The Board took this opportunity to listen and understand the operational realities of the policies under review and identify areas where change is needed for the longevity of the industry.

The Board completed Stage 1 of the consultation “Evaluating the need for Change” on May 1, 2017. The summary that follows provides the results to the industry questions and key themes that surfaced through the face to face sessions and any written comments within scope of the consultation.

The Board is currently in the process of Stage 2 of the consultation “Identifying Solutions” from producers and the dairy industry input with respect to transfer assessments and industry entry.

The Board will continue to gather input through this process that will be used to evaluate current policy, and, where necessary, propose policy changes or develop new policy to BCFIRB for review. The Board is requesting all industry stakeholders review the following summary of key themes and policy considerations and provide comments with respect to the quota policies that are outlined in this discussion paper. The deadline for submission will be June 2, 2017. Comments can be provided by mail, fax, or email. All written submissions will be shared publicly on the Milk Board website (with identifying features removed) once the submission period closes.

Following completion of the Stage 2 consultation, the Milk Board will provide a policy paper to the BCFIRB with its evaluation of the key policy considerations and recommendations for change (if required).

Key Policy Considerations

1. Transfer Assessment Structure

Evaluate whether, and to what extent, the current structure of transfer assessments is impacting the movement of quota between producers and related consequences.

2. Industry Entry

Evaluate whether, and to what extent, the current programs and tools used to reduce quota related barriers to entry continue to support industry entry by new farmers (i.e. people new to the industry who are not part of family farm succession planning). This will include an evaluation of whether, and to what extent, existing transfer assessment exemptions continue to serve their intended purposes, per the 2005 policy objectives.

Policy Objectives (Specialty Review 2005)

1. Quota is intended to be produced.
2. Quota is transferable.
3. Producers are actively engaged and committed to the industry.
4. Quota is available to commodity boards to support policy objectives, including development of specialty markets and providing for new entrants in the supply management system.

Initial Findings

The Regional consultation meetings were attended by 334 stakeholders. The general composition of attendees was producers, financial institutional representatives, Milk Board members, association representatives, and feed representatives.

- Chilliwack = 57
- Vancouver Island = 33
- Kootenay/Creston = 14
- Salmon Arm = 112
- Abbotsford = 85
- Prince George = 14
- Smithers = 19

The Milk Board received 77 written submissions related to this consultation.

- Producer = 65
- Non-Producer = 2
- Processor = 2
- Association/Industry = 8

The summary of results follow with common themes as described through the written submissions and verbally during the face to face meetings.

- Have transfer assessments limited the transfer of quota, if so, to what extent? Do you think this is contributing to increases in the price of quota?

| Region | Yes | No | Other | No Response |
|-------------------------------|-----------|----------|----------|-------------|
| Bulkley Valley-Smithers | 6 | | | 0 |
| Cariboo-Peace River | 3 | | | 0 |
| Fraser Valley -Lower Mainland | 36 | 3 | 2 | 0 |
| Kootenay-Creston | 3 | | | 0 |
| Okanagan | 9 | | | 0 |
| Vancouver Island | 14 | | | 0 |
| BCDA | 1 | | | |
| Total | 72 | 3 | 2 | 0 |

Response rate: 100%

- Do transfer assessments impact new entrants, specialty and mainstream producers differently, and if so, how?

| Region | Yes | No | Other | No Response |
|-------------------------------|----------|-----------|----------|-------------|
| Bulkley Valley-Smithers | | | | 6 |
| Cariboo-Peace River | | 2 | | 1 |
| Fraser Valley -Lower Mainland | 2 | 8 | 2 | 29 |
| Kootenay-Creston | | 3 | | 0 |
| Okanagan | 1 | 2 | 1 | 4 |
| Vancouver Island | 6 | 4 | 1 | 3 |
| BCDA | | | | 1 |
| Total | 9 | 19 | 4 | 44 |

Response rate: 42%

- Are there changes to quota transfer assessments – or other tools- that could further reduce barriers to entry and increase quota availability?

| Region | Yes | No | Other | No Response |
|-------------------------------|-----|----|-------|-------------|
| Bulkley Valley-Smithers | 6 | | | |
| Cariboo-Peace River | 3 | | | |
| Fraser Valley -Lower Mainland | 27 | 2 | 3 | 9 |
| Kootenay-Creston | 3 | | | |
| Okanagan | 9 | | | |
| Vancouver Island | 14 | | | |
| BCDA | 1 | | | |
| Total | 63 | 2 | 3 | 9 |

Response rate: 88%

- Are there other ways in which new people are entering the industry, what are they and how prevalent are they?

| Region | Yes/GEP&CIP | No | Don't Know | No Response |
|-------------------------------|-------------|----|------------|-------------|
| Bulkley Valley-Smithers | | | | 6 |
| Cariboo-Peace River | | 1 | | 2 |
| Fraser Valley -Lower Mainland | 1 | 5 | 2 | 33 |
| Kootenay-Creston | 1 | 2 | | |
| Okanagan | 2 | | 1 | 6 |
| Vancouver Island | 2 | 1 | 2 | 10 |
| BCDA | | | | 1 |
| Total | 6 | 9 | 5 | 58 |

Response rate: 26%

- (A) Do current transfer assessments and exemptions enable producers to sell/transfer their farms sufficiently intact to remain financially or operationally viable?

| Region | Yes | No | No Response |
|-------------------------------|-----|----|-------------|
| Bulkley Valley-Smithers | | | 6 |
| Cariboo-Peace River | | 1 | 2 |
| Fraser Valley -Lower Mainland | 3 | 8 | 30 |
| Kootenay-Creston | | 3 | |
| Okanagan | 1 | 1 | 7 |
| Vancouver Island | 1 | 5 | 8 |
| BCDA | | 1 | |
| Total | 5 | 19 | 53 |

Response rate: 31%

5. (B) Are whole farm transfers still important for succession or industry health?

| Region | Yes | No | No Response |
|-------------------------------|-----|----|-------------|
| Bulkley Valley-Smithers | 1 | | 5 |
| Cariboo-Peace River | | | 3 |
| Fraser Valley -Lower Mainland | 11 | 1 | 29 |
| Kootenay-Creston | 2 | | 1 |
| Okanagan | 4 | | 5 |
| Vancouver Island | 11 | | 3 |
| BCDA | 1 | | |
| Total | 30 | 1 | 46 |

Response rate: 40%

➤ Is the traditional family farm approach to succession changing? If so, to what degree?

| Region | Yes | No | Unsure | No Response |
|-------------------------------|-----|----|--------|-------------|
| Bulkley Valley-Smithers | | | | 6 |
| Cariboo-Peace River | 1 | | | 2 |
| Fraser Valley -Lower Mainland | 11 | 1 | | 29 |
| Kootenay-Creston | 2 | | | 1 |
| Okanagan | 3 | 1 | 1 | 4 |
| Vancouver Island | 4 | | 1 | 9 |
| BCDA | 1 | | | |
| Total | 22 | 2 | 2 | 51 |

Response rate: 34%

➤ Are non-family succession structures important for industry success going forward?
If so, are there related quota management tools that could support this approach to farm succession in addition to, or in place of, transfer assessment exemptions?

| Region | Yes | No | No Response |
|-------------------------------|-----|----|-------------|
| Bulkley Valley-Smithers | 2 | | 4 |
| Cariboo-Peace River | | 1 | 2 |
| Fraser Valley -Lower Mainland | 10 | 4 | 27 |
| Kootenay-Creston | 3 | | |
| Okanagan | 4 | 2 | 3 |
| Vancouver Island | 9 | 1 | 4 |
| BCDA | 1 | | |
| Total | 28 | 8 | 41 |

Response rate: 47%

General Themes and Concerns

Transfer Assessment Structure

Policy

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.

Objective

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 penalize those producers wanting to sell some quota or all quota in a short period.

Most producers and related stakeholders agreed that the current transfer assessment structure creates challenges in the industry. Specifically, to on-farm management scenarios (i.e. right sizing your farm operation). National policies such as the Animal Welfare Code and Pro-Action require producers across the country to make changes and adjustments on their farms to comply with rules. These programs create an inequity for BC producers compared to the rest of the country because if a producer must sell down, the farm is at a financial disadvantage due to a significant reduction in quota via 10/10/10 and LIFO.

The policy impedes the ability to deal with divorce, illness, and related family matters causing farms to leave the industry due to financial viability.

A secondary element of this policy is the inflated market value for quota on the quota exchange which benefits sellers not producers staying in the industry and creates a difficult situation for re-investment. For example, if a producer sells down to build a barn and make some changes on farm, it becomes very difficult to buy the quota back in the future both financially and due to limited quota availability.

The policy impacts new entrants, mainstream and the specialty markets in the same way when exiting the industry, however the impact to new entrants is significant while farming due to quota availability and price. New entrants generally have a full-time job off the farm when first starting off in the industry and need to grow and reinvest to make the farm sustainable.

Through discussions and written submissions, and impact statements; three themes were consistently provided to the Board to reduce barriers to entry; A summary points have been provided for reference.

Transfer Assessment Structure

- Remove all assessments and fund programs globally through growth
- Keep the 10/10/10 and change LIFO to FIFO
- Flat rate Assessment on all quota transfers
- Change the 10/10/10 to 10/10/5
- Allow private Transfers
- Make allocations non-transferable
- Create a secondary policy for selling down
- No changes are required to current policy

Allocations

- If transfer assessments are removed and a producer sells he/she should not receive an allocation for a certain period (e.g. 12 months)
- Reduce the gap between small and large farms by using a percentage method for allocation (i.e. 50% equal share/50% pro-rata)
- Differential quota allocations to reflect producers who are buying credits monthly and producing more milk, paying more levies and ensuring milk to market compared with producers selling credits monthly.
- Allocate more quota to new entrants
- Producers who ship the milk should receive allocations like the specialty model
- Current policy works well

Quota Exchange

- Quota Exchange is working well
- Every bid should receive a minimum amount of quota (i.e. 5 kg)
- Priority bidding should be expanded to farms under 75 kg/day or the BC median
- Run two exchanges per month for price movement
- If the exchange does not run, statistics should still be published
- Quota should be sold by auction
- Do not cap the price of quota

Comments in the minority were related to credit transfers, incentive days and quota ownership limits and didn't materialize into policy changes.

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 are currently four ways to enter the dairy industry:

- Exempt Transfers through immediate family
- Graduated Entrant Program (currently closed list) new program to be developed in Fall 2017
- Cottage Industry Program to support producer/processors
- Purchase of farm and quota (whole farm or farm sale)

There is no policy to allow for a non-related person to invest in an existing operation. This creates a barrier to entry and does not facilitate renewal in the industry. When producers were asked to provide comment on this issue, the responses showed some interest.

Over 50% of the farms in BC are corporations and the current rules are prohibitive for extended family to participate in quota transfers although they may be working on the farm.

Through discussions and written submissions, and impact statements; industry stakeholders responded with the following summary points;

Traditional Family Farm

- Traditional farm is getting larger -corporate structure
- Tax creates complicated share structures
- Increased industrialization of the farming industry
- Multigenerational companies (e.g. cousins can't transfer quota)
- More extended family involved in operations
- The Milk Board does not adhere to regular legal signing authority
- Downsizing is necessary to pay out non-farming siblings

Non-Family Succession

- Maintain the family farm, a policy is not required
- If LIFO is removed challenges for succession are removed
- Our system requires flexibility
- Producers treat the farm like a business
- Non-family succession provides an option for remote location farms operation
- A policy will allow quota to move between different family members and move between shareholders without assessments

- Currently, one investor owns quota and the other owns land -difficult to manage equity growth
- Working partners will benefit the industry long term
- Introduce new blood into the industry
- Could be managed by Board through exception
- Policy would support the continuation of the dairy industry in BC
- Policy parameters recommended
 - On Farm Working experience -5/10 years
 - No non-dairy investors (reference Chicken industry)
 - Workmanship, management skills and ability
 - Foreign ownership