



New Entrant Program (NEP) Committee

Meeting of February 21 2018

Summary Notes

Members in Attendance:

Jeremy Wiebe, Chair of the NEP Committee; Cornelis Hertgers, BCMMB; Rob Delage, Vicki Crites, BCMMB staff; Dave Taylor, BCDA; Phil Owen, BCDA; Sarah Sache, MMPA; Gord Ferguson, KODA; Ben Cuthbert, IMPO; Mike Duncan, MYMP; Nathan Klein Geltink, GEP producer; Matt Schmidt, GEP producer

Also in attendance: Ben Janzen, Chair, BCMMB

Regrets: Paul Davidson, Bulkley Valley; Elizabeth Schouten, BCDA staff

**The NEP Committee provides recommendations for the Board to consider as part of the Board's overall consultation for a new New Entrant Program.**

The committee met to consider making new Board recommendations given the extensive guidelines to new entrant programs provided by BCFIRB in its recent decision on the Quota Tools Assessment Review (QTAR).

**Background:**

**A. QTAR Decision**

On February 2, 2018, the BCFIRB released its 68-page Quota Tools Assessment Review decision. As expected, among the decision-related directives, the FIRB also provided several specific guidelines concerning **New Entrant programs**. These guidelines must now be considered as we move to the next stage of the consultation. Specifically, FIRB's directive that **after 10 years new entrant quota is to be managed under the same rules as other quota issued by a board and held by an established producer for more than 10 years**, since the previously preferred option from the NEP Committee, which has been strongly supported by the consultation to date was based on non-transferable quota.

Staff is therefore seeking new NEP Committee recommendations for the Board to consider prior to the Spring Producer Meetings. We are not seeking \*ONE\* program recommendation, but rather a RANGE of options for consultation at the Spring Producer meetings, which take into account the FIRB directives as outlined below.

**B. NEP Directives from BCFIRB**

1. "...BCFIRB agrees that after a period of time new entrant quota simply becomes quota and can be managed as all other quota issued by the board that is held for more than 10 years." (p.29, para. 134)

2. "A mechanism continues to be needed to ensure new entrants are committed to the industry." (p.29, para. 133)
3. BCFIRB agrees with the 10/10/TBD approach to new entrant and incentive quota (aligns with sound marketing policy). (p.30, para. 137)
4. "...new entrant quota is to be subject to a declining 10/10 assessment the first time it is transferred between producers. After 10 years, new entrant quota ceases to be "new entrant" quota and is to be managed as all other quota issued by a board that is held for more than 10 years. Adoption of 10/10 applies to previously-issued new entrant quota and new entrant quota issued by a board following this decision. **LIFO no longer applies to past and current new entrant producer quota holdings.**" (p.31, para. 140)
5. "If Boards cease to use LIFO (on all quota held by producers) and 10/10/10 (on new entrant quota) **10/10 is to be applied to the first transfer of new entrant quota** issued to date and going forward." (p.36, para. 175)
6. "**After 10 years new entrant quota is to be managed under the same rules as other quota issued by a board and held by an established producer for more than 10 years.**" (p.36, para. 176)
7. **BCFIRB's direction that no transfer assessment exemptions to the first transfer of new entrant quota remains.** (p.36, para. 177)
8. **BCFIRB expects commodity boards to:**
  - a. **Bring in new entrants annually/regularly**
  - b. **To regularly review and update new entrant programs**
  - c. **Continue to support regional and specialty development through new entrant programs**

(p.36, para. 178)

### C. NEP Committee's Revised Recommendations

After extensive discussion of the BCFIRB directives, the committee divided into two groups to facilitate more detailed discussion and address various potential aspects of a new entrant program, including the four areas outlined below:

- I. **How much quota assistance is needed to reduce the barriers to access, and on what basis?**

This was a difficult topic to grapple with, because the committee is still convinced that the provision of non-transferable quota would provide the right type of incentive: non-transferable quota would ensure that NEP candidates were committed to being producers and not simply planning to use the granted quota for the purposes of profit alone after some minimum time period has elapsed. Ultimately, the committee was looking to find a balance between providing enough quota assistance to give the new producer a viable chance of success, and trying to ensure accountability and commitment of that producer as a new farmer.

After significant discussion, the options presented by the two groups included:

- a. **No upfront quota purchase required:** For qualifying entrants, a grant of 15kgs of quota, plus if the entrant purchased another 5kgs, the Board would match that purchase (additional 5kgs). This would mean that qualifying entrants could begin production without providing upfront purchase of quota and could begin farming with just the grant of 15kgs, or could, with the purchase of only 5kgs, start production with 25kgs.
  - b. **Small upfront quota purchase required:** For qualifying entrants, if they purchase 5kgs, the Board would provide a grant of 15kgs, plus throughout the 10-year program, the new entrant would have the option (*on a laddered basis*) to buy (secondly) 10kgs and receive a grant of 5kgs, and (thirdly) to buy an additional 5kgs and receive another grant of 2kgs. So, this entrant would have the Board's help to grow the farm, provided the entrant was able to put in his/her own investment in the farm—with a small upfront investment and opportunities for additional grants with the entrant's ongoing investment in the farm.
  - c. **Give qualifying candidates a choice:** They may choose "a" or "b" above.
- II. **How should a new entrant program handle sons/daughters of dairy producers within the program, in order to be fair (provide access where not otherwise possible), but without providing unnecessary bonuses to dairy family "dynasties"?** And take into account the fact that the source for many qualified new dairy producers is often the children of dairy farmers?

Since the Board is limited to using transferable quota for a new entrant program, the committee was concerned about creating inappropriate incentives that would make it attractive for established dairy family farms to take advantage of the program to extend their quota base, by "setting up" relatives with farms for 10 years and then simply merging the quota (and closing the "new entrant" farm) or even simply selling down the quota for profit (at potentially 10% per year during the program as the quota is earned), or if restricted by policy, to selling 100% of the quota at the 10-year mark.

However, it is recognized that there can be circumstances in which a son or daughter of a dairy producer may not have access to family quota for their own farm and there isn't room in the family's main operation for them. And moreover, this is the generation of experienced, knowledgeable young dairy farmers that the industry *does want* to encourage to start their own farm if they have the desire to do so.

**Ultimately, the committee proposed two divergent options to consider:**

- a) Sons/daughters are allowed to enter the NEP program, but at both the applications/qualifications stage and again in the interview stage (by outside selection committee), the candidate would need to demonstrate why they need NEP quota to start farming, if their family is an established BC dairy producer.

OR:

- b) Do NOT allow sons/daughters of established BC dairy producers to participate in the program. The rationale here is simply that a new entrant program is designed to assist "true" new entrants, and thus sons/daughters of BC producers do not qualify. This would carry the potential motivation for these non-NEP-candidates to perhaps set up farms in another province, but that was an acceptable outcome to these committee members.

**III. The committee also further considered some other policy ideas, some of which the committee had previously discussed.**

- a) How rigorous should the qualification process be?
- b) How would an independent selection committee work?
- c) How often should farm audits of NEPs occur and for what purpose exactly?
- d) If a lottery is used, at what stage should it be held?
- e) How many candidates selected per year?
- f) Should deposits be required? At what stage and how much?

Although consensus was not achieved on all of the recommendations below, many good ideas came out of this discussion, including, but not limited to the following:

- 1) **Mentoring program:** successful candidates should be required to complete some minimum requirements for a new dairy entrant, such as attending regional association meetings and other industry training sessions. This would help mitigate "quota profit-seeking-only" candidates. Most members thought this was a good idea.
- 2) **Non-refundable application review fee from all applicants:** most agreed that an upfront non-refundable fee would be appropriate. The rationale here is to ensure candidates are serious. An amount of \$100-\$250 was suggested, and would help offset

the resources required for application review by staff. Candidates would be given the opportunity to re-submit incomplete applications by a deadline date.

- 3) **Refundable large deposit from successful candidates:** this came from an earlier suggestion from the BCMMB in 2014, which suggested that a \$10,000 deposit would ensure that a chosen NEP candidate would be committed to the program. It would be put towards the purchase of quota on the quota exchange when the entrant started. It was pointed out that this could be a barrier for some new entrants, depending on the timing of the requirement. Overall, the committee was not definitive on the idea.
- 4) **A requirement of the application should include an essay:** most members felt that regardless of the sincerity (or potential outsourcing) of such a requirement, it was still reasonable to ask a candidate to briefly explain why they should be selected as a new entrant. This would also help prepare them for the interview stage, if they move on.
- 5) **The committee reemphasized the need for an outside selection committee:** all agreed that this should be the last step before candidates are recommended to the Board for final approval.
- 6) **Lottery:** If we assume an application process takes place with minimum qualifications being met by more than 10 candidates (education and/or experience; no previous quota ownership; residency and age, etc.), the committee thought that this would be a reasonable stage at which to use a lottery system. This is based on the idea that it wouldn't be feasible to interview more than 10 candidates.
- 7) **Number of candidates:** the committee discussed a three-year planning horizon, but most members felt that an annual process would be best, since it would give those applicants who perhaps didn't make it through the lottery, a chance to try the next year's intake.
- 8) **Audits are necessary:** but not necessarily an annual requirement. The committee did not make any specific suggestions in this area.

#### IV. **How can an NEP program continue to support regional and specialty development?**

The committee suggested that the most reasonable way to support regional and specialty markets was by providing priority access to new entrants who are able to start in areas where market conditions warrant:

Eg. a region where milk is needed, for example, Vancouver Island currently is in need of milk production;

Eg. if organic or grass-fed or other specialty or lifestyle market is growing;

These potential new producers would be given priority access, providing they met the other min. qualifications. Priority access could take place prior to the lottery stage, so these candidates would be assured an interview and then the Board would make final decision.