



# BC QUOTA POLICY & GOVERNANCE REVIEW

STAGE 2 – FINDING SOLUTIONS

# KEY POLICY CONSIDERATIONS

**Distribution of General Allotments**

**Graduated Entry Program**

**Farm Succession**

**Declining Transfer Assessment**

**Whole Farm Transfers and Quota Exchange**

# DISTRIBUTION OF GENERAL ALLOTMENTS

## INITIAL FINDINGS

ISSUES	POLICY CONSIDERATIONS
Pro-rata provides advantage to large farms	- 50/50 policy
Allocations are being allocated to producers who will not produce them	<ul style="list-style-type: none"> <li>-Sell allocations on the quota exchange</li> <li>-Should be tied to fill rate of producer</li> <li>-Use system similar to specialty sleeve</li> <li>-Incentive days should be used as a marker</li> <li>-Allocate a larger % to those who produce milk when province needs production</li> </ul>
	-Hold back allocations for GEP program
	-Producers should be required to apply for allocations
	-If a producer has lost credits twice in a twelve month period, should not qualify

# DISTRIBUTION OF GENERAL ALLOTMENTS ANALYSIS

- **50/50 Distribution of Quota**

- ❑ Smaller farms would grow at a faster pace
- ❑ Unequitable with respect to allocations and retractions (fair, transparent?)
- ❑ Farm management challenges
- ❑ Process may not be effective for the industry

- **Sleeve Allocations**

- ❑ Sleeve allocations can be earned based on production
- ❑ Timing of crystalizing sleeve allocations (i.e. no dairy year – continuity with national system)

# DISTRIBUTION OF GENERAL ALLOTMENTS ANALYSIS

- **Allocations only to those who can produce the quota**
  - Differential Allocations (fairness, equity)
  - This will result in dual penalties for producers who lose the opportunity to produce quota and then receive no allocations
- **Hold allocations back for other programs**
  - Quota availability for renewal – i.e. priority for GEP
  - Differential allocations for new entrants (allocate at different percentages)
  - Required production may not be met

# DISTRIBUTION OF GENERAL ALLOTMENTS ANALYSIS

- **Sell Allocations on the Quota Exchange**

- Quota Availability to all producers
- BCMMB cannot sell quota (no monetary value assigned to quota)

- **Regional Allocations**

- Differential regional allocations can be used to support production outside of the Fraser Valley
- Differential regional allocations may not support the industry long term (equitable?)

- **Status Quo**

- Continue using the pro-rata distribution of quota (transparent, fair and simple)
- Same methodology for allocation, retractions, and levies
- Provides consistency for farm management

# DISTRIBUTION OF GENERAL ALLOTMENTS PRELIMINARY POLICY RECOMMENDATION (S)

- The Board is considering the distribution of general allocations remain on a pro-rata basis as the distribution is fair and equitable and complements the national allocation process under a CDQ system.
- Allocations on a 50/50 basis may result in farm management issues as retractions and allocations may use different methodologies
- Sleeve allocations may result in a mismatch between Canadian Requirements and BC production
- Allocations to those who have confirmed commitment to produce quota may not guarantee production
- Dual penalties may result in inequities within the dairy industry

# GRADUATED ENTRY PROGRAM INITIAL FINDINGS

ISSUES	POLICY CONSIDERATIONS
Succession plan for farm families	<ul style="list-style-type: none"><li>-No transfers from family farms</li><li>-Limit transfers in the first 5 years</li><li>-Add an assessment for transfer</li></ul>
List is too long	<ul style="list-style-type: none"><li>-Delete the list</li><li>-Create lottery system</li><li>-Plan to complete list in 5 years then change policy</li></ul>
Not enough quota for viable farm	<ul style="list-style-type: none"><li>-Allocate 20, 40 or 50kg/day</li><li>-Make quota non-transferable</li><li>-Create mentorship program</li></ul>
Producers quitting and profiting	<ul style="list-style-type: none"><li>-Make program 15 years</li></ul>



# GRADUATED ENTRY PROGRAM ANALYSIS

- **Waitlist**

- 42 current waitlist candidates (14 years @ 3 producers a year if all accept)
- Exhaust the list by a reasonable number (i.e. start 8-10 producers a year)

- **Program Length & Profiting**

- 10 years participation appears lucrative
- Change length of future program
- 63 entrants since 1998 – 8 producers have exited the program in the last 5 years

# GRADUATED ENTRY PROGRAM ANALYSIS

- **Quota Allocation Viability ( maximum allocation = 19.2 kg/day)**
  - ❑ Future program should allocate more quota but restrict transferability for a period of time
  - ❑ Benefits the industry through renewal and guarantees long term investment
- **Family Transfers**
  - ❑ Eliminate family transfers to GEP quota holders
  - ❑ Limit family transfers to GEP quota holders (% annually etc.)
  - ❑ Allow family transfers to GEP quota holders (prior experience-likely to succeed)
  - ❑ Future program should be restricted to “true” new entrants with no familial ties to quota
- **Status Quo**

# GRADUATED ENTRY PROGRAM PRELIMINARY POLICY RECOMMENDATION (S)

- The Board is considering the current wait list be completed within five years and a future new entrant program be developed that encompasses suggested changes.

# FARM SUCCESSION INITIAL FINDINGS

ISSUES	POLICY CONSIDERATIONS
Exempt Persons	-Expand the current exempt persons to include nieces /nephews, grandchild (direct)
Corporate Family Farms	-Transfers without assessment within a corporate family structure
Non-Family Members	-Allowable transfers to non-family members -use a financial assessment

# FARM SUCCESSION ANALYSIS

## ■ Exempt Persons

- ❑ Current policy (FIRB directive) includes direct transfers from parent to child only
- ❑ Expanding the list to include nieces, nephews and grandchildren complements industry succession
- ❑ Supports renewal and may complement global business and tax laws

## ■ Corporate Family Farm Exemptions

- ❑ No dedicated policies for corporation family transfers at this time
- ❑ Over 50% of farms are corporations
- ❑ Corporate transfer assessment could be applied to allow the movement of quota within the corporation
- ❑ Rules are prohibitive for succession (i.e. brothers, cousins, nieces, nephews)

# FARM SUCCESSION ANALYSIS

- **Non-Family Exemption**

- No transfer provisions for non-family members
- All assessments are based on quota
- Financial assessments could be difficult to administer and manage (inconsistent with quota having no monetary value)

- **Status Quo**

- Limited Board involvement

# FARM SUCCESSION PRELIMINARY POLICY RECOMMENDATION (S)

- The Board is considering exempt persons should be expanded to include nieces, nephews and grandchildren in order to support renewal of the industry.

# DECLINING TRANSFER ASSESSMENT INITIAL FINDINGS

ISSUES	POLICY CONSIDERATIONS
LIFO limits decision making on the farm	-Change LIFO to FIFO
After 10 years policy should be reflective of current assessments	-Change policy to 10/10/5
Penalizes quota availability	-Remove 10/10/10 and LIFO
Maintain 10/10/10 and LIFO	- Change exemption persons



# DECLINING TRANSFER ASSESSMENT ANALYSIS

- **Change LIFO to FIFO**

- ❑ LIFO supports producers staying in the dairy industry
- ❑ No impact to producers on a daily basis
- ❑ FIFO provides options and opportunity for farm management in the short-term
- ❑ GEP producers would be negatively impacted by FIFO
- ❑ FIFO does not support FIRB principles

- **Change 10/10/10 to 10/10/5**

- ❑ Matches the standard assessment on purchased quota
- ❑ Consistency for administration following 10 years

# DECLINING TRANSFER ASSESSMENT ANALYSIS

- **Remove 10/10/10 and LIFO**
  - ❑ 10/10/10 and LIFO policy is punitive for on farm management
  - ❑ Removing assessments would afford more quota on the quota exchange
  - ❑ 10/10/10 and LIFO artificially inflates the price of quota because its scarce (i.e. benefits the sellers)
  - ❑ Board would require an alternate assessment strategy to address the FIRB objectives (preventing windfall profits)
- **Flat Rate Assessments on all transfers**
  - ❑ 10% assessment rate on all quota transfers
- **Status Quo**
  - ❑ Keep 10/10/10 and LIFO as it meets FIRB's objectives
  - ❑ Policy has no impact to producers who continue to farm

# DECLINING TRANSFER ASSESSMENT PRELIMINARY POLICY RECOMMENDATION (S)

- The Board is considering the 10/10/10 LIFO policy be changed to 10/10/5 LIFO in order to have the same assessment practices as purchased quota at the end of the 10 year cycle and extend the exempt persons list for industry growth and renewal with corporate family farm.
- The Board is considering to maintain the current 10/10/10 policy and extend the exempt list for industry growth and renewal through farm investments or production expansion.

# WHOLE FARM TRANSFERS AND QUOTA EXCHANGE INITIAL FINDINGS

WHOLE FARM ISSUES	POLICY CONSIDERATIONS
Current policy inhibits transfers	<ul style="list-style-type: none"> <li>-Keep 100% quota on farm</li> <li>-Enforce a merger restriction using years of production</li> </ul>
Current policy works	<ul style="list-style-type: none"> <li>-Change the ratio to 25/75</li> <li>-use the 50/50 only in the event of a merger</li> </ul>
QUOTA EXCHANGE ISSUES	POLICY CONSIDERATIONS
Not enough quota for transfer	<ul style="list-style-type: none"> <li>-Change the quota exchange</li> </ul>
Quota cap	<ul style="list-style-type: none"> <li>-No support</li> </ul>
How bids are filled	<ul style="list-style-type: none"> <li>-Fill bids from the bottom up</li> </ul>
	<ul style="list-style-type: none"> <li>-Private treaty</li> </ul>

# WHOLE FARM TRANSFERS AND QUOTA EXCHANGE ANALYSIS

- **Keep 100% of quota on the farm**

- ❑ Allow whole farm transfers to continue but allow all quota to be transferred with the land, farm, equipment and cows
- ❑ Quota will be sold through WF transfers and not quota exchange
- ❑ Policy may not be fair, equitable and transparent to all producers

- **Merger restriction based on time**

- ❑ Allow whole farm transfers to continue but allow all quota to transfer with no mergers for 10 or 15 years
- ❑ Policy may interfere with business practices (i.e. inefficient to force a producer to have multiple farms)

# WHOLE FARM TRANSFERS AND QUOTA EXCHANGE ANALYSIS

- **Change 50/50 to 25/75**
  - Change the ratio to make smaller farms economically viable
  - Lower volumes available to all producers on the exchange
- **Use 50/50 in the event of merging a newly acquired farm and quota with a producers existing farm and quota**
  - Can be administrated
  - Provides options for producers with respect to succession planning and farm expansion

# WHOLE FARM TRANSFERS AND QUOTA EXCHANGE ANALYSIS

- **Not Enough Quota on the Exchange**

- ❑ Change the 10/10/10 LIFO transfer assessment to FIFO
- ❑ Keep 50/50 whole farm transfer policy
- ❑ Remove the 5% assessment

- **Change how bids are filled**

- ❑ Bottom up (equitable?)
- ❑ Levels the playing field and provides all bidders an equal portion of quota available to their max bid
- ❑ True reflection of demand on the quota exchange

# WHOLE FARM TRANSFERS AND QUOTA EXCHANGE PRELIMINARY POLICY RECOMMENDATION (S)

- The Board is considering no changes be applied to the Quota Exchange at this time;
- The Board is recommending no changes to the whole farm transfer policy;
- The Board is considering the following change in policy for whole farm transfers:
  1. Allow 100% transfer of quota if the farm is not merging with an existing farm (same ownership);
  2. If merging of the newly acquired farm and quota with the producers existing farm and quota occurs in the first 5 years – 50% of the quota is sold on the exchange, 50% can transfer
  3. If merging of the newly acquired farm and quota with the producers existing farm and quota occurs following Five Years:
    - Year 6                    40% on the exchange
    - Year 7                    30% on the exchange
    - Year 8                    20% on the exchange
    - Year 9                    10% on the exchange
    - Year 10                    0% on the exchange