



June 30, 2009

Dear Sir/Madam:

Re: Information About August 1, 2009 Quota Policy Changes

New quota policies will come into effect on August 1, 2009. A decision was made to establish saleable and non-saleable quota in the new quota policies. The purpose of this letter is twofold: (i) to remind producers how saleable and non-saleable quota works; and (ii) to remind producers what they are buying or selling when they bid to acquire quota or offer to reduce quota.

(i) Ontario Introducing Saleable and Non-saleable Quota August 1, 2009

The quota holdings of all Ontario dairy farms will have a small portion that will be designated as non-saleable quota on August 1, 2009. The non-saleable percentage of Ontario's quota will be set at a level equal to the amount of quota that is "over-issued" on July 31, 2009.

Quota issued to Ontario producers currently exceeds provincial quota by between 1.0 and 1.5 per cent. This over-issued amount will be non-saleable on August 1, 2009. Provincial quota includes Ontario's share of P5 market innovation volume (Domestic Dairy Product Innovation Program or DDPIP).

The level of over-issued quota dates back to September 1, 2008, when Dairy Farmers of Ontario increased the quota issued to producers by 1.5 per cent. This increase did not reflect a change in demand for dairy products but rather the need to bring forward more milk to meet market requirements stemming from low production in August 2008 and low production projections for the balance of the dairy year.

The precise amount of quota that is over-issued in Ontario will not be known until late July 2009. The final amount will take into account fluid requirements and any changes to industrial requirements.

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If Ontario ends up over-issued by 1.5 per cent, then a producer currently holding 100 kilograms (kg) of quota will still have 100 kg on August 1, 2009, 98.5 kg as saleable and 1.5 kg as non-saleable quota. Any subsequent quota increases would be added to the non-saleable portion. Any reductions would first come from the non-saleable portion.

All producers will receive an individualized letter detailing their quota holdings in early August, 2009.

Each farm's total quota will continue to be shown on line (a) of the monthly milk statement. The non-saleable quota percentage will be shown separately. This will begin with the August 2009 milk statement that will be received in mid-September 2009.

(ii) How Quota Exchange Bids or Offers Work Beginning with the August Exchange

To keep things as simple as possible, producers will be able to bid for and offer the amount of quota they want to acquire or reduce. For example, a producer wanting to acquire exactly one kg of quota should bid for one kg. If successful, they will be invoiced for the saleable portion. If the non-saleable portion is 1.5 per cent and they buy one kg, they will be invoiced for 0.985 kg and will receive an additional 0.015 kg as non-saleable quota, for a total of one kg.

The same principle applies when reducing quota. Producers wanting to reduce their quota by one kg will offer one kg on the exchange. If successful, they will be paid for 0.985 kg, the saleable portion. The non-saleable portion of 0.015 kg will be transferred to the buyer at no cost.

You are again reminded that these examples are for illustrative purposes only. As noted in section (i) of this letter, the exact breakdown of saleable and non-saleable quota will not be known until the end of July 2009. The non-saleable portion will be that amount by which the province is over-issued at the producer level and should be between 1.0 and 1.5 per cent.

If you have any questions about how saleable and non-saleable quota will work, please contact your Field Services Representative.

Yours truly,



George MacNaughton
Director, Production Division