

Dairy Farmers of Ontario (DFO) Harmonized Quota Policies
Made under the *Milk Act*
Starting August 1, 2009

Refer to the DFO Policies book on the DFO website for information on other DFO policies.

Contact your Field Services Representative for a detailed explanation of quota policies prior to conducting a transaction.

Requests to conduct transactions that appear to contravene the intent of DFO's Quota Policies will be reviewed by the Quota Committee and the Board and may be denied.

Definitions

1. **Assistance** means the quota provided by DFO to successful new entrants in the New Entrant Quota Assistance Program.
2. **Base Quota** means the saleable quota issued to producers.
3. **Bid** means the quantity of quota the producer wants to purchase and the price a producer is willing to pay for the quota bid for on an exchange.
4. **Encumbered** means permission granted to a third party to make a claim against the quota.
5. **Kg** means kilogram.
6. **Licensed Dairy Facility** means a milk production enterprise at which a producer has been licensed by DFO, has been allotted quota to produce and market milk, and which has been designated as Grade A by an appointed fieldperson.
7. **Licensee** means a producer who has been issued a licence to produce and market milk by DFO.
8. **New Entrant Quota Assistance Program (NEQAP)** means the program operated by DFO which may loan up to 12 kilograms of quota to 10 new entrants per year at no cost, provided the new entrants hold a minimum of 12 kilograms of quota acquired on their own.
9. **New Entrants (not Receiving Assistance)** means new entrants who are issued a licence to produce and market milk and hold a quota but are not issued quota under the NEQAP.
10. **Offer** means the quantity of quota the producer wants to sell and the price a producer is willing to accept for quota offered for sale on an exchange.

11. **Ongoing Operation** means the fixed assets and quota that are associated with a dairy facility that is licensed by DFO and is producing and marketing milk.
12. **Own quota** means quota acquired through an exchange, a donation and/or with purchase of an ongoing operation.
13. **Primary and Linked Dairy Facility** means a dairy enterprise that has two dairy facilities that are licensed by DFO to produce and market milk, the primary licence holding the quota, the linked dairy facility holding no quota, and shipments from both the primary and linked dairy facility using the quota holdings on the primary dairy facility.
14. **Production Quota** means the total quota comprised of saleable and non-saleable portions.
15. **Prorate** means to calculate or distribute proportionally.
16. **Quota Exchange** means the mechanism operated by DFO on a monthly basis which provides all producers with an opportunity to sell or buy quota by matching supply and demand for quota at bid or offer prices.
17. **Quota Price Cap** means the maximum price established by DFO that a buyer can bid for or a seller can receive in relation to quota bid for and offered on a quota exchange.
18. **Spouse** means either of two persons who are legally recognized as being married in accordance with the applicable law of Ontario.
19. **Transfer** means the ownership of quota transferring from one party to another.

New DFO Quota Policies

A. Revocation of Policies

1. All current quota policy provisions relating to the imposition of a transfer assessment on sales and purchases of quota on the monthly quota exchange, provisions relating to the exemption of the last 10 kilograms of quota transferred on the monthly quota exchange from the transfer assessment, and the pay-what-you-bid policies are revoked following the completion of the monthly quota exchange for the month of July 2009 and the completion of the July 2009 quota transactions with respect to mergers, donations and ongoing operations.

B. Non-saleable Quota

The following conditions will apply to non-saleable quota:

1. The P5 quota that is in effect on August 1, 2009 will be the initial base for saleable quota.

2. The quota issued to producers on August 1, 2009 may be adjusted to reflect the actual P5 quota.
3. Non-saleable quota will be calculated as a per cent of the total production quota.
4. If a producer either purchases or sells quota over the quota exchange or through a transfer or donation, the saleable base quota will increase or decrease by the saleable portion of the purchase, sale, transfer or donation.
5. If there is a general quota increase after August 1, 2009 that applies to all producers, the per cent of quota issued to producers that is greater than the base saleable quota will be deemed to be non-saleable.
6. If there is a general quota decrease that applies to all producers, the decrease will first be subtracted from non-saleable quota, and, if necessary, from saleable quota.
7. If the quota that is issued to producers is less than the base saleable quota and there is a general quota increase that applies to all producers, only the amount of increase that is greater than the base saleable quota, if any, will be non-saleable.
8. All bids, offers and quota transfers are to be listed in kilograms of production quota and the saleable and non-saleable proportions will be calculated administratively by DFO.
9. For quota exchange invoicing and quota sale payment purposes and for quota donations and transfers, saleable and non-saleable quota will be calculated administratively by DFO.
10. A Letter of Direction cannot be registered for non-saleable quota.

C. Quota Price Cap

The following policies apply to quota bid for or offered on the monthly quota exchange:

1. DFO hereby establishes a quota price cap of \$25,500 per kg for the August 2009 quota exchange and is effective for bids and offers from July 20, 2009 to August 1, 2009.
2. The quota price cap will be reduced by DFO by \$100 per kg increments each month after the August 2009 quota exchange until the quota price cap reaches the amount of \$25,000 for the January 2010 quota exchange.
3. DFO will maintain a quota price cap of \$25,000 per kg for quota exchanges occurring after January 2010, until notified otherwise.
4. Only one bid or offer for each licensee can be entered on a quota exchange.
5. The maximum bid that may be entered on a quota exchange is 10 per cent of the licensee's production quota as of the closing day of the quota exchange.
6. The minimum bid or offer that a licensee can enter on a quota exchange is 0.5 kg of quota.

7. If the calculated Exchange Clearing Price (ECP) for a quota exchange is lower than the quota price cap, the ECP will apply.
8. When the quota price cap is in effect for a quota exchange and demand for quota is greater than supply, quota will be issued in allotment rounds of 0.1 kg to all successful buyers until a minimum of 50 per cent of the available quota is issued; and, after quota is issued to successful buyers in allotment rounds, the balance of the available quota on a quota exchange will be prorated across the unfilled balance of successful bids.
9. When the supply of quota is greater than demand at the quota price cap or the exchange clearing price, DFO will prorate the successful offers listed at the ECP or the offers listed at the quota price cap to bring the volume of quota purchased, the quota sold and the DFO quota inventory as close to a zero balance as possible.
10. Producers must pay for quota as per the terms of the invoice if their bid, or a prorated portion thereof, is successful.
11. Payment for quota purchased must be received by DFO on or before the last business day of the month prior to the effective date of the quota purchase; and if not received at DFO by this date, late payment charges will be applied at a rate of two per cent per month, calculated daily. Cheques for quota payment can be postdated to the last business day of the month.
12. See Sections E and F for DFO New Entrant Programs.

D. Overproduction Credit Maximums effective February 1, 2010

Effective for February 1, 2010, the maximum overproduction credits that producers may borrow will be 10 days, subject to the following provisions:

1. Producers who have borrowed the equivalent of 10 or fewer days of overproduction credits at the end of January 2010 will have a 10-day overproduction credit maximum.
2. Producers who have borrowed more than the equivalent of 10 days of overproduction credits at the end of January 2010, will have an initial overproduction credit maximum established that is equivalent to the number of days borrowed.
3. The overproduction credit maximum for producers who have borrowed more than 10 days will be reduced in months that shipments are less than monthly quota and, when the maximum is reduced to 10 or fewer days, the overproduction credit maximum will be limited to 10 days.

E. New Entrant Quota Assistance Program

DFO hereby establishes a New Entrant Quota Assistance Program (NEQAP) on the following terms and conditions:

1. DFO will provide up to 120 kg of quota per year for the NEQAP.
2. Subject to DFO issuing a licence to produce and market milk and approving an order to issue quota, DFO will allocate up to 12 kg of quota to each successful applicant.
3. Up to 10 applicants will be selected to receive assistance per year.
4. Applicants shall be 18 or more years of age and shall not be an undischarged bankrupt.
5. Applicants cannot have been previously licensed to produce and market milk in Canada.
6. Spouses of milk producers previously licensed in Canada are not eligible to apply for the NEQAP.
7. DFO staff members and contract employees, their spouses, their children and their children's spouses, are not eligible to participate in the NEQAP.
8. Applicants cannot apply for assistance if they are starting on a licensed dairy facility from which their parents were licensed, held quota, and shipped milk in the previous two years.
9. DFO will provide applications for the NEQAP each year in the July issue of *The Milk Producer* magazine and the application forms will also be available on DFO's website during the application period.
10. The application period for the NEQAP is from August 1 to November 30 of each year.
11. Producers who are shipping milk are not considered to be new entrants, except in the period August 1, 2009 to March 1, 2010 in the first year of the NEQAP.
12. In the first year of the NEQAP, new entrants who start shipping milk in the period August 1, 2009 to March 1, 2010 are eligible to apply for assistance, unless their initial purchases of quota on the August 2009 to February 2010 exchanges were more than 23 kg without proration.
13. New entrants applying for assistance are required to have a certified accountant prepare or review a 10-year financial plan and have the certified accountant verify, in writing, that the plan is legitimate and indicates the business has the ability to generate profit.
14. New entrants applying for assistance are also required to have a letter from a lender indicating that they agree, as required in the business plan, to finance the operation.
15. New entrants applying for assistance are to send by registered mail, in a single package, an application form, a financial business plan and an "agreement to finance" letter from their lender.

16. Only complete application packages will be considered for selection for the NEQAP.
17. An independent third party will determine which applications meet the established criteria and if there are more than 10 applicants who qualify, the third party will use a lottery system to select the successful applicants and will advise DFO of those who have been selected.
18. Successful applicants will be notified in early February that they have been selected to receive assistance.
19. Following notice of selection in February, new entrants receiving assistance will be eligible to participate on the next, or March, quota exchange, receive a quota donation and/or purchase quota with an ongoing operation effective April 1 (applications or bids received by March 1).
20. New entrants receiving assistance must hold a minimum of 12 kg of their own quota at all times and have until April 1 of the year following notification of selection to acquire their quota.
21. New entrants receiving assistance are eligible to bid for quota and are exempt from proration for up to a maximum of 23 kg of quota starting with their first acquisition of quota, over up to six consecutive quota exchanges, unless they are also acquiring quota as part of the purchase of an ongoing operation.
22. The number of new entrants receiving assistance who may participate on a single quota exchange may be limited if the quota price cap is in effect.
23. If DFO limits the number of new entrants receiving assistance from participating on a quota exchange, the new entrants whose bids were cancelled will be notified immediately.
24. New entrants receiving assistance who are acquiring quota as part of an ongoing operation may, if the quota acquired is less than 23 kg of quota, bid for the difference between 23 kg of quota and the amount acquired and are not subject to proration on the quota exchange prior to the effective date of transfer and for up to five consecutive exchanges after their first acquisition of quota.
25. The allotment of quota through the NEQAP will coincide with the effective date of the acquisition of 12 kg of quota. In the first year of the program, new entrants who have been selected to receive quota through the NEQAP and started shipping milk in the period August 1, 2009 to March 1, 2010 will receive the DFO quota allotment on April 1, 2010.
26. New entrants receiving assistance must produce and market milk from their own separately licensed dairy facility, except during the first 12 months following the initial acquisition of quota.

27. New entrants receiving assistance may share facilities with one other producer, upon confirmation of the ownership of lactating cows, for up to 12 months from the effective date of the initial acquisition of quota.
28. If a new entrant receiving assistance shares facilities for a period of one year and does not start shipping milk on their own farm at the end of the 12-month period, the income generated from the quota provided in assistance will be subtracted from the host farm's and/or new entrant receiving assistance's income and/or quota proceeds over the 12-month period following shared facility use.
29. DFO may provide quota to a new entrant receiving assistance for a period not exceeding sixteen years and will take back from the quota provided in assistance the amount greater than the maximum quota assistance for a program year, as indicated in Schedule A.

Schedule A

From the Start of Year(s)	Maximum Assistance (kg quota)
One to Five	12
Six	11
Seven	10
Eight	9
Nine	8
Ten	7
Eleven	6
Twelve	5
Thirteen	4
Fourteen	3
Fifteen	2
Sixteen	1
Seventeen	0

30. If new entrants receiving assistance increase their own quota and the DFO quota provided in assistance to an amount greater than 35 kg through an exchange purchase or receipt of a quota donation, DFO will take back from the quota that was provided under the assistance program, any amount greater than 35 kg of quota.
31. Quota provided under the NEQAP that is taken back by DFO will not be reissued if new entrants reduce their own quota to less than or equal to 35 kg.
32. New entrants receiving assistance cannot conduct a quota transaction that would reduce their own quota below the minimum level of 12 kilograms but are not required to replace their own quota that is reduced through a general quota decrease that applies to all producers.
33. General increases or decreases will be applied to the new entrant's own quota and not the quota provided by DFO in assistance.

34. Quota provided in assistance to a new entrant is not transferrable and cannot be encumbered.
35. New entrants receiving assistance can add a spouse to the licence.

F. New Entrants (Not Receiving Assistance)

The following provisions shall apply to new entrants who have not received assistance:

1. New entrants who are not receiving assistance are eligible to bid for quota and are exempt from proration for up to a maximum of 35 kg of quota over six consecutive quota exchanges, starting with their first acquisition of quota, unless they are also acquiring quota as part of the purchase of an ongoing operation.
2. New entrants who are not receiving assistance and are acquiring quota as part of an ongoing operation may, if the quota acquired is less than 35 kg of quota, bid for the difference between 35 kg of quota and the amount acquired and are not subject to proration on the quota exchange prior to the effective date of transfer and for up to five consecutive exchanges after their first acquisition of quota.
3. New entrants not receiving assistance can share facilities with one other producer, upon confirmation of the ownership of lactating cows, for a period of up to one year from the effective date of the acquisition of quota.
4. When the quota price cap is in effect, a maximum of three new entrants who are not receiving assistance can participate on a single quota exchange and the three participants will be selected on a first-come-first-served basis according to the date and time the bid to purchase quota is placed on the quota exchange.
5. If DFO limits the number of new entrants who are not receiving assistance from participating on a quota exchange, those whose bids were cancelled will be notified as soon as possible after it is known a bid or bids were cancelled.
6. New entrants who are not receiving assistance who purchase quota on the quota exchange and are exempt from the proration policy cannot donate or transfer quota for a period of two years from the effective date of the initial quota acquisition.
7. A new entrant without assistance who acquired quota and was exempt from the proration policy and subsequently sells their total quota holdings and ceases production will be ineligible to acquire quota on the quota exchange and be exempt from the proration policy for a period of two years from the effective date of the sale of the total quota.

G. Donations

The following policies shall apply with respect to donations of quota:

1. Parents can donate quota from the originally licensed dairy facility to a child a maximum of one time in any rolling 12-month period.
2. Parents who donate quota to a child cannot at any time be added to the licence of the child or immediate family of the child or successors or take over the licence of the child or successors.
3. Producers who receive quota through a donation are not permitted to sell, transfer or donate the quota for a period of two years from the effective date of the quota donation.
4. Producers who receive quota through a donation are not permitted to link their licensed dairy facility to the licensed dairy facility from which the quota was donated.

H. Purchase of an Ongoing Operation, Quota Mergers, and Dissolutions

The following policies shall apply with respect to the purchase of ongoing operations and in respect to mergers and dissolutions:

1. Purchasers must ship milk on a continuous basis for a period of two years from the effective date of the ongoing operation purchase before they can transfer or donate the quota acquired with the ongoing operation.
2. If purchasers of an ongoing operation are former or existing quota holders or are spouses of existing or former quota holders, the quota acquired through the purchase of the ongoing operation cannot at any time be donated.
3. Quota cannot be merged with the quota of another quota holder.
4. Business partners, joint venture partners or shareholders on a licence can dissolve from the existing business structure and take their share of the quota to a new licensed dairy facility.
5. Producers who dissolve a business structure and relocate to a new licensed dairy facility must ship milk on a continuous basis for a period of two years from the effective date of the quota transfer before any quota can be transferred or donated.