



March 27, 2009

Dear Sir/Madam:

**Subject: Quota Policy Changes Beginning August 1**

At their March 24 and 25, 2009 Board Meeting, Dairy Farmers of Ontario (DFO) Directors approved a number of quota policy changes. These policy changes are part of a P5 Quota Harmonization Policy proposal that was specifically developed by a P5 Quota Committee and which has been under consideration and review for several months. The P5 Quota Harmonization Policy was initially presented to DFO regional delegates at the 2008 Fall Policy Conference.

DFO anticipates that most of these policies will be implemented in the other four provinces (Quebec, Nova Scotia, Prince Edward Island and New Brunswick) that make up the P5, although there may be some variations from province to province.

The details of how these changes will be implemented in Ontario will be provided in future communications through *the Milk Producer*, updating the DFO Policies book, DFO's Web site, Producer Information Meetings, and further general mailings. The new policies will be effective starting August 1, 2009. Several policies, e.g. the new entrant policy and the upper limit on overproduction credits, will not become operational until later in 2009 or 2010 as described below.

**Policies Eliminated**

The Quota Transfer Assessment, last 10 kg exemption, and the Pay-What-You-Bid policies will be eliminated after the July 2009 quota exchange transactions (that become effective August 1, 2009) are completed.

**New Policies**

**1. Quota Price Cap**

- a. The price of quota will be capped at \$25,500 per kg effective August 1, 2009.
- b. The quota price cap will be reduced by \$100 each month after August 1, 2009 until a cap of \$25,000 is reached on January 1, 2010.

**2. Quota Exchange**

- a. All quota is to be offered on the quota exchange except for same-site transfers (family or non-family) and donations to a child.
- b. Only a single bid on a quota exchange is permitted.
- c. The monthly quota price will be the Price Cap or the Exchange Clearing Price, whichever is lower.
- d. If demand exceeds supply at the Price Cap, sales will be prorated in two stages:
  - (i) first, 50 per cent of the available quota is allocated to all successful bidders in 0.1 kg increments; and
  - (ii) second, the remaining available quota is prorated as a percentage of the remaining demand.
- e. Producers are permitted to bid for up to 10 per cent of quota holdings, with exceptions for new entrants.
- f. Successful new entrant bidders will be exempt from proration under certain conditions.

**3. Non-Saleable Quota For Market Growth**

- a. All future general quota increases that apply to all producers will be non-saleable.
- b. Quota decreases will first come from non-saleable quota followed by saleable quota if necessary.
- c. The non-saleable portion will be the same percentage of total quota for all producers.
- d. When a producer buys or sells quota, a non-saleable portion will move with the saleable portion.

**4. Overproduction/Underproduction Credits**

- a. Effective February 1, 2010, the maximum overproduction credit days, for producers who have borrowed 10 days or less, will be 10 days. Producers, at or above 10 days on February 1, 2010, will only be able to ship 100 per cent of their monthly quota and incentive days, if available, until such time as their overproduction credits are reduced to less than 10 days.
- b. Maximum underproduction credit days will remain at 30 days.

**5. New Entrant Assistance Program**

- a. 10 new entrants per year will be eligible.
- b. A maximum of 12 kg will be loaned and the new entrant must also acquire a minimum of 12 kg.
- c. Quota is returned in 1 kg increments starting in year six for producers who were loaned 12 kg of quota.
- d. Total quota must be no more than 35 kg to maintain loaned amounts.
- e. A financial business plan verified by a certified accountant and a letter from a lender indicating that they agree to finance the operation as outlined in the plan must accompany applications.
- f. An independent third party (not DFO Board) will review applications and conduct a random draw if there are more than 10 eligible applicants in a year.
- g. Applications will be received between August 1 and November 30 each year starting August 1, 2009.
- h. Further details, including an application, will be provided in the July 2009 *Milk Producer* and on the DFO Web site.

**6. New Entrants Without Assistance**

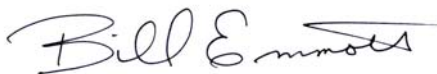
- a. New entrants starting without the benefit of the New Entrant Assistance Program will be eligible to bid 35 kg of quota before being subject to the proration process, subject to some exceptions.

Further information will be provided in *the Milk Producer*, at county and/or regional information meetings, on the DFO Web site and in further general mailings, including the distribution of a new DFO Policies booklet, which will likely occur in July 2009. Producers should continue to utilize these resources for relevant information on the quota policies.

The DFO Board of Directors firmly believes that these quota policies will help foster the sustainability of the Ontario dairy production sector. Furthermore, by establishing the framework to bring provincial quota policies closer together within the P5, important steps will be taken toward the ultimate objective of having one decision-making body within the Pool.

As more information on these policies becomes available over the next few months, I encourage you to take every opportunity to become familiar with the changes and raise any questions that you may have about them.

Yours truly,



Bill Emmott  
Chair