

SAFETI  
Evaluation of 10/10/10 and LIFO Policy

1. Strategic

Identifying key opportunities and systemic challenges, and plan for actions to effectively manage risks and take advantage of future opportunities

*Authority*

The BCMMB is afforded powers under the Natural Products Marketing Act (NPMA) on behalf of the province of BC. The Milk Board is responsible to provide a mechanism for the transfer of quota. This responsibility is noted in subsection 7.2 under Board Regulations -Powers and duties of the Board:

- (a) To establish, allot, alter, suspend or cancel a quota to which no monetary value is attached by the Board, that applies to any person,
- (b) To establish terms on which quotas may be allotted, held, transferred, altered, suspended or cancelled,

*Responsibility*

The Milk Board operates in a supply managed framework of federal and provincial policies, legislation and regulations.

Three key components of this system are:

- Supply matches demand,
- Producers receive a fair return, and
- Consumers are assured a safe and continuous supply of quality product.

The market for this type of product is determined by total demand requirements for the country, this is monitored and administered by the Canadian Dairy Commission (CDC). The Milk Board's key responsibility is to meet market requirements for the province of BC and nationally.

*Challenges*

(1) Market

The establishment of the 10/10/10 and LIFO policy took place during a different environment than the one that exists today. From a policy perspective, the country has made a noteworthy change to its product class structure and corresponding billing policies to secure domestic markets for the long term (Class 7/National Ingredients Strategy).

The policy changes applied on February 1, 2017 show strong utilization in this new billing structure. Although imports have decreased and domestic markets are being maximized,

producers are financially supporting the policy initiative to grow the markets in Canada. The impact is simple, the market is growing and producers are farming more quota for a lower return on investment.

In addition to the new class and billing structure, the producers in Canada are supporting the industry through promotion programs from flavoured milks and ice cream due to the concessions made in international trade agreements.

## (2) Social Responsibility

The proAction Initiative is a national on-farm quality assurance program encompassing six pillars: Milk Quality, Food Safety, Animal Care, Livestock Traceability, Biosecurity, and Environment.<sup>1</sup> To comply with each of the proAction pillars, producers may find it necessary to make investments into various tools and equipment. Some smaller investments could include computer-based herd management software, and RFID scanners. More significant upgrades/renovations to barns and stalls may be necessary to comply with Dairy Code of Practice requirements (Animal Care), and thus minimize animal injury, reduce the incidence of lameness and improve cow comfort. Over time, minimum requirements for the dairy industry are evolving. Research and technology provide more evidence to improve cow health, production efficiency and the safeguarding of milk quality for the consumer. Most of these necessary requirements require investment by the producer to maintain dairy industry standards.

These compliance actions may be completed by adjustments in production or financial investments on the farm.

## (3) Quota Management

In 2008, the Canadian national dairy industry adopted a continuous quota system of production to meet dairy market demand and ensure milk supply across the country. Prior to this system, the national system operated annually using a dairy year (August to July) for production evaluation. As the changes developed in the market place through innovation, technology and growth, the annual system became ineffective to meet market demand. The province of BC changed its provincial policies in 2010 to be responsive to produce Canadian requirements and to have production policies consistent with the rest of the Canadian dairy industry.

The BCMMB reviews production requirements monthly and is required to make changes frequently to meet national obligations or face severe penalties. This can result in producers adjusting their monthly production without a significant notice period.

It is clear to the BCMMB that the current assessment structure (10/10/10 and LIFO) does not recognize the challenges that have been outlined above. The assessment structure in

BC supports barriers to entry by creating an environment where producers are unable to make decisions for their farms from an economic, production and social perspective.

The Board currently allocates quota in a fair and equitable manner, like the rest of Canada to manage production requirements as effectively as possible. Challenges going forward will be production if this assessment policy doesn't change. If producers are producing milk for less with limited flexibility, social license requirements (environment, animal welfare etc.) and penalties for production infractions, there likely will be limited farms continuing in BC long term.

Lastly, in addition to production, the province will eventually lose its quota allocations from the national system if they cannot be produced in BC. The 10/10/10 and LIFO policy provides no strategic support in dealing with these issues long term. The policy impedes the advancement of the dairy industry.

## 2. Accountable

[Maintaining legitimacy and integrity through understanding and discharging responsibilities and reporting performance.](#)

The BCMMB recognizes that the 10/10/10 and LIFO policy creates an accountability structure that provides a rationale to the "public" with respect to "free" quota allocations.

The accountability is a perception that provides an ideal explanation from a theoretical perspective but operationally the policy does not support production accountability, which should be the result.

The policy does not encourage the production of milk. The policy limits the ability to move ahead through technology and investment to produce more milk.

The Board already has accountability measures through over/under production policies and we feel strongly that encouraging producers to hold on to quota that cannot be produced is not a policy that can support an industry long term.

The current assessment structure creates accountability for the small percentage of the population that may sell an allocation and not reinvest in their farm and limits the balance of the industry from moving ahead.

## 3. Fair

[Ensuring procedural fairness in processes and decision making.](#)

The 10/10/10 and LIFO policy is applied to all producers but the impact of the policy is different depending on if you are a new entrant or an established mainstream producer.

Generational farms are challenged with family dynamics (siblings, divorce, death etc.) and because of the limited flexibility of the 10/10/10 and LIFO, farms make the decision to stop production and leave the industry.

New entrants face an environment of high quota prices and low quota availability with no opportunity to invest on the farm without incurring significant debt levels.

The policy does not support industry renewal from new entrants and can limit options for generational farms.

#### 4. Effective

*Ensuring clearly defined outcomes with appropriate processes and measures.*

The outcome for this policy should be to ensure milk gets to market. The 10/10/10 and LIFO policy does not encourage an effective way to manage milk production because you cannot right-size your farm and make decisions that benefit the industry as well as yourself.

Why would a new producer invest in BC when you can move to the Manitoba, Saskatchewan or Alberta and start farming operations with less capital, more quota access and the ability to manage your farm without punitive restrictions?

#### 5. Transparent

*Ensuring that processes, practices, procedures, and reporting on how the mandate is exercised are open, accessible and fully informed.*

The administration of the 10/10/10 and LIFO policy can speak to its transparency. BC has already invested hundreds of thousands of dollars in an IT system to manage the assessment structure and will still need to invest more before the program can be used. In addition to the obvious financial investment, two staff members will likely continue to review any producer quota letters to ensure accuracy due to the complex nature of the policy, continuous quota adjustments and policy specific limitations (Priority purchases, GEPs).

These costs are not incurred by any other province in the country and milk production is meeting market requirements. The policy is costly and misappropriates dollars that can be used in other areas of Board operation.

#### 6. Inclusive

*Ensuring that appropriate interests, including the public interest, are considered.*

The public is impacted by this policy because they simply cannot have access to the dairy industry under the current assessment structure. It creates an environment of limited supply of quota transfers because of the punitive nature of LIFO resulting in inflated quota values.

If this policy remains, the industry in BC will likely consist of large generational farms with no entry opportunities from a public stand point.