

SASKATCHEWAN MILK MARKETING BOARD POLICY

CONTINUOUS DAILY QUOTA

WHEREAS the purpose and objectives of the Saskatchewan Milk Marketing Board includes matters set out in s. 5 of The Milk Marketing Plan Regulations;

AND WHEREAS the Board has the power to do those things set out in ss. 7 and 20 of the *Plan*;

AND WHEREAS s. 7(y) establishes that the Board may control, regulate or control and regulate the quantity of milk that may be produced and marketed by any person at any time, and all or any manner of distributing milk, and s. 20.8 establishes that the Board determines the terms and conditions of any quota transfer;

AND WHEREAS ss. 7(z), (aa), (ee), (ff) establish that the Board has the power to prohibit the production or marketing of milk, to regulate the time and place and the legal entity through which milk is to be marketed, to require any persons engaged in the production or marketing of milk to obtain licenses and provide guarantees, and to issue, categorize, and charge fees for such licenses;

AND WHEREAS the Board has determined it is in the best interests of the dairy industry in Saskatchewan to develop policy respecting these things;

THE SASKATCHEWAN MILK MARKETING BOARD, pursuant to the provisions of The Milk Marketing Plan Regulations and *The Agri-Food Act, 2004* hereby determines as follows:

1. Definitions

For the purpose of the policies outlined in this document, the following definitions apply:

- a) “credit days” are calculated by dividing a producer’s cumulative credits by daily quota;
- b) “credits” means the difference between a producer’s actual production and daily quota allocation, (in kgs of butterfat);
- c) “cumulative credits” are the total credits accumulated by a producer, including transfer credits;
- d) “daily quota” means a fluid and market sharing quota in kilograms of butterfat allocated to a producer by the Board, per day;
- e) “direct transfer” means the transfer of daily quota directly between two producers; it excludes transfers through the Quota Exchange. In all cases, direct transfers require Board approval;

- f) “incentive day credits” are temporary quota allocations that are intended to stimulate production for a specific month;
- g) “monthly quota allocation” is daily quota multiplied by pick-up days;
- h) “negative credit limit” is the maximum negative cumulative credits that may be accumulated by a producer;
- i) “positive credit limit” is the maximum positive cumulative credits that may be accumulated by a producer;
- j) “pick-up days” are used to determine a producer’s monthly quota allocation. Pick-up days are calculated by determining the number of days from the last pick-up of the previous month to the last pick-up of the current month;
- k) “pro-rata” means calculated on a proportionate share, based on kilograms of butterfat;
- l) “transfer credits” are negative credits that are transferred from one producer to another to change each producer’s cumulative position.

2. Registration

All milk producers must be licensed with the Board. Only one Producer ID# shall be allotted to each complete dairy unit, even if there are multiple owners.

3. Continuous Daily Quota Maintenance

- a) Daily quota is allocated on a monthly basis, by multiplying daily quota by pick-up days:

$$\text{daily quota} \times \text{pick-up days} = \text{monthly quota allocation}$$

- b) Monthly quota allocation is measured against actual butterfat production to determine a licensed producer’s credit position. Over-production is referred to as positive credits, while under-production is referred to as negative credits.

$$\begin{aligned} &\text{actual butterfat production} - \text{monthly quota allocation} \\ &= \text{credits for the month} \end{aligned}$$

- c) Credits accumulated on a monthly basis, both positive and negative, are combined to determine a producer’s cumulative credit position which is carried forward indefinitely; there is no dairy year end.
- d) The cumulative credit position is divided by the current month daily quota allocation to determine the credit day position.

$$\begin{aligned} &\text{cumulative credit position} \div \text{current month daily quota} \\ &= \text{credit days} \end{aligned}$$

- e) Producers who experience missed pickups will receive a quota allocation for those missed pickups. Missed pickups may be the result of power failures, weather, mechanical breakdowns, etc.

4. Credit Days

a) Positive Credit Days

- i. The positive credit day limit +5 days.
- ii. Producers may accumulate up to +5 credit days and receive full payment for those shipments.
- iii. Credit days produced in excess of the +5 credit day limit (excess kilograms of butterfat) will receive zero payment, with the revenue from this excess production being shared by all producers in the monthly pool. This excess production will be subject to all relevant deductions. The credit day position carried forward to the next month will be capped at +5 days. Producers cannot recoup these dollars in future months.

b) Negative Credit Days

- i. The negative credit day limit is -15 days.
- ii. Producers may accumulate up to -15 credit days without penalty.
- iii. Credit days accumulated in excess of -15 days are deemed to be lost production opportunity and cannot be carried forward by a producer. There is no opportunity to recoup lost negative credit days in future months. This lost production will not be reallocated to other producers.
- iv. Credit days accumulated in excess of -15 days will incur a financial penalty of a \$100 base administration fee, plus \$5 per kilogram of the lost production opportunity.
- v. Program participation penalties will apply as follows:
 - 1. First infraction (within a rolling 12 month period):
 - a. Not eligible to purchase quota for 6 months from the month of infraction;
 - b. Not eligible to transfer in credits for 6 months from the month of infraction; and
 - c. Will not be issued 0.5% of subsequent SaskMilk quota issuance.
 - 2. Second infraction (within a rolling 12 month period):
 - a. Not eligible to purchase quota for 12 months from the month of infraction;
 - b. Not eligible to transfer in credits for 12 months from the month of infraction; and
 - c. Will not be issued 1.0% of subsequent SaskMilk quota issuance.

3. Third and consequent infractions (within a rolling 12 month period):
 - a. All above consequences remain in effect, and:
 - b. In accordance with the Quota Board Order, producer is required to sell quota on the Exchange in accordance with the 15% rules (limit of 3 months, followed by 90% of previous month clearing price 4th+ months as per section 8(b)(iv), the average kilograms of the number of days below -15 in the three months of infraction.

Ex: 100 kg farm, 3 infractions at -18 days, -20 days, -19 days
Average -19, so 4 days below -15
 $4 \text{ days} \times 100 \text{ kgs} = 400 \text{ kgs} / 365 \text{ days} = 1.1 \text{ kgs daily quota (1.1\%)}$

Ex 2: 66.31 kg farm, 3 infractions at -29 days, -18 days, -26 days
Average -24.33 days, so 9.33 days below -15
 $9.33 \text{ days} \times 66.31 \text{ kgs} = 617.67 / 365 = 1.7 \text{ kgs daily quota (2.6\%)}$

Ex 3: 203 kg farm, 3 infractions at -20 days, -17 days, -23 days
Average -20 days, so 5 days below -15
 $5 \text{ days} \times 203 \text{ kgs} = 1015 / 365 = 2.8 \text{ kgs daily quota (1.4\%)}$

5. Incentive Day Credits

To stimulate production, the Board may issue incentive day credits. Incentive day credits are used after a producer's monthly quota allocation is used, and cannot be carried forward to the next month. Incentive day credits cannot be transferred to other producers. Incentive day credits do not affect a producer's cumulative credit position.

6. Private Transfer Credit Transactions

- a) Private transfer credit transactions enable licensed producers to transfer credits (negative credits/underproduction) from one licensed producer to another licensed producer. This policy allows licensed producers the opportunity to transfer credits to change a licensed producer's cumulative credit position.

Example #1: transfer credit transaction of -500 credits from Producer A to Producer B:

Prior to the transfer:

Producer A has a cumulative credit position of -1400 credits

Producer B has a cumulative credit position of +400 credits

After the transfer:

Producer A has a cumulative credit position of -900 credits
Producer B has a cumulative credit position of -100 credits

Producer A has transferred -500 credits (negative credits) to Producer B

Example #2: transfer credit transaction of -1200 credits from Producer C to Producer D:

Prior to transfer:

Producer C has a cumulative credit position of -1200 credits
Producer D has a cumulative credit position of -100 credits

After the transfer:

Producer C has a cumulative credit position of 0 credits
Producer D has a cumulative credit position of -1300 credits

Producer C has transferred -1200 credits (negative credits) to Producer D

- b) Application forms for transfer credit transactions must be submitted to the Board office by midnight of the 20th of each month to be effective on the 1st of that same month.
- c) There is no limit on the amount of transfer credits that a licensed producer may transfer in; however each licensed producer must stay within the positive and negative credit day limits by the end of each month.
- d) There are two limits on the amount of transfer credits that a licensed producer may transfer out:
 - i. Licensed producers may transfer credits out (negative credits), up to a zero credit position; and
 - ii. Licensed producers are limited to an amount of transfer credits that may be transferred out during the most recent 12-month period (rolling 12-month period). This limit is calculated as follows:

Transfer Credit Transfer Out Limit = (daily quota × 365 days × 10%)

Ex. 100 kgs/day × 365 days × 10% = 3,650 kgs that may be transferred out during the most recent 12-month period. Each licensed producer's limit is available on the Quota Management Sheet.

- e) As a licensed producer's daily quota is adjusted (up or down), that licensed producer's limit is adjusted accordingly. If a reduction in daily quota causes a producer to exceed the transfer out limit, that licensed producer will not be able to transfer out additional transfer credits until the limit is no longer exceeded.

- f) A licensed producer may request an exemption from the limit in (d) and (e) above in the form of a 'reset to 0%' by completing an application in a form prescribed by the Board. The Board will determine whether such an exemption will be approved solely at their discretion.

7. Leases

- a) A licensed producer may request a temporary (up to 12 months) lease of their quota to another existing licensed producer in the following circumstances only:
 - i. A new entrant to the industry who would like to purchase quota and have it produced while they are preparing their production unit and facilities to begin production;
 - ii. A producer who is renovating existing facility on their production unit or building new facilities on their production unit; or
 - iii. A crisis or catastrophe situation.
- b) The licensed producer must apply to the Board for the Lease on a form and in a manner determined by the Board.
- c) In the case of a new entrant or renovation or construction of facilities, application forms for Lease transactions must be submitted to the Board office by midnight of the 20th of each month to be effective on the 1st of the following month.
- d) In the case of a crisis or catastrophe situation, application forms for Lease transactions should be submitted to the Board office immediately, and the Board will make the Lease effective at the earliest possible time.

8. Quota Transfer Procedure

- a) In Saskatchewan, 15 per cent of all transfers of quota must be made through the Quota Exchange, except for transfers of daily quota within the immediate family and sales of a complete dairy unit.
- b) Direct quota transfers are subject to the following conditions:
 - i. A producer who transfers part of his/her quota to another person must transfer 15 per cent of that quota on the Quota Exchange. For example, a producer wishes to transfer 100 kilograms of daily quota must offer a minimum of 15 kilograms of that daily quota on the Quota Exchange.
 - ii. To assist with planning their quota transfers, any quota transfers made via the Quota Exchange up to six (6) months ahead of the effective date for the direct transfer to another person may be utilized by producers to satisfy the 15 per cent requirement. No prior notice of intent to SaskMilk indicating that the quota is being listed on the Quota Exchange to satisfy the 15 per cent rule is required.

- iii. Licensed producers who have not satisfied the 15 per cent requirement as of the effective date of the direct transfer will have three (3) months to list this quota on the Quota Exchange.
 - iv. If a portion, or all, of the daily quota listed on the Quota Exchange fails to transfer within the three month period, SaskMilk, on behalf of the licensed producer, will list the daily quota on subsequent Quota Exchanges, priced at 90 per cent of the previously established market clearing price. SaskMilk will continue to list this daily quota on the Quota Exchange until the entire amount of daily quota is transferred.
 - v. The limit on quota to be allocated to a single producer or a single production unit shall be 4% of available provincial total production quota.
 - vi. The application to transfer must be received at the Board office prior to or by midnight of the 6th of the month in order to become effective on the first day of the month following approval of the transfer at the earliest. The effective date may be the first day of the month in later months.
- c) It is the licensed producer's obligation to fill their daily quota until such time as the effective date of the transfer.
- d) Applications for the direct transfer of quota to another person will not be approved by SaskMilk until:
- i. Confirmation that all Security Interest will be released upon satisfaction of any related conditions;
 - ii. Personal Property search obligations are resolved;
 - iii. SaskMilk is in receipt of a letter from the seller's lawyer addressed to SaskMilk confirming that the conditions of the sale will be subject to appropriate trust conditions so that when all conditions of the sale are met, the sale proceeds are available to the seller; and
 - iv. any other conditions associated with the transfer have been satisfied.
- e) For new producers, daily quota allocation will start on the day that milk is picked up on the farm. For example, if a producer's first shipment is June 26, the production days allocated will be six (6) because the producers will have had their milk picked up three (3) times in that month. For greater clarity, a producer cannot accumulate production credits until milk shipments have commenced.
- f) The Board may approve the transfer of all or part of a licensed producer's total production quota if:
- i. the licensed producer applies to the Board in accordance with this section; and
 - ii. the Board is satisfied that the licensed producer has otherwise complied with the Plan, all Orders, and Policies of the Board.

- g) Where a licensed producer proposes to transfer his or her total production quota to a person who is not a licensed producer, the Board shall not approve the transfer unless:
 - i. the Board is satisfied that the location where the person proposes to produce milk is appropriate; and
 - ii. the production facilities to be used by the person are approved pursuant to the Milk Production and Facility Standards Board Order.
- h) The Board may approve the transfer, by two or more licensed producers who are individuals, of their total production quotas to a partnership or association of which they are members or shareholders.
- i) The Board may approve the transfer of a total production quota where a licensed producer who is an individual:
 - i. has transferred his or her total production quota to a partnership or association in accordance with section 9; and
 - ii. subsequent to the transfer mentioned in clause (a), applies to the Board to withdraw from the partnership or association and to retransfer his or her total production quota to his or her own name.
- j) Where the Board approves the transfer of a total production quota, the transfer is effective:
 - i. on a date set by the Board, which date may be earlier than the date on which the approval is granted; or
 - ii. if the Board does not set a date, on the first day of the month following the month in which the Board granted the approval.

9. Quota Exchange Operational Guidelines

- a) There will be one quota exchange per month.
- b) All offers to sell and bids to purchase must be made by sending a completed Quota Exchange Application Form to the Board office.
- c) All offers to purchase must be accompanied by a letter from a financial institution or lender confirming funds. Bids to purchase will not be part of the exchange unless accompanied by this letter.
- d) All offers to sell must be accompanied by a letter of consent to sell daily quota from each lender or other secured party that has a security interest in the daily quota being offered for sale. Bids to sell will not be part of the exchange unless accompanied by the letter(s) of consent.
- e) Daily quota must be sold, or bid for, in terms of dollars per kilogram of daily quota.

- f) All offers to sell and bids to purchase quota through the Quota Exchange must be received at the Board office by midnight of the 6th of each calendar month to become effective on the first day of the following month. The Board strongly recommends that offers and bids be placed on the Quota Exchange well in advance of this deadline date to ensure adequate time for corrections if necessary. Any bid or offer received after this deadline will be entered on the next month's Quota Exchange, unless the Board is advised, in writing, to change or cancel the bid.
- g) A licensed producer who wishes to cancel or change an offer or bid may do so by advising the Board office of the changes by sending a letter that must be received at the Board office by midnight of the 6th of the same month.
- h) There is a service charge of \$20 for listing an offer to sell, or bid to purchase daily quota. There will be an additional charge of \$20 for changing or cancelling a bid or offer on the same Quota Exchange.
- i) Licensed producers who listed offers to sell or bids to purchase daily quota on the Exchange will be advised by letter of whether or not their offer or bid was successful. Only after written notice is received, should the settlement for daily quota be completed.
- j) A licensed producer cannot offer to sell and bid to purchase daily quota on the Exchange in the same month.
- k) A licensed producer may bid to purchase varying amounts of daily quota at varying prices on the Exchange. However, all successful bids must be honoured.
- l) Licensed producers who sell daily quota on the Quota Exchange can expect payment from the Board during the month following the Exchange.
- m) A licensed producer purchasing daily quota on the Quota Exchange must make payment to the Board by the 25th of the month in which the Quota Exchange is held.
- n) The minimum amount, which can be purchased, sold or transferred, is 0.25 kilograms of daily quota.
- o) All licensed producers will be advised of the results of the Quota Exchange.
- p) The Board sets the clearing price after the Quota Exchange closes. The clearing price is set at the price where the smallest difference exists between the accumulated volume offered for sale and the accumulated volume bid to purchase.
- q) Daily quota will be allocated to each successful bidder when the daily quota available on the Quota Exchange is sufficient to meet the requests. If there is not sufficient daily quota to meet the amount requested, producers will receive a pro-rata share of available daily quota. Allocations will not exceed a producer's bid.

- r) The Quota Exchange clearing price will be established on the first regular business day following the 14th day of each month.
- s) The Board will send letters to all participants after the Quota Exchange closes to notify them of the status of their bid or offer.
- t) Successful purchasers must pay the Board by cheque, money order, or electronic transfer by the date specified in the notification letter from the Board. Failure to make payment will result in loss of the daily quota which was bid on, as well as Quota Exchange privileges for twelve months.
- u) Licensed producers who sell daily quota on the Quota Exchange can expect payment from the Board during the month following the Exchange.

10. Voluntary Declaration of Multiple Quota Ownership on a Production Unit

- a) A licensed producer may choose to voluntarily declare quota interest holdings within their production unit.
- b) Such declaration can only be made by the licensed producer on a form prescribed by the Board, and does not alter the license, payment arrangements, quota maintenance, signing authority, credits, transfers, or security of that production unit.

11. Licensed Producers Leaving the Industry/Ceasing Shipments

- a) When a licensed producer ceases production, any milk shipped or recorded after the last day of the month will automatically be transferred to the purchaser.
- b) Licensed producers exiting the industry will receive daily quota allocations up to their final shipment date. For example, if a producer's last shipment is January 26, that producer's allocation will be 26 days based on 13 pickups for the month.
- c) Producers who exit the industry in a positive credit position must reconcile their production in order to receive payment for any production on positive credits. Producers will be given two months following their last shipment to transfer in negative credits from other producers to reconcile their production. Any over production that has not been reconciled at the end of this time will not receive payment, with any remaining funds to be distributed in the next monthly producer pool. For example:

Producer A transfers his entire quota to another producer(s) on March 1 and is in a positive credit position of 500 credits.

Producer A will have an opportunity to find negative credits up to the April 20th transfer credit deadline.

If Producer A transfers in 400 negative credits, he will be paid for that production, with the revenue from the remaining 100 kgs of production being paid out in the producer pool for April production.

- d) No producer exiting the industry will be granted an exemption on the limits established for transferring out negative credits. This policy does not override the catastrophe provision in Part 10 of this Policy.
- e) All daily quota sales and dairy operation name changes require that the Board obtain written searches through the Personal Property Registry to ensure that the daily quota is free and clear of all encumbrances. The Board will be assessing the producer a fee for this service equivalent to the amount charged to the Board by the Registry. Licensed producers will be invoiced on a monthly basis.
- f) Producers wishing to re-enter the Industry once they have ceased shipping milk:
 - i. Licensed producers that have stopped shipping and have not sold all daily quota within the permitted three consecutive months' time period will be permitted to restart shipments within the same period.
 - ii. The licensed producer must ship milk for at least 60 days at a level consistent with the daily average production quota held for that year to qualify under this section.
 - iii. The licensed producer must adhere to the Board's Continuous Daily Quota Policy.

12. Quota as Security

- a) Quota may be used as security for loans. In order to prevent daily quota from being exchanged or transferred with security interests still in existence, the Board, when receiving a request to sell or transfer daily quota will undertake the following procedures:
 - i. Check to determine whether there has been a Letter of Understanding filed with the Board. If there is, the Board will request the licensed producer to obtain consent to the transfer or sale from the lender involved.
 - ii. The Board will check to determine if the licensed producer has applied for approval to grant security interest in daily quota. If the Board has approved such a request, the staff will ensure that the licensed producers have a signed consent by each secured party referred to on the Joint Application forms.
 - iii. If the consents are not provided, the Board will not allow the daily quota to be transferred.
 - iv. The Board will obtain a search from the Personal Property Registry.
 - v. When a written search is received, the Board will note situations where the licensed producer has given a general security agreement or security on daily quota. If either is found, the licensed producer will be notified that their daily quota will not sell until written consent is obtained from those persons holding the security on the secured party.

- vi. If there are Writs of Execution registered against the licensed producer, the licensed producer must be notified that these must either be removed, or the licensed producer must obtain written consent from the Execution creditor.
- vii. Only when all written consents have been obtained, will the daily quota be placed on the Quota Exchange or transferred. If there is consent missing, the Board will not place the daily quota on the Quota Exchange or transfer it. It is up to the licensed producer to obtain all consents, releases or waivers from the secured parties or the Writ holders. When a licensed producer is planning to transfer daily quota or plans to sell that daily quota, they should take steps to obtain these consents. Failure to do so will cause a suspension in the sale or transfer of daily quota until consents are obtained.

This policy is effective on the 1st day of August, 2016.