

IMPORTANT UPDATE

On January 7, 2020 the P5 provinces announced changes to modify the payment policy effective January 2021.

Due to some technical constraints the implementation of the new payment policy will be deferred by one month to February 1, 2021, in Ontario, New Brunswick and Prince Edward Island.

Quebec and Nova Scotia will implement the new payment policy no later than August 1, 2021 due to regulation and technical constraints, respectively.

A PAYMENT METHOD FOR MARKET-ORIENTED COMPONENTS - RECAP

The P5 provinces agreed to modify the on-farm component payment policy to better reflect market revenue and ensure better equity between producers in an environment of SNF structural surplus. These changes do not affect plant billing, but rather the method of distributing revenue among producers. In other words, the same money will be directed to producers but distributed in such a way that it takes better account of individual contributions to solids non-fat (SNF) surpluses and ensures greater value for components that generate yields during processing, i.e. butterfat and protein.

The main change to the new policy is the inclusion of an additional SNF/BF ratio. At present, producers who have an SNF ratio lower than 2.30¹ are all paid the same revenue and they are not paid for SNF when the ratio exceeds 2.30 (this revenue is redistributed on the basis of the BF of producers who have an SNF/BF ratio lower than 2.30). With the new policy, two SNF/BF ratios will be used to establish the payment parameters for SNF.

Payments for SNF:

- The portion of produced SNF **with an SNF/BF ratio lower than 2.0**
 - o Protein: paid at a higher within-quota price than current prices
 - o Lactose and other solids: paid at a set rate of \$0.90/kg
 - o **Who will receive these payments?** All producers will receive these payments for the portion of their SNF that is lower than 2.0.
- The portion of produced SNF **with an SNF/BF ratio between 2.0 and 2.3**
 - o Protein and lactose and other solids: class 4a
 - o **Who will receive these payments?** Producers who have a ratio higher than 2.0 will receive this price for the portion of their SNF between 2.0 and 2.3.
- The portion of produced SNF **with an SNF/BF ratio higher than 2.30**
 - o Protein and lactose and other solids: No payments will be made for these components, as was the case starting in January 2020. There will be no more BF premium but this portion of the total revenue will be paid to producers with SNF below 2.0.

Payments for Butterfat

- All butterfat produced on a within-quota basis will be paid at a similar rate to the current price.

¹ The maximum payable ratio went from 2.35 to 2.30 on January 1st 2020.

Table 1: Example of how the new policy will impact prices

SNF/F ratio	Butterfat price (\$/kg)	Protein price (\$/kg)	LOS + OS price (\$/kg)	% of P5 SNF
Current policy	10.72	7.12	1.49	
<= 2.00	10.61	8.95	0.90	90.2 %
> 2.00 <= 2.30	10.61	class 4a		9.3%
> 2.30	10.61	0	0	0.5 %

Note: These prices are based on 2017-2018 for information purposes only. If they were based on 2018-2019, they would be higher.

A high proportion of producers will be marginally affected by the new policy. Nevertheless, this policy creates greater equity between producers. In fact, the payments received by producers who have a high SNF/BF ratio, meaning that they contribute more to surplus SNF, will be lower. Conversely, the payments received by producers who have a low SNF/BF ratio, meaning that they contribute less to surplus SNF, will be higher than they are now.

Table 2 : Total Revenue Variation in \$/kg BF According to the 2017-2018 P5 Sales Data

Ratio SNF/BF	% of the farms	Policy Revenue @ 2.35 (\$/kg BF)	New Policy Revenue (\$/kg BF)
< 2.0	3 %	17.82 \$	18.44 \$
2.0 to 2.20	39 %	18.42 \$	18.62 \$
2.20 to 2.30	45 %	18.72 \$	18.66 \$
> 2.30	13 %	18.93 \$	18.68 \$