

February 1, 2017

## National Ingredients Strategy Implementation

### Background

On July 7, 2016, a negotiating committee consisting of producers and processors reached an agreement in principle on a National Ingredients Strategy. This agreement was developed over an 18-month period and was approved by ten provinces at the P5 Supervisory Body (P5 SB) / Western Milk Pool Coordinating Committee (WMP CC)/ Canadian Milk Supply Management Committee (CMSMC) on July 29, 2016 and by the Canadian Dairy Commission (CDC) on January 20, 2017.

The agreement was seen as an opportunity to modernize the industry in the face of concerns over dairy world price volatility, growing structural surpluses, saturated drying capacities, world trade agreements and challenges with the movement of dairy ingredients.

In BC, the BC Milk Marketing Board (BCMMB) began the required consultation process immediately with processors and producers; a summary of meetings can be found at the end of this notice. The Board received support to proceed with the “agreement in principle” from all industry stakeholder groups consulted.

### Policy Changes

Through a series of P5 SB/WMP CC/CMSMC meetings from July 2016 through January 2017, decisions regarding class utilization, price adjustments, billing ratios, audit and information technology were made by ten provinces under CDC’s guidance. These decisions mapped the intent of the National Ingredients Strategy and allowed the “agreement in principle” to develop into a practical plan for implementation.

### Pricing Adjustments

#### **November 2016**

At the P5 SB/WMP CC meeting on October 27, 2016, prices for classes 3(B) and 3(D) were adjusted to reflect the “agreement in Principle”. This resulted in a reduction to the protein price for class 3(B) by \$1.00/kg of protein and 3(D) by \$1.50/kg of protein, for an effective date of November 1, 2016. This change was supported by the Milk Industry Advisory Council (MIAC) on August 10, 2016. This change was communicated in our Notice to Processors on October 28, 2016.

#### **February 2017**

At the P5 SB/WMP CC meeting on December 16, 2016, the following changes were approved for an effective date of February 1, 2017. The changes reflected both changes in the fluid price formula and further adjustments in the “agreement in principle”. All changes were supported by the MIAC on December 19, 2016 and were communicated to the industry in a Notice to Processors on December 19, 2016.

**1. National Pricing Formula – Classes 1-4**

a. Decrease of \$0.0446/kg on SNF

**2. Class 1(a) and 1(b)**

a. BF price adjustment for Class 1A/B +\$0.15/kg

b. Compensatory price adjustment of \$0.0390/kg applied on fluid classes for 12 months to compensate for the estimated revenues on butterfat sales between November 1 2016 and January 31 2017.

**3. SNF Increase to Classes 4(a) and 4(d) with Revenue Neutral BF Decrease in Classes 2-4**

a. Increase of \$1.8914/kg of SNF (January 31, 2016 levels)

b. Decrease of \$0.0767/kg on BF (Classes 2-4)

**Class Utilization**

Class 3 (C) was split into two classes in order to accommodate billing ratios:

3(c)1	Milk sold to a Vendor and utilized in the manufacture of Feta, Asiago, Gouda, Havarti, Parmesan, Swiss, and Canadian Style Munster (Muenster).
3(c)2	Milk sold to a Vendor and utilized in the manufacture of any type of Brick, Colby, Farmer’s, Jack, Monterey Jack, Paneer, and all types of Mozzarella except when declared in Class 3(d).

The definition for Class 4 (A) was changed to:

4(a)	Milk sold to a Vendor and utilized in the manufacture of all types of butter and butter oil; all types of milk powder other than those identified in Class 7; all types of powder with over 4% butterfat content and packaged for retail; liquid MPC and MPI made from whole milk or partly skimmed milk (greater than 4%), in any concentration, derived by any process; concentrated milk, whether sweetened or not (not for retail); and all other products not elsewhere stated.
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The BCMMB established a non-contingent dairy ingredients Class 7 for the manufacture of dairy ingredients:

7	Skim milk components in liquid and dry form, in any concentration, derived by any process, including MPC and MPI <sup>1</sup> ; skim-milk powder; whole milk powder <sup>2</sup> ; edible casein and edible caseinate powders <sup>3</sup> ; yogurt powders, sour cream powders, and partly-skimmed milk powder and blended milk powders with a maximum milk fat content of 4%; rennet casein (dry or curd) used in the manufacture of non-standardized final products in the processed cheese category <sup>4</sup> .
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Classes 4(A)1 and 4(M) were removed from the milk classification system as a separate class and incorporated into class 7.

**Billing Mechanism**

See attached Schedule 4.1 (BCMMD Consolidated Order September 1, 2013)

On December 16, 2016 the CMSMC approved a harmonised billing mechanism for the national ingredients strategy.

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<sup>1</sup> Eligibility of liquid is subject to specific rules described in the administrative measures of the Harmonised Billing Mechanism.  
<sup>2</sup> Subject to rules that have yet to be established.  
<sup>3</sup> Including casein, sodium caseinate, calcium caseinate.  
<sup>4</sup> As per the procedure defined in the National Audit Standards.

Under this mechanism, processors will have access to the ingredient class price for skim milk and other ingredient class dairy products and ingredients within the limits of the billing ratios established under the harmonised billing mechanism.

Billing ratios are calculated and applied on the total milk protein contained in the vat from all sources- fresh milk, domestic milk protein ingredients, and imported milk protein ingredients.

For cheese products falling within class 3, total milk protein in the vat does not include milk proteins sourced from whey or whey by-products.

Processors using less fresh milk protein than specified by the protein dairy product billing ratios specified for each Class in Schedule 4.1 will be subject to a price adjustment and billed in the corresponding end use class.

For component pricing and billing purposes, the protein billing ratios are extended to cover and to capture the small amounts of butterfat and larger amounts of other components found in the equivalent volume of skim milk associated with or used in the manufacture of milk protein ingredients - for calculation purposes, the skim milk is assumed to be standardized at a butterfat test of 0.001 kilograms per litre.

A price adjustment on milk purchased will apply if the butterfat sourced through ingredient class milk products and/or other dairy products or ingredients exceeds the butterfat that would be contained in a milk protein product or ingredient made from skim milk standardized at 0.001 kilograms of butterfat per litre. The price adjustment will be calculated at the difference between the higher class butterfat component price and the ingredients class butterfat component price.

End Product billing ratio reference – as described in Schedule 4.1 will be used as part of the monthly billing mechanism.

### **Audit and Information Technology**

To ensure the integrity of milk utilization and billing mechanism, auditors must have access for each product, to the required information on the total milk protein in the vat on a monthly basis from all sources – fresh milk, domestic milk protein ingredients, and imported milk protein ingredients. This includes all accounting records related to the purchase of all milk products and milk protein ingredients used in the manufacture of milk and manufactured dairy products. This is to ensure that all milk protein sources have been accounted in determining the protein product billing ratios.

Auditors must proceed with a validation and a reconciliation of total milk protein in the vat on a monthly basis from all sources, by variety of products and by class. This would be done through their regular auditing schedules.

### **Milk Utilization and Verification Software (MUV)**

To facilitate the reporting and auditing process, the BCMMB adopted the MUV software developed by Dairy Farmers of Ontario (DFO) and the Ontario Dairy Council (ODC). This system has been updated to reflect the changes required for the National Ingredient Strategy along with changes specific to BC Milk reporting requirements.

KPMG provided a demonstration and preliminary training on how processors use this software to complete their monthly milk utilization reporting to BC Milk.

The BCMMB held MUV training on January 25 and 26, 2017 (in person and on webinar). The training was held

approximately five weeks prior to the required application date to minimize the time between training and implementation to reduce the effect of knowledge loss with too much idle time between the two steps. The notice from BC Milk (January 5, 2017) regarding using MUV was sent two months prior to the effective date for the first month of reporting under MUV (March 6, 2017).

In addition, processors are required to sign a software licensing agreement. There is no cost for users of the software. **Use of the web-based software is mandatory for all processors for February 2017 utilization and onwards.**

### **Next Steps**

The BC Milk Marketing Board continues to participate in discussions at the national level to develop transition steps for the implementation of the National Ingredients Strategy.

The Board has two representatives on the Working Group for the Implementation of the National Ingredients Strategy (WGINIS) and will continue to consult with industry groups (as required). Further communications will be provided as information becomes available and decisions are made.

Please contact Zahra Abdalla-Shamji at [zabdalla@milk-bc.com](mailto:zabdalla@milk-bc.com) or 604.854.4480 if you have any questions.

## Summary of Information and Consultation Sessions

<b>Meeting</b>	<b>Date</b>	<b>Details</b>
<b>Farm Industry Review Board (FIRB)</b>	July 28, 2016	Preliminary information to FIRB regarding pending National Ingredients Strategy proposal at CMSMC.
<b>BC Dairy Council (BCDC)</b>	August 8, 2016	Consultation on the “Agreement in Principle” for the National Ingredients Strategy.
<b>BC Dairy Association (BCDA)</b>	August 8, 2016	Consultation on the “Agreement in Principle” for the National Ingredients Strategy.
<b>Milk Industry Advisory Council (MIAC)</b>	August 10, 2016	Consultation on the “Agreement in Principle” for the National Ingredients Strategy.
<b>BC Processor Webinar</b>	September 20, 2016	Consultation on the “Agreement in Principle” for the National Ingredients Strategy.
<b>Farm Industry Review Board (FIRB)</b>	October 12, 2016	Consultation on the “Agreement in Principle” for the National Ingredients Strategy.
<b>Producer Webinar (Regional Executives)</b>	October 20, 2016	Consultation on the “Agreement in Principle” for the National Ingredients Strategy.
<b>Producer Regional Meetings</b>	November 2016	Consultation on the “Agreement in Principle” for the National Ingredients Strategy.
<b>Fall Producer Meeting</b>	December 2, 2016	Ingredients Strategy Update
<b>Mainland Milk Producers AGM</b>	January 6, 2017	Ingredients Strategy Update
<b>MUV Training</b>	January 25/26, 2017	Training on MUV System
<b>Island Milk Producers AGM</b>	January 31, 2017	Ingredients Strategy Update

## SCHEDULE 4.1 – WITHIN-CLASS END-USE PRICE ADJUSTMENTS

CLASS OF MILK	END-USE OF CLASS	ADJUSTED PRICE
<b>Class 1(a)</b> <sup>1</sup>	Standard Fluid Milk Products <sup>2</sup>	N/A
	Fortified Fluid Milk Products	N/A
	Milk Meal Replacement with 50% or Less Dairy Content	100% of Protein priced at Class 7 Price
	Milk Beverages, Milkers and Creamers <sup>3</sup>	N/A <sup>4</sup>
<b>Class 1(b)(i)</b> <sup>1</sup>	Standard Fluid Milk Products <sup>2</sup>	N/A
	Fortified Fluid Milk Products	N/A
	Milk Meal Replacement with 50% or Less Dairy Content	100% of Protein priced at Class 7 Price
	Milk Beverages, Milkers and Creamers <sup>3</sup>	N/A <sup>4</sup>
<b>Class 1(b)(ii)</b> <sup>1</sup>	Standard Fluid Milk Products <sup>2</sup>	N/A
	Fortified Fluid Milk Products	N/A
	Milk Meal Replacement with 50% or Less Dairy Content	100% of Protein priced at Class 7 Price
	Milk Beverages, Milkers and Creamers <sup>3</sup>	N/A <sup>4</sup>
<b>Class 1(c)</b> <sup>1</sup>	Standard Fluid Milk Products <sup>2</sup>	N/A
	Fortified Fluid Milk Products	N/A
	Milk Meal Replacement with 50% or Less Dairy Content	100% of Protein priced at Class 7 Price
	Milk Beverages, Milkers and Creamers <sup>3</sup>	N/A <sup>4</sup>
<b>Class 1(d)</b> <sup>1</sup>	Standard Fluid Milk Products <sup>2</sup>	N/A
	Fortified Fluid Milk Products	N/A
	Milk Meal Replacement with 50% or Less Dairy Content	100% of Protein priced at Class 7 Price
	Milk Beverages, Milkers and Creamers <sup>3</sup>	N/A <sup>4</sup>
<b>Class 2(a)</b>	All	70% of Protein priced at Class 2(a) Price and 30% of Protein priced at Class 7 Price
<b>Class 2(b)</b>	Fresh Dairy Desserts (i.e., at least 75% fresh milk content, final product shelf life requires refrigeration)	75% of Protein priced at Class 2(b) Price and 25% of Protein priced at Class 7 Price
	All Types of Ice Cream and Ice Cream Mix, Whether Frozen or Not	N/A <sup>5</sup>

<sup>1</sup> Milk reconstitution which has been made by the addition of water is not allowed whatever the source of water. Must have a casein and whey protein content at least equal to that of the raw milk used to prepare fluid milk for those products. Only non-fat solids are taken into account to determine the casein and protein content of the whey. That no preparation process may reduce the milk protein content or alter the ratio between caseins and whey proteins of the raw milk used to prepare these products.

<sup>2</sup> Including flavoured milk and fortified milk.

<sup>3</sup> Subject to P5 SB /WMP CC approval of 4(a) and 4(d) SNF and class 2 to 4 BF price adjustments (revert February 1, 2016 pricing decision).

<sup>4</sup> Discussion will continue at WGNIS (**Working Group for the Implementation of National Ingredients Strategy**)

<sup>5</sup> For calculation purposes, cream is assumed to be standardized at a butterfat test of 0.4 kilograms per litre and skim milk is assumed to be standardized at a butterfat test of 0.001 kilograms per litre.

CLASS OF MILK	END-USE OF CLASS	ADJUSTED PRICE
	All Types of Fudge, Pudding, Soup Mix, and Indian Sweets <sup>6</sup>	N/A
	Sour Cream	75% of Protein priced at Class 2(b) Price and 25% of Protein priced at Class 7 Price
	Dairy Beverage Shakes	N/A <sup>7</sup>
	Sports/Nutrition Drinks with a Minimum Protein Content 2x that of Fluid Milk Products Content	N/A <sup>8</sup>
<b>Class 3(a)</b>	Cheese with a Ratio of 95% as per the Federal Dairy Product Standards	95% of Protein priced at Class 3(a) Price and 5% of Protein priced at Class 7 Price <sup>9</sup>
	Cheese Curds, Part Skim Pizza Cheese, Pizza Cheese, Skim Milk Cheese, Ricotta and all other cheese varieties falling within the Class	83% of Protein priced at Class 3(a) Price and 17% of Protein priced at Class 7 Price <sup>9</sup>
<b>Class 3(b)</b>	Aged Cheddar (9 months and more as per Federal Dairy Product Standards)	N/A
	Cheddar, Cheddar-Type Cheeses Sold Fresh	83% of Protein priced at Class 3(b) Price and 17% of Protein priced at Class 7 Price <sup>9</sup>
	Stirred Curd, Cream Cheese, and Cream Cheese Bases or Cheese Mixes, other than Creamy Cheese Bases or Cheese Mixes used to process products referred to in another Class	83% of Protein priced at Class 3(b) Price and 17% of Protein priced at Class 7 Price <sup>9</sup>
	Any product not referred to in Class 3(a), 3(b), 3(c), or 3(d) made by coagulating milk, coagulating milk products, or coagulating both milk and milk products with the aid of bacteria to form a curd (but excluding rennet casein curd)	83% of Protein priced at Class 3(b) Price and 17% of Protein priced at Class 7 Price <sup>9</sup>
<b>Class 3(c)1</b>	Feta	50% of Protein priced at Class 3(c)(1) Price and 50% of Protein priced at Class 7 Price <sup>9</sup>
	Asiago, Gouda, Havarti, Parmesan, Swiss	95% of Protein priced at Class 3(c)(1) Price and 5% of Protein priced at Class 7 Price <sup>9</sup>
	Munster (Muenster) Canadian-Style	83% of Protein priced at Class 3(c)(1) Price and 17% of Protein priced at Class 7 Price <sup>9</sup>
<b>Class 3(c)2</b>	Brick, Colby, Farmer's, Jack, Monterey Jack, all types of Mozzarella other than Pizza Mozzarella and Part Skim Pizza Mozzarella and Mozzarella falling within Class 3(d)	83% of Protein priced at Class 3(c)(2) Price and 17% of Protein priced at Class 7 Price <sup>9</sup>
	Pizza Mozzarella and Part Skim Pizza Mozzarella not described in Class 3(d)	63% of Protein priced at Class 3(c)(2) Price and 37% of Protein priced at Class 7 Price <sup>9</sup>
	Paneer	50% of Protein priced at Class 3(c)(2) Price and 50% of Protein priced at Class 7 Price <sup>9</sup>
<b>Class 3(d)</b>	All	63% of Protein priced at Class 3(d) Price and 37% of Protein priced at Class 7 Price <sup>9</sup>
<b>Class 4(a)</b>	Butter and Butter Oil, Partly-Skimmed Milk Powders with Butterfat Content greater than 4%, and Other Dairy Products not elsewhere specified in another Class. <sup>10</sup>	N/A
<b>Class 4(b)</b>	Condensed Milk or Sweetened Condensed Milk for Retail Sale	50% of Protein priced at Class 4(b) Price and 50% of Protein priced at Class 7 Price
<b>Class 4(c)</b>	All	N/A

<sup>6</sup> Secretariat is considering removing fudge, pudding, soup mix, Indian sweets from the harmonized milk classification (not considered finished dairy products).

<sup>7</sup> Discussion will continue at WGINIS.

<sup>8</sup> Discussion will continue at WGINIS.

<sup>9</sup> Excludes added protein and associated components sourced from whey and/or whey by-products.

<sup>10</sup> Any other product not otherwise specified is subject to review by WGINIS on a case-by-case basis.