Fundamental Principles on the Milk Supply Relationship between Farmers and Co-Operatives in the context of the Post Milk Quota era.

Macra na Feirme, as the representative voice of Irish young farmers, is committed to supporting the sustainable growth of the Irish dairy sector. Having consulted widely with its members, Macra has formulated the following fundamental principles as a basis for the orderly expansion of the Irish dairy industry. Macra is calling upon Irish farmers and their co-operatives to embrace these fundamental principles as the basis for a framework for the supply of milk in a post quota era. Dairy farmers should also look favourably upon contributing to the investment needs of their cooperatives in preparation for a post quota era. This approach which should be finalised by all stakeholders within 6 months will avoid a fragmented array of mechanisms to deal with a developing industry and provide clarity and opportunity for existing and new dairy farmers for many years to come.

<u>Fundamental Principles</u>

1. **Milk Supply**

   The existing quota held by all farmers at 31/03/2015, should form the basis of their future 'license' to supply their cooperative. This should be on a litre for litre basis. This 'license', which must be with the cooperative, should be of a permanent nature, ie the cooperative should not be able to diminish this 'license' unilaterally. This will ensure that there is no disruption to supplies and also give certainty and security to existing farmers, young and old.

2. **Milk Sought for Existing Capacity**

   If the cooperative wants additional milk supply from suppliers after 31/03/2015, and has spare capacity:

   - New entrants and recent small scale producers with less than 300,000 litres must be given priority to the additional milk sought, at no cost.
   - Existing suppliers should be offered additional 'license' at no cost, on a pro rata basis.

3. **Milk Sought for Additional Capacity**

   If the cooperative wants additional milk supply from suppliers after 31/03/2015, but does need to invest in additional capital equipment:

   - Farmer to invest in co-op shares in return for extra 'license' to part fund the investment in additional processing capacity. Farmers should not be asked to invest in more than a % limit of capital expenditure, e.g. 30%.
   - New entrants and recent small scale producers with less than 300,000 litres must be given priority to the additional milk sought.
   - Existing suppliers should be offered additional licence on a pro rata basis.

4. **New entrants – after 31 March 2015**

   - Cooperatives to provide 'license' of 300,000 litres per new trained entrant under 35 years of age, as an encouragement to start, at no cost. Cooperative should set a target for the number of new entrants required annually to sustain and grow the supplier base based upon the profile of existing suppliers and forecasts for expansion. A transparent and equitable mechanism to select eligible new entrants should be defined.
   - New entrants should be facilitated over time to reach the minimum shareholding requirements in accordance with their co-op rules.

5. **Transferring of License**

   Suppliers can transfer within family/favoured nephews/nieces **<u>or else</u>** the license reverts to the cooperative for redistribution at no cost. No value should be attributable to the 'license' to supply milk.
   If a successor is identified within ten years of the farmer retiring, that successor should have priority access to an equivalent licence.

   This would avoid the situation that prevailed during the quota era whereby suppliers wishing to expand their production had to invest significant capital in purchasing quota which limited their capacity to invest in growing their business. It is estimated that Irish farmers paid approx €800 million for quota during this period.

6. **Partnerships**

   Partners, under 35 years of age, as new entrants to dairying, should be entitled to a license for 300,000 litres from the provision for new entrants. However, this license should not be transferrable between the partners or to another farmer.

7. **Farming through a Company**

   Supply 'licenses' should only be held by the farmers in their own name, and should not be held by a company. This will ensure that the family farm model is preserved. Farmers could still operate their business through a limited company structure, however, the license to supply milk should be held by the farmer(s) personally.

8. **Control of the Co-operatives**

   Control of the Co-operatives should be retained by the active suppliers (milk, grain, etc) and mechanisms should be introduced to facilitate the transfer of shareholding from inactive to active shareholders, over time.

9. **Oversight**

   The Department of Agriculture, Food and the Marine must maintain a register of all 'licences' held by Irish dairy farmers and maintain a central role in ensuring that the allocation / reallocation of 'licenses' is fair and transparent. Furthermore they should operate an appeals mechanism to deal with disputes. No milk should be collected from a supplier who does not hold a 'licence' and is not registered with the DAFM.
   This involvement will also allow the DAFM to offer assurances to the public relating to standards of production and quality control on Irish dairy farms.

10. **Force Majeure**

    Force majeure provisions should exist to remedy the impact of unforeseen circumstances outside the supplier's control which put the supplier at a disadvantage.