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Dairy Farm Startup
Assistance Program
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Version (1) of June 1, 2016.

Notice to readers

This document explains the main rules for qualifying and submitting an application to the Dairy Farm Startup Assistance Program in 2016. However, it is only intended as information and has no legal value; in the event of litigation or dispute, you must refer to the French version of the By-laws respecting quotas for milk producers (c. M-35.1, r.208),¹ which is available on the Publications du Québec site.

This document has the following four sections:

1. Eligibility Criteria;
2. Submission Process;
3. Awarding the Loans;
4. Loan Repayment and Other Conditions.

To find out more about the Program, contact the secretary of the regional group nearest you.

<http://lait.org/en/contact-us/>

The information contained in this brochure was complete and complied with the By-laws respecting quotas for milk producers as of June 1, 2016.

About the Dairy Farm Startup Assistance Program

The Dairy Farm Startup Assistance Program of Les Producteurs de lait du Québec (hereinafter "PLQ") is designed to encourage individuals to start up new human-scale dairy operations that are personally managed and run by their owners in Quebec (hereinafter «Program»).

For that purpose, a quantity of 144 kg of butterfat per day is available every year from the pooling of provincial milk marketing boards that signed the *Agreement on the Eastern Canadian Milk Pooling*. The loans will range from a minimum of 12 kg of butterfat per day to a maximum of 16 kg of butterfat per day. Their repayment will begin in the eleventh year after the loan is issued.

For 2016, the regional groups in Abitibi-Témiscamingue, Gaspésie-Les Îles and Saguenay-Lac-St-Jean will be given priority in the awarding of loans under the Program. In fact, one loan will be awarded to each of these three regions, as a priority.

¹ The authoritative French version is entitled «Règlement sur les quotas des producteurs de lait.»

Program Glossary

Enterprise: A sole proprietorship formed by one or more natural persons, a business corporation or a general partnership.

Interest means:

1. in the case of a enterprise operated by one or more natural persons, undivided shares held directly in the enterprise;
2. in the case of an enterprise operated by a business corporation, the shares issued in each class of capital stock; and
3. in the case of an enterprise operated by a general partnership, the partners' shares.

Lender: A bank included in Schedules I and II of the Bank Act (S.C. 1991, chapter 46), or a credit or savings union governed by the Act respecting financial services cooperatives (chapter C-67.3) or a related person who finances the enterprise.

Production unit: All dairy operations of a producer, the quota used by them and the dairy cows located in them.

Related individuals means:

1. when an enterprise is operated by one or more natural persons:
 - a) the mother or father of one of these natural persons;
 - b) the mother or father of the spouse of one of these natural persons;
 - c) the spouse of one of these natural persons;
2. when the producer is a legal person or a general partnership:
 - a) the mother or father of the natural person who controls the legal person or the general partnership;
 - b) the mother or father of the spouse of the natural person who controls this legal person or the general partnership;
 - c) the spouse of the natural person who controls this legal person or the general partnership;

Spouse: Individuals who are married or in a civil union, as well as de facto spouses, i.e. an individual who has lived with another in a conjugal relationship for at least one year.

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1

Eligibility Criteria

To qualify for the Program, the enterprise must meet the following criteria:

1.1 Legal form

The first criterion concerns the legal forms that an enterprise may have to qualify for the Program. Only sole proprietorships, business corporations, or general partnerships may apply.

1.2 Plan to start up a new dairy enterprise with natural persons who hold interests and will actively participate in managing and running the production unit

The second criterion is that the enterprise must demonstrate that it plans to start up a new dairy enterprise in which its owner, co-owners, shareholders or members will participate actively in managing and running the production unit.

1.3 Holding interests in the enterprise

The third criterion that must be met pertains to holding interests in the enterprise. More specifically, 100% of the enterprise's interests must be held by natural persons who individually meet the following conditions:

- They are at least 18 years of age when the application is submitted;
- They are Canadian citizens or permanent residents;
- They are domiciled in Quebec;
- They are not undischarged bankrupts in the meaning of the Bankruptcy and Insolvency Act (R.S.C. (1985), chapter B 3);
- They will actively participate in managing and running the production unit.

1.4 Domicile of the enterprise

The fourth criterion concerns the domicile of the enterprise. If it is a business corporation or a general partnership, the company must have its headquarters and main location in Quebec and operate its production unit there.

1.5 Prohibition on having held interests in a production unit

The fifth criterion is that the natural persons holding an interest in the enterprise that applies to this Program may not have previously held, in any form whatsoever, an interest in a production unit.

1.6 Production site

The sixth criterion is related to the site where the quota loaned under this Program will be produced. This site must not have been used for milk production by a related person of one of the natural persons holding interests in the enterprise during the two years preceding the submission of the application. This exclusion also applies to a site that was held indirectly by a related person, such as through a company, for example.

1.7 Recognized education programs

The seventh criterion that must be met by an enterprise to qualify is the general education of the persons who hold interests in it. This criterion requires that at least 50% of the interests held in the enterprise be held by natural persons who have received general education in agriculture or management that is recognized as level 1, 2 or 3 by the Financial Support Program for Aspiring Farmers of La Financière agricole du Québec.

Here are a few examples of general education programs mentioned in the Financial Support Program for Aspiring Farmers:

GENERAL EDUCATION LEVEL 1

- Bachelor of Science in Agriculture;
- Diploma of College Studies (DCS) in farm management and operations;
- Diplôme d'études collégiales en technologie des productions animales;
- Diplôme d'études collégiales en technologie du génie rural.

GENERAL EDUCATION LEVEL 2

- Certificate in agriculture combined with a Diploma of College Studies;
- Master of Agriculture;
- Master of Business Administration;
- Bachelor of Business Administration or Management;
- Bachelor of Biology;
- Certificate in business administration combined with a Diploma of College Studies;
- Diplôme d'études collégiales en techniques équinés;
- Diplôme d'études collégiales en technologie des équipements agricoles;
- Diploma of College Studies in animal health techniques;
- Diploma of College Studies in administrative techniques.

GENERAL EDUCATION LEVEL 3

- Certificate in agriculture;
- Certificate in business administration;
- Bachelor degree;
- Three certificates;
- Diploma of College Studies;
- Diploma of Vocational Studies in agriculture;
- Diplôme d'études professionnelles en acériculture dans le cas d'un établissement en acériculture;
- Diplôme d'études secondaires avec mention d'une spécialité en agriculture dans le cas d'un établissement dans le domaine de cette spécialité en agriculture.

The full list of eligible general education programs may be consulted in the "Cadre légal" section of the La Financière agricole du Québec site at <http://www.fadq.qc.ca/a-propos-de-nous/cadre-legal/>

1.8 Practical experience in milk production

The eighth criterion that must be met for an enterprise to qualify is that at least 50% of its interests are held by one or more natural persons who have at least two years of practical milk production experience.

1.9 PLQ employees and spouses of PLQ employees

The ninth criterion that must be met for an enterprise to qualify for the Program is that none of the persons holding the interests are PLQ employees or the spouses of PLQ employees.

1.10 Spouses of milk producers

The tenth criterion that must be met for an enterprise to qualify for the Program is that none of the natural persons holding interests in the enterprise are spouses of milk producers.

1.11 Resolution of the regional board

The eleventh criterion that must be met for an enterprise to qualify for the Program is that it must obtain a resolution from the regional PLQ board in the region where the loaned quota will be used.

1.12 Declaration of the natural persons holding interests in the enterprise

The twelfth criterion that must be met by the enterprise, through the natural persons who hold interests in it, is its commitment in writing to:

1. hold quota acquired from the Centralized Quota Sales System that is at least equal to the quantity of quota loaned;
2. not transact a quota sale that results in reducing the quantity of quota it holds to under 12 kg of butterfat per day;
3. neither transfer nor create security interests in the quantity of quota loaned;
4. ensure that all natural persons who hold interests in the enterprise take a training session for new producers organized by the PLQ within 12 months of the awarding of the loan.
5. ensure that their production unit complies with the provisions of the Food Products Act (chapter P-29), the Animal Welfare and Safety Act (chapter B-3.1) and the regulations thereunder;
6. comply at all times with the provisions of the By-laws respecting quotas for milk producers (chapter M-35.1, r.208) and the Act Respecting the Marketing of Agricultural, Food and Fish Products (chapter M-35.1), as well as any regulation, ordinance, agreement or applicable arbitral award under this law;
7. provide to the PLQ, if a loan is awarded to it, by no later than February 1 after Program eligibility has been established, proof that the required financing to start up the operation has been obtained.

This declaration is included in Schedule 6 – *Déclaration des personnes physiques détenant des intérêts dans l'entreprise jointe* of the By-laws respecting quotas for milk producers (hereinafter "Schedule 6"). Furthermore, it must be signed before a secretary of a regional PLQ group.

2

Submission Process

2.1 Loan application

For a loan application to be considered under the Program, the enterprise must complete the following four steps:

1. Provide a similar application to the example appearing in Schedules 5 and 6 of the By-laws respecting quotas for milk producers, duly completed and signed by its owner or each of its co-owners, shareholders or partners;
2. Provide the documents confirming that it satisfies the conditions of the Program (see Schedule 5 – Dairy *Startup Assistance Program* and Schedule 6);
3. Provide a 10-year business plan; and
4. Provide the following documents:
 - a résumé for each natural person holding interests in the enterprise;
 - a copy of the diploma issued by a recognized educational institution;
 - a photocopy of the birth certificate, health insurance card issued by the Régie de l'assurance maladie du Québec or driver's license issued by the Société d'assurance automobile du Québec for each natural person holding interests in the enterprise; and
 - depending on the case:
 - a) if two or more natural persons hold interests in the enterprise, a copy of the contract respecting their undivided interests in the enterprise;
 - b) if it is a business corporation, a copy of its articles of incorporation;
 - c) if it is a general partnership, a copy of the partnership agreement.

If so desired, the enterprise may include with its application letters of support from milk producers who belong to its regional group.

2.2 Business plan content

Along with its application, the enterprise must submit a 10-year business plan that includes the following:

1. a statement of its projected revenue and expenditures, a statement of its projected cash flow and a balance sheet covering a 10-year period;
2. the list of technical-economic assumptions used to determine the cash flow;
3. an organizational chart showing the structure and governance of the enterprise, such as:

- a) if it is a business corporation: a description of the share capital, the number of subscribed and fully paid common shares with full voting rights as well as the amount paid by each shareholder;
 - b) if it is a general partnership: the names of the partners and the percentage of partnership units held by each natural person holding an interest in the enterprise;
4. a description of the planned dairy enterprise and especially the assets that will be used by it;
 5. the civic address of the physical facilities where the milk will be produced and marketed by the enterprise;
 6. The list of lenders approached and the amounts of financing requested.

This business plan must be prepared and signed by a farm management consultant who is a member of the Ordre des agronomes du Québec or by a chartered professional accountant.

2.3 Loan application submission dates and place

Applications may be submitted starting on August 1, 2016.

The deadline for submitting an application and all supporting documents to the office of a regional PLQ board is 4:30 p.m. EST on October 31, 2016.

Late applications will not be considered.

The enterprise is responsible for submitting all supporting documents by the deadline. The PLQ will reject incomplete applications.

2.4 Multiple applications by the same person or for the same site

A natural person may not directly or indirectly, personally or as a unitholder or shareholder of a legal person, submit more than one application either by himself or herself or through another person.

In addition, only one application may be submitted per production unit. Otherwise, all applications received for that site will be rejected.

2.5 Rejection notice

The PLQ will inform the enterprise of the reasons for the rejection by no later than November 30 after the deadline for submitting applications.

3

Awarding the Loans

3.1 Loan award procedures

The loans are awarded according to one or more of the following procedures:

1. A loan is awarded to all enterprises deemed eligible, provided the quantities of kg of butterfat available are sufficient to do so;
2. Otherwise, by no later than December 1, loans are awarded by draw according to the following order of priority:
 - a) Between the enterprises that have been deemed eligible and have indicated in their applications that they plan to set up operations in one of the priority regions for the quantity of quota given in priority to applications from those regions;
 - b) Between all enterprises that have been deemed eligible until available quantities are exhausted.

A notice is sent to the enterprises to inform them that their application has been accepted or rejected.

The enterprises that are not drawn for loans may participate again in the Program by submitting a new application in the following year.

3.2 Loan award

The loan is issued to the enterprise when both of the following conditions are met:

1. It has submitted written confirmation from each of its lenders to the PLQ by no later than 4:30 p.m. EST on February 1, 2017 stating that the financing required to start up its operations has been granted;
2. It has acquired the equivalent quantity of quota to its loan from the Centralized Quota Sales System.

The enterprise must acquire the entire quantity of quota equal to its loan in one and the same sale in the Centralized Quota Sales System. If it fails to do so, the enterprise will be disqualified from the Program. In addition, this purchase must be made and milk production must start up within 12 months of the transmission of the notice confirming acceptance of its application.

3.3 Loaned butterfat quantity in kg per day

The quantity loaned may not be higher than the quantity requested by the enterprise in its application.



4

Loan Repayment and Other Conditions

4.1 Repayment terms

The repayment of the loan begins in the 11th year following the date on which it was granted by the PLQ, at a rate of 0.1 kg of butterfat per month, up to 1 kg per year.

4.2 Annual declaration and change in the enterprise's situation

An enterprise that receives a loan from the Program must submit to the PLQ, every year, a declaration similar to the one appearing in Schedule 7 – Annual Declaration of the By-laws respecting quotas for milk producers, which must be signed by the persons who hold interests in the enterprise.

Furthermore, the enterprise must fulfill the requirement of submitting a declaration within 30 days of a change in its situation, such as a change of shareholder.

At the request of the PLQ, the enterprise must prove the accuracy of the information contained in its declaration.

4.3. Publication of the names of Program beneficiaries

The names of enterprise and the natural persons who hold interests in them will be published once per year in the annual report of the PLQ as well as in the *Le producteur de lait québécois* magazine.



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FOR MORE INFORMATION

Please contact one of the regional groups of Les Producteurs de lait du Québec. The contact information is available at <http://lait.org/en/contact-us/>.