
CANADIAN DAIRY COMMISSION
CORPORATE PLAN SUMMARY
FOR 2006-2007 TO 2010-2011

OPERATING AND CAPITAL BUDGETS
FOR THE DAIRY YEAR ENDING JULY 31, 2007

TABLE OF CONTENTS

I. Profile of the Canadian Dairy Commission.....	1
II. Strategic issues for the planning period.....	3
A) Assessment of results for 2005-2006.....	3
B) Analysis of the external environment.....	6
C) Assessment of CDC resources.....	7
III. Strategies, goals and performance measures.....	9
A) Description of strategies.....	9
B) Goals, objectives and performance measures.....	10
IV. Financial Information.....	13
Major Assumptions	13
Marketing Operations Statement and Budget.....	14
Statement of Dairy Support Program and Costs Financed by the Government of Canada (Dairy Years).....	15
Statement of Dairy Support Program and Costs Financed by the Government of Canada (Fiscal years)	16
Borrowing Plan.....	17
Capital Budget.....	18
APPENDIX A. Glossary of dairy terms.....	19

I PROFILE OF THE CANADIAN DAIRY COMMISSION

CDC at a glance

Created in 1966

61 employees (as of April 1, 2006)

Location: Ottawa

Web site: www.cdc-ccl.gc.ca

Budget 2005-2006: \$ 6.8 million

Year of operation: August 1st to July 31st

Mission: To enhance the vitality of the Canadian dairy industry for the benefit of all stakeholders.

Legislation: *Canadian Dairy Commission Act* and Dairy Products Marketing Regulations
Financial Administration Act
Public Service Labour Relations Act

Mandate

The Canadian Dairy Commission (CDC), a federal Crown corporation, plays a central facilitating role for the multi-billion dollar Canadian dairy industry. Created in 1966 through the *Canadian Dairy Commission Act*, the CDC reports to Parliament through the Minister of Agriculture and Agri-Food Canada. Its legislated objects are twofold: to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment; and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality.

Funded by the federal government, dairy producers and the marketplace, the CDC strives to balance and serve the interests of all dairy stakeholders — producers, processors, further processors, exporters, consumers and governments.

Designated as a Schedule III, Part I Corporation as set out in the *Financial Administration Act*, the CDC has the authority to purchase, store, process and sell dairy products; to investigate matters relating to the production, processing or marketing of any dairy product; and to help promote the use of dairy products.

Summary of activities

To achieve its mandate, the CDC works with provincial governments and industry stakeholders such as dairy producers¹, processors, further processors and consumers. The CDC, on the federal government's behalf, facilitates and supports the dairy industry in the development and implementation of major policies and programs.

The CDC oversees, on the industry's behalf, the core features of the current orderly marketing approach in the dairy sector. This is done by:

- operating domestic seasonality and surplus removal programs;
- administering the Special Milk Class Permit Program, the Domestic Dairy Products Innovation Program, and the Dairy Marketing Program;
- calculating and recommending to the industry the level of the national Market Sharing Quota for industrial milk in Canada;
- setting support prices for butter and skim milk powder;
- administering the industry's pooling systems; and,

¹ Underlined words or phrases are further described in Appendix A.

- administering Canada's imports of butter to respect the minimum access requirements established by the World Trade Organization.

The CDC chairs the Canadian Milk Supply Management Committee (CMSMC) and in this capacity, appraises the committee on matters of interest or concern that require resolution and, when necessary, proposes various solutions or alternatives which could contribute to more orderly and efficient marketing.

Organization and structure

The Commission is comprised of three executive members appointed by the Governor in Council: a Chairman and Chief Executive Officer, a Vice-chairman and a Commissioner. All three positions are part-time appointments. As of April 1, 2006, the CDC is composed of the following three members:

John Core, Chairman and CEO
Carl Harrison, Vice-chairman
Jean Grégoire, Commissioner

II STRATEGIC ISSUES FOR THE PLANNING PERIOD

A) Assessment of results for 2005-2006

The goals set by the CDC for the last period, along with a brief summary of the status of achievement of each goal, are described below.

Goal 1. Provide leadership to the Canadian dairy industry

<i>OBJECTIVES</i>	<i>PERFORMANCE INDICATORS FOR 2005-2006</i>	<i>RESULTS</i>
Adopt a methodology for industrial milk pricing beyond 2006	<ul style="list-style-type: none"> • Creation of a pricing review process • Receipt of recommendations from review process • Commission approval • Implementation of recommendations 	<ul style="list-style-type: none"> • This objective has been put on hold until further development of the Doha round of negotiations at the World Trade Organization (WTO).
Increase the level of harmonization among all provinces	<ul style="list-style-type: none"> • Completion of the All Milk Pooling Agreement review by March 2006 • Start active discussion on an All Milk National Pooling Agreement • Coordination of a national auditors meeting by March 2006 • Revision of the National Milk Utilization Audit Manual by March 2006 • Effective monitoring of the National Milk Quota Management • Completion of the review of the Comprehensive Agreement on Pooling of Milk Revenues for presentation to CMSMC in January 2006 	<ul style="list-style-type: none"> • On going. Provinces have not yet agreed on the text of the new agreement. • The CDC proposed several options to the CMSMC in February 2006 and discussions have started at the provincial level. • Meeting held in September 2005. • On going. • Monitoring and adjustments performed. • Delayed. Comments to be presented to CMSMC in May 2006.
Implement a new price agreement for Class 5(c)	<ul style="list-style-type: none"> • Creation of a 5(c) Price Committee • Receipt of Committee's report by the CMSMC • Committee's final report and recommendation(s) • CMSMC approval 	<ul style="list-style-type: none"> • Committee recommendations approved by CMSMC in October 2005.

Goal 2. Encourage the development of markets for Canadian dairy products

<i>OBJECTIVES</i>	<i>PERFORMANCE INDICATORS FOR 2005-2006</i>	<i>RESULTS</i>
Develop additional solids non fat (SNF) markets with higher utilization and return	<ul style="list-style-type: none"> • New markets for SNF • Lower purchases and stocks of SMP under Class 4(m) • Increase level of activity under the Dairy Marketing Program • Increase level of activity under Class 4(a)1 • Increase in revenue per unit of SNF 	<ul style="list-style-type: none"> • SNF in hot beverage mixes • 4(m) purchases were stable but stocks declined by 45%². • 19 projects approved + about 260 companies visited. • Activity under 4(a)1 is 11.3 Mkg³ SNF. • SNF revenue went from \$4.07/kg to \$4.25/kg⁴.
Review the elements necessary for the growth of Special Classes	<ul style="list-style-type: none"> • Report to CMSMC the results of the Special Class program evaluation • Act according the CMSMC direction 	<ul style="list-style-type: none"> • Report presented in May and July 2005. • Some recommendations were approved by CMSMC in July 2005; further analysis referred to the Market Committee.
Establish partnerships to increase promotion of dairy products	<ul style="list-style-type: none"> • Approval of partnerships by Commission 	<ul style="list-style-type: none"> • 4 agreements signed which include all provinces. • 2 promotion plans approved.
Increase utilization of Canadian dairy ingredients	<ul style="list-style-type: none"> • Full implementation of Dairy Marketing Program • Reduced skim milk powder stocks 	<ul style="list-style-type: none"> • Program fully implemented. • Stocks reduced from 20.3 Mkg to 9.7 Mkg⁵.
Maximize WTO allowed exports	<ul style="list-style-type: none"> • Fulfill close to 100% of WTO export commitments without exceeding them 	<ul style="list-style-type: none"> • On going.

Goal 3. Increase CDC's involvement and expertise in trade issues

<i>OBJECTIVES</i>	<i>PERFORMANCE INDICATORS FOR 2005-2006</i>	<i>RESULTS</i>
Improve working relationship with agriculture negotiating team	<ul style="list-style-type: none"> • Train the new trade analyst to increase CDC's expertise in trade issues • Provide expertise and advice to WTO negotiation team 	<ul style="list-style-type: none"> • Hired in June 2005. Training is ongoing. • Monthly meetings with Agriculture and Agri-Food Canada (AAFC) negotiation team.

² March 31 2006 vs March 31, 2005

³ Between March 2005 and February 2006

⁴ 12-month rolling, as of March 31, 2006

⁵ Between August 1, 2005 and March 31, 2006

<i>OBJECTIVES</i>	<i>PERFORMANCE INDICATORS FOR 2005-2006</i>	<i>RESULTS</i>
Provide information and expertise to various stakeholders regarding trade	<ul style="list-style-type: none"> Evaluate impact of WTO decisions on Canadian dairy industry Report to Commission and stakeholder/government committees 	<ul style="list-style-type: none"> Monthly reports to the Commission. Presentation to Farm Credit Canada. CDC acted as bridge between the dairy industry and AAFC to ensure WTO-compliant programs.

Goal 4. Enhance the governance and operations of the CDC

<i>OBJECTIVES</i>	<i>PERFORMANCE INDICATORS FOR 2005-2006</i>	<i>RESULTS</i>
Create and implement a comprehensive HR Plan	<ul style="list-style-type: none"> Key positions identified by March 2006 Competency profiles of key positions developed by March 2006 Development and implementation of a self-identification methodology by March 2006 Number of people with personal learning plans 	<ul style="list-style-type: none"> Succession plan delayed due to turnover in HR personnel. About half of the employees had a training plan.
Finalize CDC Rules	<ul style="list-style-type: none"> Commission approval 	<ul style="list-style-type: none"> Rules approved by the Commission in March 2006.
Implement the Public Service Modernization Act (PSMA)	<ul style="list-style-type: none"> Implementation of the PSMA elements as per Treasury Board timelines 	<ul style="list-style-type: none"> Discussions have taken place with AAFC regarding an MOU on conflict management services. As of May 26, 2006, about 57 employees will have taken training on conflict resolution.
Improve employees' knowledge of CDC's activities	<ul style="list-style-type: none"> Implementation of two initiatives 	<ul style="list-style-type: none"> Each team will present its activities to other teams over 2 years. CMSMC decisions are posted on the Intranet as they become available. The Chairman holds regular information meetings with all staff.
Increase emphasis on team management	<ul style="list-style-type: none"> Increased number of team meetings 	<ul style="list-style-type: none"> Several teams have adopted a regular meeting schedule.
Monitor the review of Governance Framework for Crown Corporations	<ul style="list-style-type: none"> Implementation of directives as required 	<ul style="list-style-type: none"> An impact analysis has been prepared for the Commissioners. Directives regarding Audit and Nominations Committee have been implemented. Follow up by government is being monitored.

<i>OBJECTIVES</i>	<i>PERFORMANCE INDICATORS FOR 2005-2006</i>	<i>RESULTS</i>
Develop and implement an Information Management Policy and Guidelines	<ul style="list-style-type: none"> • Commission approval • Completion of training on the Guidelines for all employees • Implement the policy and guidelines in daily operations of all employees 	<ul style="list-style-type: none"> • The Policy has been approved and its implementation is ongoing.
Improve efficiency of service delivery	<ul style="list-style-type: none"> • Reach Expenditure Review goal through operational efficiency • Review and recommend changes to improve services to clients (avoid duplication) • Implementation of recommendations of CDC's Special Examination by OAG 	<ul style="list-style-type: none"> • The CDC was not targeted by the Expenditure Review • Some processes have been streamlined. Toll free number has been promoted. Member's side of milkingredients Web site has been improved. • Ongoing. Some recommendations have already been implemented.

In addition to the above goals, the CDC continued to operate its usual activities. In December 2005, the CDC announced the new support prices for butter and skim milk powder. A small increase was applied to the price of skim milk powder but the support price for butter was not changed. This pricing announcement also meant that the CDC has fulfilled its commitment taken in January 2002 to gradually increase the support prices such that by February 1st, 2006, 50 percent of dairy farmers in Canada would recover their cost of production. Contrary to the previous year, the new support prices did not contain an add-on to compensate dairy farmers for their losses associated with bovine spongiform encephalopathy (BSE).

As demand for dairy products decreased throughout the year, the CDC continued to recommend quota cuts to the CMSMC. As a result, the national market sharing quota (MSQ) was cut several times so far in the 2005-2006 dairy year, starting the year at 178,945 kg of butterfat and standing at 169,456 kg of butterfat as of April 1, 2006, a 5.3% reduction. Since April 1st, 2006, a new method is used to calculate demand.

B) Analysis of the external environment

a) World Trade Organization Negotiations⁶

After the World Trade Organization (WTO) ministerial meeting in Hong Kong in December 2005, negotiations continued. Agriculture remains at the heart of these discussions. It was confirmed in December that all subsidized exports were to be phased out by 2013. Since all Canadian exports of dairy products made from in-quota milk are considered subsidized, this will have an impact on Canadian exports and at the same time, on the CDC. In 2004-2005, the CDC exported 23.5 million kg of skim milk powder (SMP), either as such or in blends. This SMP is exported as part of the Surplus Removal Program.

The role of the CDC has been, traditionally, to buy surplus products and dispose of them on markets such as the export market or on low return markets such as animal feed. Dairy producers pay the costs associated with this Surplus Removal Program (carrying charges and loss of revenues). For that reason, it is necessary to continue to seek other markets for

⁶ Since the adoption of the Corporate Plan by Treasury Board, WTO negotiations have been suspended.

solids non fat and pursue policies to decrease the ratio of solids non fat to butterfat in milk at the farm level.

Most experts suspect that the end result of the current round of WTO negotiations (the Doha Round) will involve both reductions in tariffs and increased market access. The extent of these changes as they will apply to dairy products is unknown for the moment, especially given that there is a possibility that all products under supply management will be treated as sensitive products. Increased Canadian market access for butter could have an impact on the CDC since it currently holds the import permit for tariff-rate-quota (TRQ) butter. With the support of the industry, the CDC imports the butter and directs it through butter manufacturers to the food industry.

Regardless of what the exact outcome of the Doha Round will be, the Canadian dairy industry will likely need to make some adjustments and the leadership and expertise of the CDC will be useful in that regard. In the meantime, the CDC will be working on trying to harmonize dairy policies across the country to create a more level playing field for both producers and processors. It will also establish an interim pricing methodology that will be used until more is known about the impacts of the future WTO agreement on agriculture. At that time, it will be important for the industry to develop a longer term vision for itself.

Furthermore, the CDC believes that, in order to prepare for the changes ahead, it is important that the current players of the industry understand better how it works. It is also critical to ensure the development of a new generation of specialists who will be in a position to support the industry both in terms of dairy policy and in terms of dairy technology.

b) Declining Demand for Dairy Products

In the last year, Canadian demand for dairy products has declined. This does not have a direct impact on the CDC. However, more work is required in analyzing the decline in requirements.

The CDC intends to take some initiatives aimed at slowing down this decline and at finding new markets for milk ingredients. The CDC will focus on dairy and food processors who demonstrate the most potential in the area of re-formulation or innovation using milk products and components. Further improvements are contemplated with respect to the Special Milk Class Permit Program which should contribute to growth in the use of milk ingredients.

c) Divergence between producers and processors

As international market pressures increase on the Canadian dairy industry, there is a growing schism between producers and processors. This could have negative consequences on the industry because these two sectors need to work together constantly on sensitive issues at all times. This underpins the need for an increased leadership role for the CDC as it is perceived by both sides to be a neutral and knowledgeable facilitator.

d) Accountability

Inside government, the trend towards more rigorous accountability continues. This and other trends such as risk management and learning policies mean that we need to adapt our workforce to the new challenges of working in the public service.

C) Assessment of CDC resources

a) Financial resources

The CDC is fortunate to have stable funding. Approximately half of its administrative budget comes from the industry whereas the other half comes from government appropriations. Revenues from commercial operations allow the CDC to engage in certain activities that benefit the entire dairy industry.

b) Human resources

The CDC staff is knowledgeable and experienced and the CDC's learning policy, combined with the budgets that are allocated to training, ensure that employees have an opportunity to learn new skills. However, a significant number of experts are planning to retire in the next five years. This highlights the need for a succession plan, knowledge transfer and documentation of procedures.

The workforce of the CDC is fairly lean. This makes it vulnerable to staff leaving or being absent for long periods and puts a strain during work surges. The problem is compounded by the fact that these surges are mostly imposed by external factors (increased reporting requirements within government, increased need for analysis from the industry). To better respond to these work surges, the CDC will continue to automate and streamline processes as much as possible.

c) Material resources

The material resources of the CDC are adequate.

III STRATEGIES, GOALS AND PERFORMANCE MEASURES

A) Description of strategies

To adequately respond to the upcoming changes and given its current resources, the CDC has identified five strategic areas of intervention.

a) Leadership

The CDC intends to exercise leadership on several fronts:

- creating a national all milk pool and harmonizing dairy policies to make market conditions more uniform across the country for both producers and processors;
- adopting an interim pricing methodology to give a pricing reference to the industry while it waits for the results of the current World Trade Organization (WTO) round of negotiations;
- bringing producers and processors closer together so that they can work on common strategies to face future challenges;
- investigating the need for a strategy on traceability and emergency planning to complement plans that are already in place in the industry and in the government; and,
- creating a longer term plan for the dairy industry once the results of the WTO negotiations are known.

b) Market development

To fight the declining demand for Canadian dairy products, the CDC will take a dual approach. On the one hand, it will continue to promote the benefits of the Special Milk Class Permit Program, which helps Canadian food manufacturers to compete in the marketplace. On the other hand, it will develop a more strategic approach to the development of markets for various dairy products such as butteroil and milk protein concentrates.

c) Knowledge of the dairy industry

This area will encompass various strategies aimed at various audiences. One important audience is the dairy industry itself. To facilitate the operation of the current system and to make changes easier, the technical staff needs to fully comprehend the complexities and intricacies of the industry. The public and the press will also be targeted. Finally, the CDC will contribute to ensuring that specialists will be available in the future to support the dairy industry, both in the area of dairy policies and in the area of dairy science.

d) Human resources management

In the area of human resources management, the general strategy of the CDC will be to prepare its workforce and its systems for the future. To achieve this, the CDC will concentrate on planning, policies, and learning.

e) Efficiency

To be better able to face work surges without increasing the size of its workforce, the CDC will continue to increase the efficiency of its operations and of its service delivery.

B) Goals, objectives and performance measures

The CDC has identified the following goals for the planning period, which are in line with the analysis of the environment discussed in Section II and with the strategies outlined in Section IIIA.

Goal 1 – Provide leadership for the Canadian dairy industry

Objectives	Performance measures for 2006-2007
Facilitate the creation of a national all milk pool	<ul style="list-style-type: none"> • Timely pooling scenarios were provided. • Process was established by the regional pools for further action. • One pooling model was accepted by the CMSMC.
Encourage the harmonization of provincial dairy policies	<ul style="list-style-type: none"> • The milk utilization audit manual was revised, issued and approved by the CMSMC. • An automated system for milk utilization reporting was implemented in Ontario and/or other provinces. • A pooled allocation model was approved by the Eastern Pool. • Pooling models for transport were provided when required • A harmonized approach to collection of pooling data was adopted in the Western Pool.
After consultation with the industry, adopt and implement an interim pricing methodology for the next 2 years	<ul style="list-style-type: none"> • A consultation document was prepared and circulated to stakeholders. • Consultations were held involving all dairy industry stakeholders. • The CDC communicated its decision to stakeholders • The interim pricing methodology was implemented.
Improve the working relationship between producers and processors	<ul style="list-style-type: none"> • Discussions were held with producers and processors on the need for such a forum. • If agreeable, regular meetings have been scheduled.
Investigate the need for a strategy on traceability and emergency planning	<ul style="list-style-type: none"> • Agriculture and Agri-Food Canada (AAFC) made a presentation to the Commission on traceability and emergency planning. • The Commission provided direction to staff to develop a strategy on traceability and emergency planning in cooperation with AAFC. • The Western Pool revised its Disaster Plan and the Eastern Pool initiated discussions on a similar plan.
Facilitate the creation of a 5 to 10 year plan for the Canadian dairy industry, based on the results of the WTO Doha round of negotiations	<ul style="list-style-type: none"> • Monthly trade reports were provided to commissioners. • A report assessing the impacts for the Canadian dairy industry was provided to the Commission. • A policy discussion on planning for the future with producer and processor input was sponsored by the CDC.

Goal 2 – Increase the utilization of Canadian milk components

Objectives	Performance measures for 2006-2007
Improve the effectiveness of the Special Milk Class Permit Program (SMCPP)	<ul style="list-style-type: none"> Market Committee's current mandate was completed and recommendations were presented to the CMSMC. Market Committee's recommendations were approved by the CMSMC and implemented as required. Appropriate administrative changes to the SMCPP were implemented.
Develop further strategies for the marketing of dairy ingredients and components	<ul style="list-style-type: none"> An internal technical group was created to develop and recommend options and strategies. A decision was made whether or not to reconvene a meeting of the Ingredients Committee and that decision was acted on.

Goal 3 – Contribute to an increased knowledge of the Canadian dairy industry

Objectives	Performance measures for 2006-2007
Improve the understanding of the Canadian dairy system	<ul style="list-style-type: none"> 2 workshops were given.
Communicate information about the Canadian dairy industry to the public	<ul style="list-style-type: none"> Information about the relative importance of the dairy industry and some comparisons were added to the CDC Web site and the information kits. The Chairman was listed on a speakers' bureau. Milkingredients.ca Web site was updated.
Develop technical expertise in agricultural economics and policy, food science and animal science in Canada	<ul style="list-style-type: none"> Funding agreements between the CDC and university scholarship administrators were signed.

Goal 4 – Effectively manage human resources

Objectives	Performance measures for 2006-2007
Develop and implement a succession plan	<ul style="list-style-type: none"> A report on retiring staff was written. Key positions were identified. Competency profiles of key positions were developed. A succession plan was developed. Adequate career training was reviewed and recommended by HR.

Objectives	Performance measures for 2006-2007
Ensure HR services to CDC employees are current and effective	<ul style="list-style-type: none"> • Relevant TBS policies and guidelines were communicated to staff. • The CDC-PSMA committee made recommendations to the Directors. • An action plan on classification was developed and implemented. • A 3-year MOU for compensation and job classification was signed with AAFC.
Promote a learning culture	<ul style="list-style-type: none"> • Agreed training plans were included in performance evaluations for all employees. • 9 team presentations made. • 5 dairy industry updates given by the Chairman to staff.

Goal 5 – Maximize efficiency in CDC operations and services

Objectives	Performance measures for 2006-2007
Document practices and procedures	<ul style="list-style-type: none"> • Responsible coordinators in each section were identified. • Key functions and activities were identified. • Assessment of current state was completed. • An execution plan which included timelines was developed. • Practices and procedures were documented and centralized.
Implement an integrated risk management framework	<ul style="list-style-type: none"> • A training session on risk management was offered to Managers, Directors and Commissioners. • A facilitated workshop was held to identify risks within each section. • A draft document on integrated risk management framework was circulated to Senior Management.
Automate and streamline internal and external reports	<ul style="list-style-type: none"> • A review of activities was completed. • A list of tasks to be automated was established and prioritized. • 5 reporting tasks were automated.

IV FINANCIAL INFORMATION

for the dairy years ending July 31, 2005 to 2011

Major assumptions used in the preparation of the budget and forecast

Figures for 2004-2005 are actual figures. Figures for 2005-2006 are forecasted and figures for subsequent years are projected.

For the dairy year 2004-2005, Canadian requirements were similar to the previous year at 49.0 million hectolitres. However, they started decreasing in the first part of the 2005-2006 dairy year, standing at 47.53 as of March 2006. Given the rising trend in imports of milk ingredients and the slight price increase in raw milk effective February 1st, 2006, it is not unreasonable to assume that the Canadian requirements will decrease slightly until 2007-2008 before rising again.

Beyond 2007, it is difficult to quantify all the variables and forecast potential developments, due to the possible changes within the dairy industry and the international trade environment.

Sensitivity of the projections to assumptions

The key factors in the budget presented are total production of industrial milk, domestic requirements, support prices and world market conditions for the sales of dairy products. Any significant changes in the assumptions will affect the budgeted results.

CANADIAN DAIRY COMMISSION
MARKETING OPERATIONS STATEMENT and BUDGET
for the DAIRY YEARS ending JULY 31, 2005 - 2011

(in thousands of dollars)

	Actual		Budget 2005-06	Forecast	Budget				
	Budget 2004-05	Audited			2006-07	2007-08	2008-09	2009-10	2010-11
Sales	\$ 225,201	\$ 238,575	\$ 227,124	\$ 257,318	\$ 235,570	\$ 223,019	\$ 222,871	\$ 224,710	\$ 226,569
Cost of sales	<u>218,502</u>	<u>227,266</u>	<u>213,674</u>	<u>242,089</u>	<u>229,313</u>	<u>217,275</u>	<u>217,348</u>	<u>219,186</u>	<u>221,032</u>
Margin (loss) on sales	6,699	11,309	13,450	15,229	6,257	5,744	5,523	5,524	5,537
Operating expenses									
Dairy product assistance - Domestic	300	417	450	450	450	450	450	450	450
Carrying charges	3,978	5,779	5,202	7,211	7,564	7,327	7,267	7,362	7,342
Cost of production - Pool share	510	537	570	877	644	644	644	644	644
Promotional programs and activities	6,815	791	4,818	1,428	7,581	4,581	3,757	495	495
Administrative expenses - marketing activities	<u>3,572</u>	<u>3,364</u>	<u>3,482</u>	<u>3,097</u>	<u>3,350</u>	<u>3,443</u>	<u>3,550</u>	<u>3,659</u>	<u>3,769</u>
Total operating expenses	15,175	10,888	14,522	13,063	19,589	16,445	15,668	12,610	12,700
Net loss (gain) before funding	8,476	(421)	1,072	(2,166)	13,332	10,701	10,145	7,086	7,163
Pool funding	6,415	7,356	5,923	7,355	8,434	8,460	8,611	8,785	9,420
Net results of operations	(2,061)	7,777	4,851	9,521	(4,898)	(2,241)	(1,534)	1,699	2,257
Surplus beginning of year	21,405	21,405	29,182	29,182	35,137	21,019	17,487	14,781	15,493
	19,344	29,182	34,033	38,703	30,239	18,778	15,953	16,480	17,750
Refund of surplus from prior year	0	0	1,972	3,566	9,220	1,291	1,172	987	967
Surplus end of year (1)	<u>\$ 19,344</u>	<u>\$ 29,182</u>	<u>\$ 32,061</u>	<u>\$ 35,137</u>	<u>\$ 21,019</u>	<u>\$ 17,487</u>	<u>\$ 14,781</u>	<u>\$ 15,493</u>	<u>\$ 16,783</u>

NOTE: The Marketing Operations presented herein excludes all Government appropriated operating expenses.

Forward Exchange Contracts: As part of its foreign exchange risk management, the Canadian Dairy Commission enters into forward exchange contracts with regard to a portion of its export sales contracts. These contracts manage the risk due to fluctuations in exchange rates for sales negotiated in foreign currencies.

(1) Surpluses at year end are carried forward and applied against future funding of their respective operations or refunded to producers where applicable.

CANADIAN DAIRY COMMISSION
STATEMENT OF COSTS FINANCED BY THE GOVERNMENT OF CANADA
for the DAIRY YEARS ending JULY 31, 2005 - 2011

(in thousands of dollars)

	Actual Audited 2004-05	Forecast 2005-06	Budget				
			2006-07	2007-08	2008-09	2009-10	2010-11
Administrative expenses	\$ 3,372	\$ 3,500	\$ 3,518	\$ 3,529	\$ 3,529	\$ 3,529	\$ 3,529
Dairy studies	300	50	-	-	-	-	-
Total costs financed by the Government of Canada	<u>\$ 3,672</u>	<u>\$ 3,550</u>	<u>\$ 3,518</u>	<u>\$ 3,529</u>	<u>\$ 3,529</u>	<u>\$ 3,529</u>	<u>\$ 3,529</u>

Notes:

The budget is based on the reference level of the fiscal year, adjusted where necessary to reflect the difference between the dairy year and the government fiscal year.

CANADIAN DAIRY COMMISSION
STATEMENT OF COSTS FINANCED BY THE GOVERNMENT OF CANADA
for the FISCAL YEARS ending MARCH 31, 2005 - 2011

(in thousands of dollars)

	Actual 2004-05	Actual 2005-06	Budget				
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Administrative expenses	\$ 3,258	\$ 3,494	\$ 3,513	\$ 3,529	\$ 3,529	\$ 3,529	\$ 3,529
Dairy studies	343	150	-	-	-	-	-
Total costs financed by the Government of Canada	<u>\$ 3,601</u>	<u>\$ 3,644</u>	<u>\$ 3,513</u>	<u>\$ 3,529</u>	<u>\$ 3,529</u>	<u>\$ 3,529</u>	<u>\$ 3,529</u>

Notes:

Effective April 1, 1989, the Canadian Dairy Commission has been person-year decontrolled. In the foreseeable future the Commission will maintain its staff of 62 employees and three Commissioners.

CANADIAN DAIRY COMMISSION
BORROWING PLAN
for the DAIRY YEARS ending JULY 31, 2005 - 2011

(in thousands of dollars)

Consolidated Revenue Fund

Loan transactions	Actual Audited 2004-05	Forecast 2005-06	Projected				
			2006-07	2007-08	2008-09	2009-10	2010-11
Balance at beginning of year	\$ 98,337	\$ 106,126	\$ 112,799	\$ 119,727	\$ 122,831	\$ 126,827	\$ 127,405
Drawings	146,430	160,274	150,000	150,000	150,000	150,000	150,000
Repayments	(138,641)	(153,601)	(143,072)	(146,896)	(146,004)	(149,422)	(149,975)
Balance at end of year	<u>\$ 106,126</u>	<u>\$ 112,799</u>	<u>\$ 119,727</u>	<u>\$ 122,831</u>	<u>\$ 126,827</u>	<u>\$ 127,405</u>	<u>\$ 127,430</u>
Average level during year:	\$60,742	\$82,000	\$83,000	\$83,000	\$83,000	\$83,000	\$83,000
Highest level during year:							
Month	June	June	June	June	June	June	June
Amount	\$109M	\$119M	\$120M	\$125M	\$128M	\$128M	\$128M

Member of Canadian Payments Association

Loan transactions	Actual 2004-05	Forecast 2005-06	Projected				
			2006-07	2007-08	2008-09	2009-10	2010-11
Balance at beginning of year	\$ 1,422	\$ 1,290	\$ 1,100	\$ 1,100	\$ 1,100	\$ 1,100	\$ 1,100
Drawings	17,019	23,726	20,000	20,000	20,000	20,000	20,000
Repayments	(17,151)	(23,916)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
Balance at end of year	<u>\$ 1,290</u>	<u>\$ 1,100</u>	<u>\$ 1,100</u>	<u>\$ 1,100</u>	<u>\$ 1,100</u>	<u>\$ 1,100</u>	<u>\$ 1,100</u>

Authority:

Under the authority of the Canadian Dairy Commission Act, the Commission may borrow money from the Government of Canada out of the Consolidated Revenue Fund.
The Commission has also established a line of credit with a member of the Canadian Payments Association. Currently, the Minister of Finance has authorized borrowings from the Consolidated Revenue Fund (CRF) for which the outstanding amount shall not exceed \$120 million at any time.
The Minister of Finance has also approved lines of credit of up to \$50 million outstanding with members of the Canadian Payments Association.

Reason for borrowing:

These loans are required so that the Commission may fulfill its mandate within the CDC Act which is to "a) purchase any dairy product and sell, or otherwise dispose of, any dairy product purchased by it; b) package, process, store, ship, insure, import or export any dairy product purchased by the Commission". The line of credit is necessary to provide bridge financing and ensure efficient operation of the pooling of market returns system administered on behalf of the provinces.

CANADIAN DAIRY COMMISSION
CAPITAL BUDGET
for the DAIRY YEARS ending JULY 31, 2005 - 2011

(in thousands of dollars)

	Actual	Forecast	Budget				
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Major capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Minor capital	214	167	170	170	170	170	170
Total capital budget	\$ 214	\$ 167	\$ 170	\$ 170	\$ 170	\$ 170	\$ 170

Minor Capital expenditures for the years 2005-2006 through to 2010-2011 are for the planned replacement of servers, desktop computers, laptops and peripherals. These amounts also include software licence fees purchases and renewals.

Minor capital costs are included as part of overall administrative expenses on the financial tables.

APPENDIX A

GLOSSARY OF DAIRY TERMS

Canadian Milk Supply Management Committee (CMSMC)

The CMSMC is the key national body for policy development and discussions respecting the sectors of dairy production and processing. It oversees the application of the National Milk Marketing Plan. The Canadian Dairy Commission (CDC) chairs and supports the CMSMC and its Secretariat, a technical committee which provides economic analysis and advice to the members of the CMSMC. The CMSMC has representation from producers and governments of all provinces. Representatives of national consumer, processor and producer organizations also participate as non-voting members. The CMSMC meets five times per year to review and consider the major economic and marketing factors affecting the dairy sector. It also reviews and monitors the CDC's marketing operations and promotional activities; the pooling systems established for market returns from certain milk sales; and provincial quota allocations and utilization. The CMSMC determines the national production target or Market Sharing Quota (MSQ).

Canadian Requirements

Total domestic consumer demand plus planned exports for all industrial milk processed into dairy products.

Dairy Producers

Dairy producers are farm owners and operators who keep a herd of cows and ship milk.

Domestic Requirements

Total domestic consumer demand for all industrial milk processed into dairy products.

Further Processors

Further processors use milk or other dairy products such as cheese to manufacture other food products that are sold at the retail level.

Industrial Milk

Milk sold for processing into such dairy products as butter, cheese, ice cream or yogurt.

Market Sharing Quota (MSQ)

The MSQ is the national production target for industrial milk. This target is constantly monitored and adjusted when necessary to reflect changes in the domestic demand for industrial milk products, as measured in terms of butterfat, as well as changes in planned export activity. The CMSMC applies the terms of the National Milk Marketing Plan to establish the provincial shares of the MSQ. Each province allocates its share of the MSQ to its producers according to its own policies.

Milk Class

All milk in Canada is classified according to its use (for example, fluid, cheese, butter, etc.). The price paid to the producer for the milk depends on the class. This classification system is not related to milk quality.

National Milk Marketing Plan

The National Milk Marketing Plan is the federal/provincial agreement that provides the framework for the operation of the milk supply management system and is administered by the CMSMC. All Canadian provinces are signatories to the national Plan.

Processors

Processors are companies or co-operatives that buy raw milk and manufacture fluid milk and cream, or other dairy products.

Supply Management

Supply management is a system by which the production of milk is controlled by production quotas at the farm level. The size of the quota depends on the demand for milk and other dairy products.

Support Prices

Support prices are the prices at which the CDC offers to purchase domestically produced butter and skim milk powder under its Domestic Seasonality programs. Support prices act as reference prices in the wholesale dairy trade and indirectly affect the wholesale prices of all industrial dairy products. They are established at levels designed to generate a fair return for producers.

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