

**CDC's 10th Annual Public Meeting
Wednesday, January 18, 2016 – 4 pm to 6 pm
Ballroom A, Delta Ottawa City Centre**

ALISTAIR JOHNSTON, CDC CHAIRMAN

The CDC is 50!

This annual meeting is a special one. The CDC is 50! October 2016 marked an important milestone for the CDC as it turned 50. Established in 1966 by the Canadian Dairy Commission Act, the CDC is a Crown corporation which has many roles and responsibilities, we

- coordinate federal and provincial dairy policies through meaningful collaboration and consultation with all sectors of the industry
- create a milk production mechanism aimed at stabilizing revenues and avoiding costly surplus
- play a key role as facilitators and stakeholder in the various forums that influence dairy policy in Canada
- offer a framework for the management of the Canadian dairy industry as a whole

We are proud of our many accomplishments over the last 50 years and, more importantly, will continue to strive towards accomplishing our goals we have set for the advancement and benefit of the Canadian dairy industry as a whole.

This meeting is the launch of our 50th anniversary celebrations planned for the coming year. On behalf of the CDC staff and its Commission members, past and present, I am pleased to see the level of participation at this meeting and I hope that you will stay beyond the annual meeting to enjoy a Wine and Cheese celebration with us.

The Dairy Industry: A Year in Review

2016 has been quite a year! Many things happened in the Canadian dairy industry since our last annual meeting:

- * The CDC introduced measures to encourage investments in milk processing infrastructure by imposing a soft cap on SMP purchases from processors.
- * Imports of diafiltered milk increased for use primarily in cheese production.
- * Class 6 was created and implemented in Ontario on April 1, 2016.
- * The CMSMC made temporary changes to Class 4(m) MPC to include liquid MPC and skim milk to mitigate the effects of Class 6 on other provinces and create a level playing field for processors.
- * The CDC began monitoring components obtained through the Duty Relief Program to prevent their use in the domestic market.
- * The National Ingredient Strategy was introduced at the CMSMC meeting in July 2016; the implementation of which is pending the CDC's favourable vote assuming the conditions on exceptional circumstances and auditing capabilities are met.
- * More and more provinces have adopted Ontario's MUV to track milk utilization in various classes.
- * And rapid growth in demand continued, butter stocks remained low and structural surplus of SNF was still on the rise.

I will now move to my report on governance.

CDC Mandate

As many of you already know, the CDC's legislative mandate is to provide efficient producers of milk and cream with the opportunity to obtain 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. But our purpose is larger than that and is accurately captured in our Vision Statement which is: To provide leadership to enhance the vitality of the Canadian dairy industry for the benefit of Canadians - for the benefit of all Canadians including consumers, dairy farmers, dairy processors, further processors, restauranters to name a few.

Over the past year, the CDC continued to encourage the Canadian dairy industry to grow the market, innovate and adapt to new market realities.

Governance – CDC's Board of Directors

The CDC is governed by a board of directors. It is made up of me as Chairperson, a Commissioner, Jennifer Hayes and a Chief Executive Officer, Jacques Laforge. We are Governor in Council appointments based on the recommendation of the Minister of Agriculture and Agri-food. Our respective mandates are served on a part-time basis. We have long and varied experience in the dairy industry in both production and processing which allows a balanced and fair approach to decision-making.

Governance – Board Responsibilities

The board is responsible for the overall stewardship of the organization and is accountable to the Minister of Agriculture and Agri-Food. We approve the CDC's corporate plan, annual report, strategic plan, budget and financial statements. We develop policies and practices for the CDC; ensure that the principal business risks are identified and that appropriate systems to manage these risks are in place. We also ensure the integrity of the information systems and management practices; the development and implementation of a comprehensive succession plan; and the proactive disclosure of our work and decisions as part of our commitment to openness and transparency - more on that later.

Our Decision Making Process

As reported at last year's Annual Meeting, as Chair of the board, I am committed to develop and implement a decision-making process that is strategy, accountable, fair, effective, transparent and inclusive.

In 2017, you should expect to see evidence of the application of this practice.

Industry Survey

With the dairy sector in the midst of change and with an increasing number of new players in the industry and around the CMSMC table, the CDC is moving in a direction to help industry in a challenging time. One of the CDC's strategic goals is to be highly adaptive to important changes in the sector to remain a high-performing organization. Within this context, the CDC has hired the Intersol Group, a leading Ottawa consultation firm, to lead the planning, design and administration of a survey.

The purpose of the survey is to

- assess the CDC's success in accomplishing its role and responsibilities (for example in industry facilitation, secretariat services, program administration, etc.)
- assess the CDC's leadership role within the Canadian dairy industry
- develop a better understanding of dairy industry stakeholders' vision for the future and what the role of the CDC might be within that context
- identify areas of opportunity and improvement for the CDC, as well as concrete correlating actions based on these opportunities and areas of improvements

By this time, key dairy industry stakeholders, including producers, processors, and consumers and provincial governments, have been surveyed to give us a sense of what the CDC could be doing and what we are doing well. We are looking forward to receiving Intersol's final report. We are eager to learn the stakeholders' perceptions and suggested areas of improvements.

The results of this assessment will help inform the CDC's annual strategic planning session planned for later this month and may form the basis of discussion at a future Visioning Session for the industry as a whole. Based on the results of the assessment, the CDC will develop objectives and actions that will be measurable over time thus allowing the CDC to track its accomplishments and responsiveness to industry.

Preliminary results show that some general areas proved less positive and had room for improvement according to the stakeholder comments received to date. One observation was that there was little uniformity in the identification of areas in need of improvement. Intersol is in the midst of conducting telephone interviews with some key stakeholders to get further clarification in these areas. The thrust of this second phase (telephone interviews) is based on the results of the online survey. At the end of the day, we hope to have a clear picture of the concerns so that we can respond in a way that will help mitigate the issues in these areas.

Our Commitment to Openness and Transparency

Following the lead of today's government on openness and transparency, the CDC is committed to do the same. We will continue to regularly post on our website information such as our financial reports, Commissioners' travel expenses, the CDC's Corporate Plan Summary, etc. We have recently posted new items such as the Minister's mandate letter to me, the Chair of the CDC, and the results of our annual board assessment.

The CDC board recently underwent its 8th annual assessment as recommended in the Treasury Board Secretariat Crown Corporation Guidance on Assessing Board Effectiveness. We are pleased with the results but also realize that there is always room for improvement. Following the assessment, a small working group was created to review the results more closely, determine the areas for improvement and recommend an action plan. I encourage you to look on our website and see this action plan. Areas of improvement identified in the plan are orientation of board members, board meeting process and decision making, succession planning and communications. I speak on behalf of the Board when I say we are eager to implement the working group's recommendations.

CHANTAL LAFRAMBOISE, DIRECTOR, FINANCE AND ADMINISTRATION

Report on Financial Statements

The Annual Report which was audited and accepted by the Office of the Auditor General (OAG), was tabled and approved at parliament on November 24, 2016.

Inventory

The CDC's inventory is comprised of butter and skim milk powder (SMP) that are purchased under 3 programs:

The first, the Domestic Seasonality program, includes:

- Plan A bulk butter to be resold to processors when domestic seasonal demand increases and;
- Plan B butter and skim milk powder purchased from processors who must repurchase their dairy products within a certain period.

The second, the Surplus Removal Program, is used for skim milk powder to be resold in the export and animal feed markets.

Finally, the CDC purchases imported butter as part of Canada's obligations under the World Trade Organization (WTO) Agreement on Agriculture. In 2015-2016 In order meet market demand the CDC was also granted a supplementary import permit for 8,400 tons of butter.

On July 31st 2016, the CDC's total inventory value was higher than the previous years in both butter and SMP stocks.

For butter, the increase was mainly due to higher quantities of butter imported by the CDC to satisfy the strong demand in the marketplace.

For SMP, two main reasons explain the significant increase. First, SMP exports were restricted by low world prices. Secondly, higher demand for butterfat and the resulting increase in production increased the surplus of solids non fat purchased under the Surplus Removal Program.

Domestic Activities

As part of its domestic activities, the CDC purchases and sells butter and skim milk powder to regulate the supply of dairy products in the domestic market throughout the year.

In 2015-2016, domestic sales revenues increased by \$12 million compared to the previous year. This was mainly due to higher sales revenues for imported butter. Tight supplies of Canadian butter this past year required that the CDC obtain supplementary import permits for a total of 8,400 t of butter, in addition to its butter TRQ of 3,274 t. A quantity of 11,000 t of imported butter was sold this year compared to 4,400 t the previous year. This increase in sales revenues were offset by a decrease in revenues for domestic butter and skim milk powder.

The net effect was very similar gross profits for both years.

Export Activities

Export sales revenues for 2015-2016 were lower than in the previous year due to a decline in world prices for dairy products. The CDC sold approximately 14,000 t of SMP in 2015-2016 compared to close to 12,000 t in the previous dairy year. In spite of this, revenues decreased by \$ 3.5 million compared to the previous year. This resulted in a small profit of \$0.3 million.

The CDC purchases surplus dairy products destined for export at prices that reflect prevailing world market conditions, hoping to break even over the course of the dairy year. Because these markets are unpredictable, we sometimes finish the year with minimal losses or gains, which was the case in 2015-2016.

Other Income

I will now look at other sources of income for the CDC, apart from its commercial operations. Funding from milk pools represents the revenues obtained from producers and the marketplace to finance a portion of CDC's administrative expenses, the cost of production study, as well as the carrying charges associated with CDC butter stocks.

Funding from the Government of Canada is used to partially fund CDC's administrative expenses.

Revenues obtained for audit services relate to the milk plant utilization audits performed by the CDC in 6 provinces on a cost-recovery basis.

Operating and Administrative Expenses

This next slide shows the CDC's operating and administrative expenses for the year ending July 31, 2016.

Operating expenses, totaling 1.7M\$ in 2015-2016, are composed of industry initiatives, the cost of production study, as well as other operating charges.

The 2015-2016 administrative expenses totalled \$7.8 million which was in line with the budget. The Administrative Expenses, are composed primarily of salaries and employee benefits, the rest being rent, travel and administrative support.

Overall Results

This brings us the Operational Surplus for the year ended July 31, 2016.

This year's operational surplus from seasonality and surplus removal programs amounted to \$5.9 million. As milk producers are responsible for financing these programs, this amount was returned to provincial milk marketing boards and agencies.

After taking into account the payment of this operational surplus, the CDC's "Total comprehensive income" for the year ended July 31, 2016, also known as the bottom line to most people, was \$18.5 million.

This completes my review of the CDC's key financial elements.

JACQUES LAFORGE, CDC CHIEF EXECUTIVE OFFICER

Our Strategic Themes

Every year in January following the Annual Meeting, the Commission board and the senior management team hold a strategic planning session to establish the key goals and objectives for the coming dairy year

based on internal and external environmental scans. For the 2016-2017 dairy year the CDC's strategic themes were:

- Growing Markets
- An Industry that adapts
- A Well-Administered Supply Management System
- A Well-Managed CDC

Under each theme we have an established list of goals and objectives.

2015-2016 CDC Highlights – industry focused

- * Created of MAG, October 1, 2015
- * Decreased SMP price, February 1, 2016
- * Renewed Matching Investment Fund, June 1, 2016
- * Imported over 8,000 tonnes of butter
- * Continued/monitored Soft Cap on SMP purchases
- * Increase in support prices September 1, 2016
- * Assessed impacts of the National Ingredient Strategy
- * Continued to facilitate and advise major decision-bodies
- * Continued to perform activities to help run the system

2015-2016 CDC Highlights - operational

- * Successfully addressed the retirement and departure of key employees
- * Experienced challenges and delays in hiring staff
- * Changed the CDC's organizational structure
 - * Created 2 new director positions (Director, Corporate Services (Chantal Paul) and Director, Policy and Economics (Benoit Basillais)
- * Annual Employee Survey showed a 94% satisfaction rate
- * Worked to introduce new investment in dairy processing in Canada

ALISTAIR JOHNSTON, CDC CHAIR

Closing Remarks

As part of my closing remarks, you'll notice on the slide behind me that I jotted down some key words:

Collaboration
Implementation
Growth
Investment
Adaptation
Transparency
Accountability
Security
Governance

These are themes that I am determined to strengthen and expand throughout my mandate as Chair of the CDC. And not just for the CDC as an organization but for the Canadian dairy industry as a whole.