



Canadian Dairy
Commission

Commission
canadienne du lait

CORPORATE PLAN SUMMARY FOR 2016-2017 TO 2020-2021

OPERATING AND CAPITAL BUDGETS
FOR THE DAIRY YEAR ENDING JULY 31, 2017

Corporate Plan dated April 1, 2016

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EXECUTIVE SUMMARY

The Canadian dairy industry includes approximately 11,700 farms and 444 milk processing plants. Canada produces over 80 million hectolitres of milk per year, essentially for the domestic market. Dairy farms have total revenues of \$6.1 billion. The processing industry ships \$17.3 billion in products and employs about 24,400 people¹. The consumption patterns have changed in the last 10 years. Canadians drink less fluid milk and eat less ice cream, but they consume more cream, yogurt, butter and cheeses. This trend translates into an average market growth of 2% per year.

The Canadian Dairy Commission (CDC) is a Crown Corporation of 61 employees. The CDC operates the elements of the milk supply management system that are under its authority pursuant to the *Canadian Dairy Commission Act* and federal-provincial agreements. It sets support prices for butter and skim milk powder, which are used as reference levels for the establishment of the price producers get for their milk. It ensures that milk production meets demand. The CDC is also a facilitator and a stakeholder in decision-making bodies that establish policies for the marketing of milk and dairy products. In addition, the CDC administers several programs that are part of the Canadian milk supply management system, as well as programs that have been put in place by the industry. It operates on a dairy year basis that starts August 1 and ends July 31.

As of April 1, 2016, the CDC is expecting to reach almost all of the objectives set for 2015-2016. Largely through existing programs, it continues to encourage the Canadian dairy industry to grow the market and innovate. The Canadian dairy industry currently faces serious challenges that include rapid growth in demand for butter, increased imports of milk protein, difficulties in forecasting demand, and a World Trade Organization (WTO) agreement that signals the end of subsidized exports of dairy products by the end of 2020. The CDC has already taken some measures in response to these challenges. Furthermore, dairy farmers and processors have been engaged in bilateral negotiations since summer 2015 to try to agree on long-term solutions to these issues.

On the internal front, the CDC has held its second annual staff satisfaction survey. Employee satisfaction jumped from 70 to 90%. This survey will be repeated to monitor employee satisfaction and engagement.

The CDC will continue to support the industry as it adapts to the changing markets. In the next five years, the strategic themes in which the CDC will be involved are as follows:

- Growing markets
- An industry that adapts
- A well-administered supply management system
- A well-managed CDC

The CDC borrows money from both the Consolidated Revenue Fund (CRF) and from a credit line and interest rates are expected to increase slightly over the planning period. This will increase interest expenses but these are paid by either dairy farmers or the marketplace, depending on the program for which borrowings are made. This minimal increase in interest rates is therefore not expected to have an impact on the CDC financial results.

The CDC plans no large capital projects during the planning period nor does it anticipate the creation of new programs or major changes to its current programs that would require additional funding.

¹ Data in this paragraph are for 2014.

BACKGROUND

THE CANADIAN DAIRY COMMISSION

The Canadian Dairy Commission (CDC) administers two of the three pillars of the supply management² system, namely the control of milk prices at the farm gate and the control of milk production through quotas to ensure that production matches demand. In the case of prices, the CDC announces support prices for butter and skim milk powder and these prices are used by provincial authorities to set the price that producers get for their milk. To control milk production, the CDC evaluates demand for dairy products monthly then adjusts the national quota accordingly. The CDC then distributes quota adjustments among the various regions of the country based on a set of rules established by a federal-provincial agreement.

The CDC also acts as a facilitator for the various decision-making bodies of the industry that were created by federal-provincial agreements. As such, the CDC chairs these bodies and provides technical and logistical support.

The CDC also administers several programs, some of which are created and funded by the industry. More information about these programs is presented in Table 1. To fulfill its mandate, the CDC partners closely with provincial milk marketing boards, provincial governments, Agriculture and Agri-Food Canada, and industry associations representing dairy producers, processors, further processors and consumers.

THE CANADIAN DAIRY INDUSTRY

Milk production and marketing in Canada are framed by a set of provincial and federal regulations that enable a supply management system. The Canadian milk supply management system rests on three pillars: the setting of milk prices at the farm gate, the control of milk production through quotas, and the control of imports of dairy products. Under this system, dairy producers in each province must sell their milk to their provincial milk marketing board. The main responsibilities of these boards are to issue quota to the dairy farmers on their territory and enforce these quotas so that the quantity of milk produced matches demand for dairy products, to allocate the milk to the various processing plants on their territory, to transport the milk between the farm and the plant, to collect payment from processors, and to pay farmers. These marketing boards also have the authority to set the price producers are paid for their milk. Imports of dairy products into Canada are controlled by tariff rate quotas (TRQ). A TRQ is a quantity of product that can come into Canada at little or no tariff. Dairy product imports above the TRQ are submitted to tariffs of 200 to 300%. Thanks to this system, the quantities imported are generally known and can be taken into account when estimating the milk production required to serve the Canadian market. The supply management system, and particularly the three milk pools that currently exist, is a great risk management tool for Canadian dairy farms. Whereas market growth is shared among many producers during good times, during bad times, any shrinkage of the market is shared among many producers. This reduces the impact that a plant closure, for example, can have on local farms or a small province. As revenues are also pooled among producers, the effect of a change in the use of milk in one province, from a profitable class³ to a less lucrative class, will also be distributed over many farms, thereby reducing its impact on individual

² Underlined words and phrases are explained in Appendix A.

³ In Canada, producers receive a different price for their milk, depending on its use. The classification of milk is therefore based on use. A description of milk classes can be found at: <http://www.cdc-ccl.gc.ca/CDC/index-eng.php?id=3811>

farms. Furthermore, price setting, production management and predictable imports provide stability in the domestic market and reduce risks for both farmers and processors.

The processing sector, which manufactures the various dairy products, is outside of the supply management system. Market forces therefore influence which dairy products are manufactured, as well as their selling price⁴. Under the supply management system, globally, the industry is profitable and consumers enjoy a continuous supply of dairy products at predictable prices. This system also makes the environment of the CDC quite stable.

As key contributors to the Canadian economy in the 2014 calendar year, approximately 11,700 farms generated \$6.1 billion in total net farm revenues, an 11% increase over 5 years ago. The same year, the dairy processing industry generated \$17.3 billion worth of products, accounting for 16.4% of all processing sales in the food and beverage industry. This represents a 22% growth from 4 years ago. The dairy processing sector employs approximately 22,400 people.

Overall, demand for dairy products in Canada continues to rise gradually. Domestic demand for dairy products increased by 2% in 2014-2015 and the 5-year average was a 2% growth per year. This growth is particularly noticeable for products such as butter, cream, and yogurt. In the last two years, demand for butter has risen rapidly and this created some imbalances on the market. Larger imports of milk protein also constitute a challenge for the dairy industry.

A long-term challenge of the dairy industry is the presence of a surplus of milk solids non fat⁵. This surplus currently exists because the Canadian demand for butterfat exceeds the demand for the corresponding solids non fat contained in the milk produced. The industry has tried for many years to find lucrative markets for these milk components but has had limited success because substitutes for this product, such as whey protein concentrates, are widely available at low cost. This surplus is sold mainly in the form of skim milk powder in markets that are less lucrative than the domestic market, such as exports and animal feed. This has a diluting effect on the revenues of dairy producers. In recent years, the surplus has been increasing, partly because of significant growth in demand for butterfat but also because of imports of milk proteins. A recent agreement at the World Trade Organization (WTO) (December 2015) has made this challenge even more pressing. According to this agreement, by the end of 2020, Canada will no longer be allowed to use subsidized exports to dispose of surpluses.

In 2015, Canada exported \$210 million in dairy products and imported \$900 million in dairy products, for a negative trade balance of -\$689 million. A significant portion of Canada's exports of dairy products are deemed subsidized and thus, limited by Canada's commitments at the WTO. Canada is a minor player on the dairy product export scene and its dairy trade balance has been declining for the last 10 years.

⁴ Exception: some provinces regulate the retail price of fluid milk.

⁵ Milk components are butterfat, protein and other solids such as minerals. Solids non fat represent proteins + other solids.

MANDATE OF THE CDC

CORPORATE MANDATE

The CDC is a Crown corporation which was established in 1966 to coordinate federal and provincial dairy policies and create a control mechanism for milk production which would help stabilize farm revenues and avoid costly surpluses. The *Canadian Dairy Commission Act* states the mandate of the CDC:

8. (...) 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.

OFFICIAL LANGUAGES

The *Official Languages Act* applies to the CDC. Since its offices are in the National Capital Region, 93% of its positions are bilingual. The CDC also adheres to the various policies related to official languages. It is proud to serve its clients and the general public in both official languages and to promote the use of both official languages in the workplace.

PUBLIC POLICY

The CDC is both a facilitator and a stakeholder in the various forums that influence dairy policy in Canada. These forums include policy-making committees created by federal-provincial agreements (two national and two regional) that allow the setting and sharing of quota, as well as the pooling of milk revenues and the sharing of markets between milk producers. The CDC chairs these committees and provides technical expertise, logistical support and secretariat services. Through its presence and roles on these committees, the CDC provides analyses and recommendations and is in a position to influence national and regional dairy policy decisions that are made. These decisions include adjustments to milk production in reaction to market variations, new industry programs, changes to existing industry programs, and modalities for sharing producer revenues between provinces. Provincial governments, provincial milk marketing boards, and dairy industry stakeholder organizations representing dairy producers, processors, and consumers are also around the table.

The most important of these committees is the Canadian Milk Supply Management Committee (CMSMC). The CDC chairs the CMSMC and in this capacity, informs the committee on matters of interest or concern that require resolution. The CDC also prepares analyses and proposes various solutions, alternatives or recommendations that could contribute to more orderly and efficient marketing and therefore avoid large deficit or surplus milk production.

The two regional committees are the P5 Supervisory Body, which administers the Agreement on the Eastern Canadian Milk Pooling⁶, and the Western Milk Pool Coordinating Committee, administering the Western Milk Pooling Agreement⁷. These regional agreements allow for the pooling of milk revenues and markets among producers of participating provinces.

⁶ Provincial signatories are Ontario, Quebec, New Brunswick, Nova Scotia, and Prince-Edward-Island.

⁷ Provincial signatories are British Columbia, Alberta, Saskatchewan and Manitoba.

CORPORATE PROFILE

CDC AT A GLANCE

Created in 1966

61 employees as of April 1, 2016

Administrative budget for 2016-2017 (dairy year): \$8.15 million

Dairy year: August 1 to July 31

Principal legislation: *Canadian Dairy Commission Act*
Dairy Products Marketing Regulations
Financial Administration Act
Public Service Labour Relations Act

MISSION

“To provide leadership to enhance the vitality of the Canadian dairy industry for the benefit of Canadians.”

VALUES

EXCELLENCE	INTEGRITY	LEADERSHIP	RESPECT
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MAIN ACTIVITIES

In its efforts to support the Canadian dairy industry, the CDC undertakes a wide range of activities. Short descriptions of the main ones are provided below.

Administration of the Milk Supply Management System

Canadian supply management is founded on three pillars: price setting, production management, and predictable imports. The CDC is mainly involved in the administration of two of the three pillars (price setting and production management) via the establishment of support prices and industrial milk quota.

The CDC sets the support prices of butter and skim milk powder following consultations with industry stakeholders and using the results of an annual study on the cost of producing milk in Canada. These prices are used as a reference by the provincial milk marketing boards to establish the farm gate price of industrial milk in each province. The CDC can thus ensure that Canadian dairy farmers receive sufficient revenues from the marketplace to be appropriately compensated for their labour and investment, as its mandate requires.

The CDC also monitors national milk production and demand for dairy products and recommends the necessary adjustments to the national quota. In this way, the CDC helps to ensure that milk production in Canada matches demand from Canadian consumers, as required by its mandate. It is important to avoid a shortage of dairy products, which could lead to additional imports, and it is just as important to avoid production surpluses that are costly to handle, store, and dispose of.

The CDC administers the three revenue and market sharing pools that exist among milk producers. Monthly, the CDC receives data from provincial milk marketing boards and calculates the payment transfers between provinces to equalize returns. The CDC also adjusts quota allocations to provinces to allow the sharing of markets.

Program Administration

The CDC operates certain programs⁸ for the benefit of the entire supply chain. The table below summarizes these programs.

Table 1. Programs administered by the Canadian Dairy Commission

Program Name	Objective	Target Audience
CDC Scholarship program	To encourage graduate studies in the fields of animal science, dairy science and policy and economics as they relate to dairy.	Graduate students
Dairy Export Program	To develop long term export markets for Canadian dairy products.	Exporters
Dairy Innovation Program	To give processors access to extra milk so that they can develop new dairy products.	Dairy processors
Dairy Marketing Program (including the Matching Investment Fund)	To encourage the use of dairy ingredients in food products.	Food processors
Domestic Seasonality Programs	To ensure a steady supply of dairy products all year long despite the seasonality of consumption. The CDC buys and stores butter and skim milk powder during periods of lower consumption (January to September) and typically sells these products back into the market when consumption rises (October to December).	Consumers
Milk Access for Growth Program	To ensure a supply of milk for investors who build new plants or expand existing plants and thus increase demand for Canadian milk.	Dairy and food processors
Mozzarella for fresh pizzas	To provide fresh pizza restaurants access to mozzarella cheese at discounted prices.	Pizza restaurants
Skim Milk Redirection Program	To redirect skim milk from the skim milk powder market to growing markets such as yogurt.	Dairy processors
Special Milk Class Permit Program (SMCPP)	To give further processors access to dairy products at competitive prices for use in further processing.	Further processors
Surplus Removal Program	To remove surplus dairy products from the Canadian market in a timely manner. Surpluses are either exported, within Canada's commitments to the WTO, or sold on less lucrative markets such as animal feed.	Dairy industry

Imports

The CDC imports the total quantity of butter in Canada's WTO tariff rate quota (3,274 tonnes) and sells this butter to participants in the Special Milk Class Permit Program (SMCPP) through butter manufacturers. Any profit that the CDC generates by this activity is used to finance initiatives that provide benefits to the entire industry. Examples of these initiatives are the Dairy Marketing Program mentioned in

⁸ CDC programs are further described in its Annual Report http://www.cdc-ccl.gc.ca/CDC/userfiles/file/CDC_AR_web_2014_en.pdf
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the table above and a Dairy Research Cluster in partnership with Agriculture and Agri-Food Canada (AAFC), the Natural Sciences and Engineering Research Council of Canada, and Dairy Farmers of Canada.

Export Monitoring

The CDC controls the subsidized exports of Canadian dairy products through the issuance of export permits. These permits have been put in place to ensure that Canadian exports of dairy products do not exceed the limits established for Canada at the WTO for subsidized exports.

Links with other departments

The CDC works closely with AAFC, primarily through the Portfolio Coordination Secretariat (part of the Deputy Minister's Office) and actively participates in other forums, such as the Dairy Portfolio Working Group and Portfolio heads meetings. The CDC is also in contact with AAFC to ensure that the programs created by the CDC or the dairy industry are compatible with overall Canadian agriculture policy directions and trade agreements signed by Canada.

The roles that the CDC assumes for the dairy industry align with AAFC's strategic priorities as outlined in the five-year Growing Forward 2 (GF2) agriculture policy framework, which the CDC supports. GF2, which came into effect on April 1, 2013⁹, focuses on strategic initiatives in innovation, competitiveness and market development to further strengthen the sector's capacity to grow and prosper. Several CDC-administered programs align with these priorities. Programs such as the Matching Investment Fund and the Dairy Innovation Program are good examples. In addition, in January 2014, the CMSMC, on the recommendation of the CDC, approved the implementation of the Planned Export Program for Cheese. Through this program, the CDC was able to increase Canadian exports of cheese while respecting limits imposed by the WTO Agreement on Agriculture for both dairy years 2014-2015 and 2015-2016. In October 2015, the CMSMC added other dairy products to this program and renamed it the Dairy Export Program.

The CDC also participates in the activities of the National Agriculture and Agri-Food Supervisory Agencies, which brings together representatives from all provincial supervisory agencies and the Farm Products Council of Canada. The CDC's active participation in the committees of the International Dairy Federation and the International Association of Milk Control Agencies allows it to share expertise and contributes to position Canada as a global expert in the fields of dairy policy and economics.

GOVERNANCE

The CDC is a federal Crown corporation listed in Part I of Schedule III and in Schedule IV of the *Financial Administration Act*. The CDC reports to Parliament through the Minister of Agriculture and Agri-Food. In addition to the *CDC Act*, federal-provincial agreements provide the authority for many of the programs and services that the CDC staff delivers daily.

⁹ This 5-year initiative will end in 2018.

The Board

The Board is responsible for overseeing CDC's direction and governance. It must ensure that proper accountability exists for the funding received from the Government of Canada and industry stakeholders. The Board exercises its responsibility in five major areas:

- a) Strategic planning
- b) Risk assessment and management
- c) Internal controls
- d) Performance management and evaluation
- e) Stakeholders strategies and communications

The CDC reports on its Board's specific activities in its Annual Report¹⁰. These Board activities include the annual public meeting of the CDC, as well as the review and adoption of the Corporate Plan, the Annual Report, the financial statements, and the Corporate Risk Profile.

The governing Board of the CDC is composed of the Chairperson, the CEO and the Commissioner¹¹. The Chairperson heads the Board and is also the main contact between the Minister and the CDC. The CEO is responsible for the daily operation of the CDC and is the main contact with stakeholders. The Commissioner supports both the Chairperson and the CEO in their functions and chairs the CDC Audit Committee. The members of the Board have many years of dairy industry experience and their backgrounds in milk production and processing contribute to bringing a balanced approach to the often divergent objectives of the stakeholders. All positions are part-time and are filled by appointment of the Governor in Council. The Chairperson and the Commissioner are paid a yearly retainer and a per diem whereas the CEO is paid a per diem. Amounts are set by the Governor in Council. All Board members are subject to the *Conflict of Interest Act*.

As of April 1, 2016, the Board is composed of the following three members:

Alistair Johnston, Chairman (first mandate ends July 2019)

Mr. Johnston is a career dairy industry leader who served this sector globally, in technical and management positions, during his 40-year career.

Arriving in Canada in 1988 he joined the Northern Alberta Dairy Pool as Director, Operations, subsequently holding leadership roles within Dairyworld Foods and the Vanderpol Food Group. For the past several years he has provided technical and strategic assistance to dairy and food manufacturing enterprises domestically and internationally.

He has extensive board experience with the BC Chicken Marketing Board, BC Investment Agriculture Foundation, British Columbia and Alberta Dairy Associations, and BC Food Processors Association. He regularly presents to industry gatherings on dairy topics and brings an in-depth understanding of supply management through his experience in the Canadian dairy, egg and chicken industries.

¹⁰ 2014-2015 Annual Report: <http://www.cdc-ccl.gc.ca/CDC/index-eng.php?link=125>

¹¹ The Board's bylaws are available at <http://www.cdc-ccl.gc.ca/CDC/userfiles/file/Rules%20of%20governance%202014.pdf>

Henricus (Hennie) Bos, Commissioner (first mandate ends September 2016)

Mr. Bos graduated with a B. Sc. in Dairy Science in 1974 in the Netherlands. Before moving to Canada, he took on various governance roles in the Netherlands dairy industry, while at the same time owning and operating a dairy farm. Mr. Bos immigrated to Lacombe, Alberta in 1994, where he and his family established a successful dairy farm and in 1996, founded their natural yogurt business. He now has over 30 years of experience in leadership capacities in dairy organizations.

Mr. Bos served on the Alberta milk marketing board between 2002 and 2013, where he became Vice-Chairman in 2008 and Chairman from 2009 to 2013. From 2007 to 2013, he also served as Alberta's representative on the Dairy Farmers of Canada board, where he took an active role on various committees. Between 1998 and 2002, Mr. Bos also served as a board member with organizations such as the Central Alberta Holstein Club and the Alberta Milk Producer Association.

Jacques Laforge, CEO (second mandate ends February 2018)

Mr. Laforge is well known for his leadership in agriculture both nationally and in his home province of New Brunswick, where he and his wife operate a successful 1,000-acre mixed farming operation. Throughout his farming career, Mr. Laforge has shown a strong dedication to serving his fellow farmers. He served as an executive on the Dairy Farmers of New Brunswick board for 10 years before taking on the role of chairman from 1995 to 2000. From 1997 to 2000, he also served as chairman of the Atlantic Dairy and Forage Institute, an organization which provided a venue for on-farm research trials to producers and manufacturers. Having served on the board of Dairy Farmers of Canada since the 1980s, he joined the executive committee in 1999. In 2004, he took on the role of president, a title he held until 2011.

Directive on Travel, Hospitality, Conference and Event Expenditures

On July 16, 2015 Crown corporations were directed by the Governor in Council to align their policies, guidelines and practices with Treasury Board (TB) policies, directives and related instruments on travel, hospitality, conference and event expenditures, in a manner that was consistent with their legal obligations. Following this, the CDC evaluated the changes that would be required to comply with this request and adopted the template provided by the Treasury Board Secretariat (TBS). The CDC directive took effect on September 29, 2015 when it was approved by the Board.

STRATEGIC ISSUES FOR THE PLANNING PERIOD

As of April 1, 2016, the CDC expects to achieve almost all of its objectives for 2015-2016. The status of these objectives is presented in the next section (Assessment of results for 2015-2016). The areas of activity of the CDC are separated into four strategic themes: 1) Growing markets, 2) An industry that adapts, 3) A well-administered supply management system, and 4) A well-managed CDC. A set of five-year goals¹² were developed under each of these themes and annual objectives were planned for each of these goals.

¹² These goals are not expected to change until 2018-2019.

ASSESSMENT OF RESULTS FOR 2015-2016

Following are achievements for each strategic theme as of April 1, 2016. A complete performance report will be presented in the 2015-2016 CDC Annual Report which will be tabled in Parliament in the fall of 2016.

Growing Markets

5-year objective	Performance measure for 2015-2016	Target	Results
Create an environment that is conducive to market growth and innovation.	Total quota	At least 2% growth	Total quota increased by 4%
Promote the timely supply of milk to growing markets.	Time to respond to requests for a supply of skim milk to manufacture dairy products, if any	100% within 30 days	The CDC has received one request but could not respond within 30 days because a legal framework had to be established. The framework has now been established and time to respond to future requests will be shorter.

An Industry that Adapts

5-year objective	Performance measure for 2015-2016	Target	Results
Help the Canadian dairy industry adapt to changing market conditions, within the framework of supply management	Number of proposals made or specific actions taken	At least 3	The CDC reduced by 30% the support price of skim milk powder. In the long term, it could encourage more utilization on the domestic market, thereby reducing the need to export it. The CDC has adopted and communicated a new policy to limit its purchases of surplus solids non fat to encourage processors to use these milk components in other markets and to increase their drying capacity. This policy started on March 1 and it is too early to evaluate its results.
Create an environment conducive to the development of new markets for solids non fat (SNF)	Number of private investment commitments Forecasted additional use of SNF as ingredient in subsequent dairy years Number of partners identified to develop	At least 3 At least 10,000 tonnes of skim milk powder equivalent per year At least 1	2 projects are under discussion but no formal agreement has been signed Quantities are unknown for the moment Discussions initiated with 2 partners

	the East Asian market for existing Canadian dairy product		
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A Well-Administered Supply Management System

5-year objective	Performance measure for 2015-2016	Target	Results
Ensure that efficient producers receive fair returns	Total overall producer revenues per dairy year	A 1% increase from the previous dairy year	So far, producer revenues have increased by 0.7%.
	Number of audits	50 audits of participants to the Special Milk Class Permit Program 750 audits of restaurants participating in Class 3(d)	30 audits completed 692 audits completed
Ensure that Canadian milk production meets demand.	Plan A butter stocks ¹³	No less than 3,000 tonnes on August 1, no less than 1,000 tonnes on January 1	Plan A stocks were well below target all year because they were used to supply demand for butter. They were at 230 tonnes on August 1 and at 129 tonnes on January 1. With the current upward trend in milk production, CDC stocks are expected to return to normal by the end of next dairy year.
	Total quota vs. total demand	Total quota is between 99.5 and 101% of demand	Total quota is at 98.8% of demand as of April 1, 2016.
Ensure the respect of federal-provincial and international agreements.	Number of tools implemented	2	As per its modalities, the Comprehensive Agreement on the Pooling of Milk Revenues was reviewed and none of the signatories requested changes.

¹³ Stocks of butter in 25-kg blocks that the CDC owns fully and can sell to any butter maker. In the case of Plan B butter, in one-pound prints, butter-manufacturers repurchase their own product.

5-year objective	Performance measure for 2015-2016	Target	Results
	Time to perform pooling calculations	Monthly, within 3 business days of data reception	Calculations are on target.
	Time to transfer funds among provinces and send quota figures	Monthly, within 5 business days of the end of calculations	Fund transfers are on target.
	Time to send milk movement figures	Monthly, before the 10th of each month	Data transfers are on target.
	Quantities of exports	At least 99% of permitted exports of cheese and products containing high quantities of milk solids non fat	Cheese: 62% Skim milk powder: 98% Other products: 97% Blends: 70%
	Quantities of butter imports	3,274 tonnes	The CDC imported the butter TRQ of 3,274 tonnes of butter.
Propose and support measures that improve the administration of the supply management system	Perform a business process improvement analysis (BPIA) of imports, exports, seasonality and surplus removal programs	BPIA 100% completed	The BPIA is 20% complete. Its need is being reassessed given the end of subsidized exports of dairy products at the end of 2020.

A Well-Managed CDC

5-year objective	Performance measure for 2015-2016	Target	Results
The CDC adapts to remain a high-performing organization.	Employee satisfaction rate as measured by the annual employee satisfaction survey	Satisfaction rate of 70%	The satisfaction rate was 90%.
	Degree of implementation of HR plan	Plan 80% completed	Plan is 80% complete
	Performance management ratings	Less than 5% of employees require action plans	Currently 0%
	Time to complete staffing actions	90% of positions staffed within 3 months of departure or end of classification process for internal staffing processes	100% of positions

EXTERNAL ENVIRONMENT

Situation of the Dairy Industry

Consumption

Over the last 10 years, Canadian consumers reduced their per capita consumption of fluid milk and ice cream but increased their consumption of cream, cheeses and yogurt¹⁴. Manufacturers have responded to these trends. Canada now produces over 1,050 cheeses, most of which are made with cow milk. Innovation programs administered by the CDC have certainly been a factor in the development of some of these new products. For example, since the beginning of the Domestic Dairy Product Innovation Program¹⁵ in 1989, 382 projects to create new cheeses, yogurt products and other dairy products used close to 102 million litres of milk. The Matching Investment Fund, launched in 2009, has financed 26 innovation projects that have received a total of \$768,000. Cheese, skim milk powder, and fluid milk are the main ingredients involved in these projects for the development or reformulation of dairy desserts, novelty ice cream, and cheese-based and nutraceutical¹⁶ products. The CDC expects that over the next five years, overall domestic consumption of dairy products will continue to grow at an average pace of 2% per year.

A more recent trend has been the steady increase in butter consumption. Since the fall 2013, Canadians have been rapidly increasing their purchases of butter. This increase was so rapid that milk production was not able to follow and it was below demand for over one year.

Nevertheless, repeated quota increases have boosted milk production in the last year. A lot of this extra production was used to manufacture cheese with little effect on CDC butter inventories. To supply this demand, the CDC largely depleted its stocks, then imported butter. The CDC first imported Canada's mandatory butter imports (the tariff rate quota of 3,274 tonnes) but that was not enough. The CDC therefore asked Global affairs Canada for a supplementary import permit for 4,000 tonnes of butter. This permit was granted on November 12, 2015. It allowed the CDC to import more butter without having to pay the tariff normally applied to over-access imports. During that period, the CDC imported 4,000 tonnes of butter from the United-States, Belgium, Ireland and Uruguay. These imports were mostly directed to the further processing sector, a sector that had serious supply issues. This quantity was sufficient to supply the market until March. Given that the demand for butterfat was showing no sign of slowing down, in February 2016, the CDC has asked Global affairs Canada for another supplementary import permit of 4,000 tonnes of butter. As an interim measure, Global affairs Canada extended the first permit by 400 tonnes at the end of March. If it receives the second permit, the CDC only intends to import the required quantity of butter. In the longer term, increased milk production should allow the CDC to rebuild its stocks to normal levels by the end of the 2016-2017 dairy year.

Production

In the last five years, Canada lost 1,252 dairy farms, a 9% reduction¹⁷. This attrition rate is close to the rate for non supply-managed commodities and slightly lower than for US or European dairy farms¹⁸. This trend

¹⁴ Source: www.dairyinfo.gc.ca

¹⁵ Replaced by the Dairy Innovation Program on August 1, 2013. Program parameters are essentially the same.

¹⁶ Nutraceutical refers to foods thought to have a beneficial effect on human health. The classic example is yogurt with probiotic. Some specific milk proteins could also have benefits but more research is needed.

¹⁷ Despite having fewer farms, Canada produces 9% more milk than 5 years ago to respond to domestic demand.

¹⁸ US dairy farms declined 4% between 2012 and 2014 and EU28 dairy farms by 5.5% between 2012 and 2014 (International Dairy Federation); overall farms in Canada declined by 10% between 2006 and 2011 (Statistics Canada).

is expected to continue over the planning period. As a result, the remaining farms produce more milk and generate more revenues per farm. To reduce the cost of managing the supply management system, which is largely borne by producers, provincial marketing boards are trying to share resources and harmonize policies. In the coming years, the CDC's expertise will continue to be required to provide facilitation and technical expertise during interprovincial harmonization, which can be long processes because of diverging provincial interests and priorities.

Table 3. Number of farms and production of milk per province in 2014-2015

Province	Number of farms on August 1, 2015		Milk production	
			M kg of butterfat	%
Newfoundland and Labrador	32	0.3	1.96	0.5
Prince Edward Island	174	1.5	4.15	1.3
Nova Scotia	225	1.9	7.21	2.2
New Brunswick	206	1.8	5.57	1.7
Quebec	5,766	49.3	123.01	37.6
Ontario	3,834	32.8	107.43	32.8
Manitoba	299	2.6	13.39	4.1
Saskatchewan	163	1.4	9.55	2.9
Alberta	547	4.7	27.61	8.4
British Columbia	437	3.7	27.79	8.5
Canada	11,683	100.0	327.67	100.0

In the 2014-2015 dairy year, milk production continued to increase to catch up with demand. As production increased, CDC year-end stocks of skim powder reached 30,700 tonnes in 2014-2015 compared to 12,300 tonnes a year earlier. If nothing were to change, year-end stocks of 2015-2016 would be even larger.

The CDC continues to work with the industry to create markets for solids non fat and the reduction of the support price of skim milk powder should help in that regard. Other means include the Dairy Marketing Program, the Dairy Innovation Program, and market development initiatives for products such UHT milk and infant formula on the Chinese market.

Processing

In the last 12 months, some large Canadian processors have increased their imports of concentrated milk proteins in liquid form from the United-States (US) to use them in cheese and yogurt-making. Just like Canada, the US has too much protein and American companies have the technology to concentrate that protein in liquid form, which is easier to use than powder. They are also willing to accept very low prices to dispose of that protein. These imports are legal and no tariff is applied. These products displace domestic milk proteins, adding to the surplus of solids non fat in Canada. Also in the last 12 months, processors used a lot of butterfat to manufacture and accumulate significant stocks of cheese, making it impossible for the CDC to rebuild its butter stocks. This partly explains why Canada had to import additional quantities of butter at the end of 2015 and in early 2016 to supply the market.

In the second part of 2015, the dairy industry realized that Canada had insufficient drying capacity in its processing plants to dry all the skim milk produced to supply the butter market. As a result, some liquid

skim milk was dumped in several provinces. Investments in processing capacity for skim milk are therefore required.

Trade

WTO members have reached an agreement on export subsidies for agricultural products on December 19, 2015. According to this agreement, Canada is to eliminate all subsidized exports of dairy products by the end of 2020. In the meantime, Canada must also limit its subsidized exports to the average quantities exported in the 2003-2005 base period. For the CDC, this means that rules for the exports of the surplus solids non fat will change. In response to this, the CDC has started to reduce the support price of skim milk powder. The CDC intends to continue to reduce the support price of skim milk powder in the next few years so that by 2021, the domestic price will be equal to the world price and exports of the product will no longer be considered subsidized. At that point, it is likely that exports of skim milk powder would be done entirely by the private sector and not the CDC.

On October 5, 2015, the Canadian government announced the conclusion of the Trans-Pacific Partnership (TPP), a trade deal between 12 nations representing 40% of the world market. If ratified in its current form by all participating countries, the TPP will increase imports of dairy products into Canada over the 18 years that will follow its effective date. These imports represent approximately 3.25% of Canada's milk production. The CDC will take these imports into account when setting the quota for milk production in Canada.

Canada and the European Union reached an agreement in September 2014 towards a Comprehensive Economic and Trade Agreement (CETA). This agreement will increase the EU access to the Canadian cheese market by 17,700 tonnes (approximately 1.6% of the current milk production in Canada) and will also give Canada duty-free access to the EU dairy markets. These additional imports will also be taken into account to set quota once CETA is in place.

Financial Trends

Interest rates have been low for several years. Given that the CDC borrows money from the Consolidated Revenue Fund and from a line of credit, an increase in interest rates would have an impact on the transactions of the CDC. However, CDC's borrowings are used for programs that the CDC administers on behalf of the dairy industry. This means that interest fees are paid by either dairy producers or the marketplace, depending on the program. Therefore, increases in interest rates will have no impact on the financial situation of the CDC.

The world prices of dairy products remain extremely volatile. This volatility reflects on CDC revenues from the sale of skim milk powder destined for the export and animal feed markets. Setting the purchase price for these products to allow CDC to break even at the time of their resale requires close monitoring of world prices, of milk production and stocks in the various areas of the world, of the geopolitical landscape, and of demand in emerging economies.

Current world prices for skim milk powder are very low. This means that the CDC can export smaller quantities of skim milk powder while respecting Canada's export subsidy limits, making it more difficult for CDC to reduce its inventories of skim milk powder. World prices for skim milk powder in next dairy year are forecasted to increase slightly.

CORPORATE RESOURCES

Financial Resources

The CDC has four sources of revenues: appropriations, its commercial operations, funds from milk producers for programs administered on their behalf, and funds from the marketplace for the storage of butter. The marketplace contribution is added to the price of milk that is used to manufacture dairy products. It is collected by provincial milk marketing boards when invoicing processors. Processors pass on this charge to consumers through the price of dairy products. The CDC collects this contribution monthly, as well as the producer contribution, when it manages the money transfers between provinces for the purpose of pooling producer revenues among the 10 provinces.

This dairy year, the CDC expects to sell approximately \$238.3 million in butter and skim milk powder on the domestic and international markets. Its most important expense is the purchase of dairy products on the domestic and international markets. The CDC also pays carrying charges for its inventories. These include storage, insurance, transportation and interest charges.

Programs that the CDC operates on behalf of the industry are financed by producers and the marketplace. Two of these are the Domestic Seasonality Program and the Surplus Removal Program. The operation of these programs uses borrowings from the Consolidated Revenue Fund and borrowing costs are covered by dairy producers and the marketplace. These loans are repaid within their terms and conditions.

In order to perform the pooling of revenues on behalf of the dairy industry, the CDC maintains a line of credit with a member of the Canadian Payments Association. As established in the *CDC Act*, the CDC recovers all expenses related to the administration of the pools from the marketing boards of the provinces who are members of these pools.

The CDC does not own capital assets such as buildings. However, due to the programs already mentioned, it owns stocks of butter and skim milk powder. The level of these stocks varies within a year and also from year to year, depending on the supply and demand situation.

In the 2013 Speech from the Throne, the government implemented a two-year operating budget freeze ending in fiscal year 2015-2016. CDC appropriations were not adjusted to compensate for wage and salary increases during that freeze period. The CDC found efficiencies in its internal operations and administration in order to keep its administrative budget at the 2013-2014 level.

Overall, CDC's funding is relatively predictable and the organization can adapt to small fluctuations.

Human Resources

Although the CDC is a Crown corporation, the Treasury Board of Canada is the employer of CDC's employees who are covered by the same collective agreements and pension plan as employees in the various government departments. The CDC is not subject to the *Public Service Employment Act*.

The CDC's employees are knowledgeable and experienced within their respective fields. They are definitely one of the CDC's biggest strengths. Because its staff is involved in various industry committees and discussions, the CDC is well aware of industry issues. The CDC invests in training to ensure that employees succeed at meeting CDC's goals and to remain competitive with the private sector in attracting

competent staff. For the upcoming year, the CDC will allocate the equivalent of 1.0% of its payroll expenses to training and professional development. This has been reduced from previous years because the Canada School of Public Service now offers free training and was given funding which was deducted from each government body's appropriation, including the CDC. The CDC also has a training policy that supports staff in earning a university degree or a professional designation while continuing their work.

Recruiting employees with specialized knowledge in the fields of agricultural economics and the dairy industry remains a challenge due to the small number of potential candidates. Employee attraction and retention are therefore important. The CDC is aware that it faces competition from the private sector, especially during a time of budgetary constraints. To respond to these trends and to the risk posed by the loss of corporate knowledge due to retirements, the CDC has developed a succession plan for its key positions. Furthermore, over 200 procedures have been documented. This allows for a smoother transition when an experienced employee leaves the CDC.

The CDC continues to implement initiatives resulting from Blueprint 2020 consultations¹⁹. Furthermore, based on CDC's second annual employee satisfaction survey, management designed an action plan to address concerns raised in the survey.

The budget of this Corporate Plan includes 3 additional FTEs in 2016-2017 compared to the budget of the current dairy year.

Material Resources

The CDC does not own real estate, vehicles, or specialized equipment and it does not plan to buy real property during the planning period. The material resources of the CDC include computers, software, databases, and office furniture. These are used to conduct the policy and commercial activities of the CDC. Computers and the necessary software are updated on a regular basis. The CDC has great programming capacity that is used to create in-house applications that allow the automation of several tasks. Therefore material resources are deemed to be adequate.

The CDC leases office space from AAFC and has signed a lease agreement for the period of April 1, 2012 to March 31, 2017 with the possibility to renew for another 5 year period at rental market value rates established by Treasury Board Policy on Management of Real Property. Between September 2015 and July 2016, major repairs on the CDC building required moving part of the staff to another building. As owner of the building, AAFC paid the related costs.

OBJECTIVES, STRATEGIES AND PERFORMANCE MEASURES

STRATEGIC PLANNING PROCESS

The CDC strategic planning process engages the Board, the Senior Management Team and all managers. Staff members are also invited to some of the steps in the process. Strategic planning involves a review of the status of the current year's objectives, an analysis of CDC's external and internal environments, including trends in the industry and in government, and the establishment of a medium-term direction and

¹⁹ The last CDC Blueprint 2020 report can be found on GCPedia:
http://www.gcpedia.gc.ca/wiki/Blueprint_2020/Champions/December_2015_update/Canadian_Dairy_Commission

goals, as well as performance measures and activities for the next dairy year. The plan is used to create individual performance objectives for directors, managers and employees. Each employee receives a summary of the goals, objectives and activities before the start of the new dairy year.

This Corporate Plan includes the output of the strategic planning process outlining how the CDC will perform its mission and fulfill its mandate in 2016-2017 and beyond.

STRATEGIC THEMES AND STRATEGIES

The CDC uses four strategic themes to present its goals and objectives for the coming period. Five-year goals, as well as annual objectives related to the dairy industry for the next dairy year are found under the following strategic themes: *Growing Markets*, *An Industry that Adapts* and *A Well-Administered Supply Management System*. Goals and objectives related to internal services, which support the mandate of the CDC, have been grouped together under the strategic theme *A Well-Managed CDC*. Their relevance is reviewed annually and they have remained unchanged since 2014-2015. Annual objectives are established under each five-year goal.

Objectives and performance indicators are reviewed every year and are subject to change based on the policy decisions made at the Canadian Milk Supply Management Committee (CMSMC), the situation of the Canadian dairy industry, and the general priorities of the federal government. Objectives for all strategic themes are detailed under the section of this plan entitled *Objectives and Performance Measures for the Planning Period*.

OBJECTIVES AND PERFORMANCE MEASURES FOR THE PLANNING PERIOD

This section of the Plan presents, for each strategic theme, the five-year goals of the CDC, its specific objectives for 2016-2017, and how it will measure its performance.

Strategic theme: Growing Markets

5-year goals	2016-2017 objectives	Performance indicators and target
Create an environment that is conducive to market growth and innovation	Demand for Canadian dairy products has grown	Total requirements Target: at least 2% growth MAG applications approved Target: at least 2 Number of innovative dairy products introduced through DIP or other initiatives Target: 4 products
Promote the timely supply of milk to growing markets	Ample milk supply is available at the right place at the right time in the Canadian market	Quantity of butter imported Target: A maximum of 3,274 t Number of unfulfilled requests for skim milk in any dairy product Target: 0

Strategic theme: An Industry that Adapts

5-year goals	2016-2017 objectives	Performance indicators and target
Help the Canadian dairy industry adapt to changing market conditions, within the framework of supply management	The industry understands the forces that are changing the market and is taking steps to adapt	Number of proposals made by the CDC to support the industry in addressing changing market conditions Target: at least 2
Create an environment conducive to the development of new markets for solids non fat (SNF)	New investments have been committed to increase the use of SNF as ingredients in value-added products	Number of investment commitments Target : at least 3
	New investments have been made by the processing sector to improve processing efficiency and capacity	Investment commitments Target: 2

Strategic theme: A Well-Administered Supply Management System

5-year goals	2016-2017 objectives	Performance indicators and target
Ensure that efficient producers receive fair returns	The increase in overall producer revenues is driven mostly by market growth and better farm efficiencies	Total overall producer revenues per dairy year Target: a 1% increase from the previous dairy year
	Ensure that milk components sold under various programs are used in eligible products	Number of audits Target: 50 audits of participants to the Special Milk Class Permit Program 100 audits of restaurants participating in Class 3(d)
Ensure that Canadian milk production meets demand.	Increase market responsiveness of milk supply through improved market analysis and forecasts	Total quota vs. total demand Target: Total quota is between 99.5% and 101% of demand Total butter inventories on July 31, 2017(CDC + private) Target: 24,000 tonnes
Ensure the respect of federal-provincial and international agreements.	The federal-provincial pooling agreements are working smoothly	Time to perform pooling calculations Target: monthly, within 5 business days of data reception Time to transfer funds among provinces and send quota figures Target: monthly, within 4 business days of the end of calculations Time to send milk movement figures Target: monthly, before the 10th of each month
	The CDC respect its obligations under the WTO Agreement on Agriculture	Quantities of exports Target: at least 99% of permitted exports of cheese and products containing high quantities of milk solids non fat Quantities of butter imports Target: 3,274 tonnes
Propose and support measures that improve the administration of the supply management system	Review some of CDC's programs	Number of program reviewed Target: 2 programs

5-year goal	2016-2017 objectives	Performance indicators and target
The CDC adapts to remain a high-performing organization	The CDC has the appropriate workforce to achieve its objectives (the right number of engaged employees with the right skill set in the right structure)	Employee satisfaction rate as measured by an annual employee satisfaction survey Target: Satisfaction rate of 80% Performance management ratings Target: less than 5% of employees require action plans Rate of position filled Target: 95% of positions are filled at any time
	The CDC has the right tools to achieve its objectives	Number of tools developed or adapted Target: 3 tools including Euclid
	There is a process in place to measure industry stakeholders'/partners' level of satisfaction with the CDC.	Intelligence gathered Target: report received from external agency and submitted to CDC Board

FINANCIAL INFORMATION

SUMMARY

The financial statements presented in this Summary are based on the International Financial Reporting Standards (IFRS). During the period covered by this Corporate Plan Summary, the structure and standards of the financial statements, as well as the main activities and programs of the CDC, are expected to remain the same. Minor capital expenses are forecasted. Despite an increase in milk production since the end of 2013-2014, butter stocks remain low because they have been used to supply an increase in demand. Increased production in 2015-2016 will produce more surplus skim milk powder (SMP).

Foreign exchange rates and interest rates (based on forecasts by major banks)

- The exchange rates used in these budgets are CAD\$1.37 per USD for 2015-2016, CAD\$1.33 per USD for 2016-2017 and CAD\$1.25 per USD for 2017-2018 through 2020-2021.
- The interest rates used for outstanding loans for 2015-2016 are 0.60%, 0.80% for 2016-2017, 1.5% for 2017-2018 and 1.8% for 2018-2019 through 2020-2021.
- Interest rates on loans from the member of Canadian Payments Association will remain at prime which is estimated to be 2.70% for 2015-2016, 2.95% for 2016-2017, 3.50% for 2017-2018, and 3.75% for 2018-2019 through for 2020-2021.

Accounts receivable

- All domestic sales and small shipments of dairy products for export are paid for before release of goods.
- Large shipments are guaranteed by letter of credit and collected on presentation of documents.

Accounts payable

- The year-end accounts payable are determined by individual purchase contract terms and in the absence of these, by the policy of payment within 30 days. The amount of goods purchased and/or services received in July of each year is used to determine the accounts payable at year-end.
- Butter: 30% of July purchases remain outstanding (payment terms of 12 working days).
- SMP: 30% of July purchases remain outstanding (12 working days).

Sensitivity of the projections to assumptions

Beyond 2016, 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. The key factors in the budget presented are total production, domestic demand, 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
STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
for the Dairy Years ended July 31, 2015 - 2021

	(in thousands)							
	Actual Audited	Budget	Forecast	Budget				
	2014-2015	2015-2016	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Sales and Cost of Sales								
Domestic sales revenue	\$ 197,706	\$ 218,631	\$ 198,098	190,496	232,353	241,895	243,997	239,495
Cost of goods sold - domestic	169,507	200,589	168,950	173,549	214,357	223,603	225,672	223,731
Transport and carrying charges	4,055	4,795	5,507	7,167	6,340	5,363	4,705	4,297
Finance costs	263	594	164	742	1,205	1,427	1,449	1,470
Gross profit on domestic sales	<u>23,881</u>	<u>12,653</u>	<u>23,477</u>	<u>9,038</u>	<u>10,451</u>	<u>11,502</u>	<u>12,171</u>	<u>9,997</u>
Export sales revenue	33,844	40,813	31,671	47,800	58,938	58,938	58,938	58,938
Cost of goods exported	33,285	39,750	30,859	46,889	57,859	57,834	57,817	57,867
Transport and carrying charges	1,144	988	691	804	936	942	949	925
Finance costs	5	6	8	7	12	14	15	15
Gross profit (loss) on export sales	<u>-590</u>	<u>69</u>	<u>113</u>	<u>100</u>	<u>131</u>	<u>148</u>	<u>157</u>	<u>131</u>
Total gross profit	<u>23,291</u>	<u>12,722</u>	<u>23,590</u>	<u>9,138</u>	<u>10,582</u>	<u>11,650</u>	<u>12,328</u>	<u>10,128</u>
Other revenues								
Funding from milk pools	5,902	6,403	6,187	6,642	6,855	7,698	8,548	8,730
Funding from the Government of Canada	3,639	3,703	3,725	3,660	3,660	3,660	3,660	3,660
Audit services	195	183	180	180	185	185	185	185
	<u>9,736</u>	<u>10,289</u>	<u>10,092</u>	<u>10,482</u>	<u>10,700</u>	<u>11,543</u>	<u>12,393</u>	<u>12,575</u>
Total	<u>33,027</u>	<u>23,011</u>	<u>33,682</u>	<u>19,620</u>	<u>21,282</u>	<u>23,193</u>	<u>24,721</u>	<u>22,703</u>
Operating Expenses								
Industry initiatives	697	1,046	796	6,296	7,546	1,546	1,546	1,546
Cost of Production study	787	818	816	827	842	858	875	892
Other charges / (recoveries)	-223	32	42	47	58	69	66	76
	<u>1,261</u>	<u>1,896</u>	<u>1,654</u>	<u>7,170</u>	<u>8,446</u>	<u>2,473</u>	<u>2,487</u>	<u>2,514</u>
Administrative Expenses								
Salaries and employee benefits	5,650	6,060	6,049	6,343	6,343	6,343	6,343	6,343
Other administrative expenses	1,916	1,712	1,875	1,812	1,812	1,812	1,812	1,812
	<u>7,566</u>	<u>7,772</u>	<u>7,924</u>	<u>8,155</u>	<u>8,155</u>	<u>8,155</u>	<u>8,155</u>	<u>8,155</u>
Total	<u>8,827</u>	<u>9,668</u>	<u>9,578</u>	<u>15,325</u>	<u>16,601</u>	<u>10,628</u>	<u>10,642</u>	<u>10,669</u>
Profit before distribution to provincial milk boards and agencies	<u>24,200</u>	<u>13,343</u>	<u>24,104</u>	<u>4,295</u>	<u>4,681</u>	<u>12,565</u>	<u>14,079</u>	<u>12,034</u>
Distribution to provincial milk boards and agencies	20,190	14,575	11,596	10,354	12,901	14,135	14,886	12,759
Results of operations and comprehensive income (loss)	<u>\$ 4,010</u>	<u>\$ -1,232</u>	<u>\$ 12,508</u>	<u>\$ -6,059</u>	<u>\$ -8,220</u>	<u>\$ -1,570</u>	<u>\$ -807</u>	<u>\$ -725</u>

CANADIAN DAIRY COMMISSION
STATEMENT OF COSTS FINANCED BY THE GOVERNMENT OF CANADA
for the Fiscal Years ending March 31, 2015 - 2021

(in thousands of dollars)

	Actual	Forecast	Budget				
	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Administrative expenses							
CDC appropriation Vote 1	\$ 3,631	3,597	3,585	3,585	3,585	3,585	3,585
Eligible payroll expenditures	253	132	75	75	75	75	75
Total costs financed by the Government of Canada	<u>\$ 3,884</u>	<u>\$ 3,729</u>	<u>\$ 3,660</u>	<u>\$ 3,660</u>	<u>\$ 3,660</u>	<u>\$ 3,660</u>	<u>\$ 3,660</u>

CANADIAN DAIRY COMMISSION
BORROWING PLAN
for the Dairy Years ended July 31, 2015 - 2021

(in thousands)

Consolidated Revenue Fund

Loan transactions	Actual Audited 2014-2015	Forecast 2015-2016	Projected				
			2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Balance at beginning of year	\$ 58,404	\$ 35,413	\$ 84,775	\$ 147,157	\$ 152,941	\$ 139,540	\$ 125,778
Drawings	141,123	140,000	160,000	160,000	160,000	160,000	160,000
Repayments	(164,114)	(90,638)	(97,618)	(154,216)	(173,400)	(173,762)	(181,111)
Balance at end of year	\$ 35,413	\$ 84,775	\$ 147,157	\$ 152,941	\$ 139,540	\$ 125,778	\$ 104,668
Average level during year:	\$30,000	\$50,000	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000
Highest level during year:							
Month	August	July	July	July	July	July	July
Amount	\$ 51,000	\$ 83,000	\$ 161,000	\$ 160,000	\$ 147,000	\$ 134,000	\$ 123,000

Member of Canadian Payments Association

Loan transactions	Actual 2014-2015	Forecast 2015-2016	Projected				
			2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Balance at beginning of year	\$ 1,264	\$ 3,195	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500
Drawings	36,635	25,000	25,000	25,000	25,000	25,000	25,000
Repayments	(34,704)	(26,695)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)
Balance at end of year	\$ 3,195	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500

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 \$165 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 fulfil 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 ended July 31, 2015 - 2021

(in thousands)

	Actual	Forecast	Budget				
	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>	<u>2020-2021</u>
Capital	\$ 0	\$ 0	\$ 20	\$ 0	\$ 20	\$ 0	\$ 20
Total capital budget	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 20</u>	<u>\$ 0</u>	<u>\$ 20</u>	<u>\$ 0</u>	<u>\$ 20</u>

Capital is comprised of equipment and intangible assets with a life expectancy of greater than one year and an individual cost greater than \$10,000.

It is presented in the Statement of Financial Position under Non current assets.

APPENDIX A
GLOSSARY OF DAIRY TERMS

Canadian Milk Supply Management Committee (CMSMC)

The CMSMC serves as the key national body for policy development and discussions respecting dairy production and processing sectors, and 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 four 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; the pooling systems established for market returns from certain milk sales; and provincial quota allocations and utilization. The CMSMC determines the national production target for industrial milk.

Dairy Producers

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

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. This is opposed to fluid milk, which is processed into table milk and cream.

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.

Skim milk powder (SMP)

A finished product that contains 96% solids non fat and 4% water. It is very stable and can be stored for several months.

Solids non fat (SNF)

What is left from the milk after the butterfat and water have been removed. Solids non fat contain protein, lactose, minerals and other minor components.

Supply Management

Supply management is a system by which the production of milk is controlled by marketing 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 establishing the farm gate price of milk and indirectly affect the wholesale prices of all processed dairy products. They are established at levels designed to generate a fair return for producers.

Tariff Rate Quota (TRQ)

A quantity of product that can be imported in a country at little or no tariff. Canada must import each year 3,274 tonnes of butter as part of its commitments to the World Trade Organization.