



Canadian Dairy  
Commission

Commission  
canadienne du lait

# CORPORATE PLAN SUMMARY FOR 2018-2019 TO 2022-2023

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OPERATING AND CAPITAL BUDGETS  
FOR THE DAIRY YEAR ENDING JULY 31, 2019

Corporate Plan dated April 1, 2018

No 1949169

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## TABLE OF CONTENTS

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TABLE OF CONTENTS .....	1
EXECUTIVE SUMMARY .....	3
BACKGROUND.....	4
The Canadian Dairy Commission.....	4
The Canadian Dairy Industry.....	4
MANDATE OF THE CDC .....	5
Corporate Mandate .....	5
Official Languages.....	6
Public Policy.....	6
CORPORATE PROFILE.....	6
CDC at a Glance .....	6
Mission.....	7
Values.....	7
Main Activities.....	7
Governance .....	9
STRATEGIC ISSUES FOR THE PLANNING PERIOD .....	12
Assessment of Results for 2017-2018.....	12
Theme: Investment, innovation and growth in the Canadian dairy sector.....	12
Theme: The role of the CDC in the industry.....	13
Theme: Administration of the milk supply management system.....	14
Theme: A Well-Managed CDC.....	15
External Environment.....	16
Corporate Resources.....	18
OBJECTIVES, STRATEGIES AND PERFORMANCE MEASURES .....	20
Strategic Planning Process .....	20
Strategic Themes and Strategies.....	20
Objectives and Performance Measures for the Planning Period.....	21
FINANCIAL INFORMATION .....	25
Assumptions.....	25
APPENDICES .....	31
APPENDIX A GLOSSARY OF DAIRY TERMS.....	31
APPENDIX B DELIVERY AND EXPECTED RESULTS .....	33



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## EXECUTIVE SUMMARY

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The Canadian dairy industry includes 10,951 farms (2017) and 471<sup>1</sup> milk processing plants. Canada produces close to 85 million hectolitres of milk per year, essentially for the domestic market. Dairy farms have total revenues of \$6.2 billion. The processing industry ships \$15.2 billion in products and employs about 22,900 people. 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 3.5% per year. Over the last two years, this trend increased further, resulting in a noticeable increase in demand for Canadian dairy products of over 5% per year.

The Canadian Dairy Commission (CDC) is a Crown Corporation of 72 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 calculates the adjustment of the price producers get for their milk. It provides information and tools to the industry to ensure that milk production meets demand. The CDC chairs 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, 2018, the CDC is expecting to reach almost all of the objectives set for 2017-2018. Largely through existing programs, it continues to encourage the Canadian dairy industry to grow the market and innovate. In the past few years, the Canadian dairy industry has faced challenges such as the continued surplus of the non fat portion of milk and a World Trade Organization (WTO) Decision to eliminate export subsidies on dairy products by the end of 2020. It is adapting to these challenges and the CDC is taking steps to modify its programs and activities to take into account the results of bilateral negotiations between producers and processors.

On the internal front, the CDC has held its fourth annual employee satisfaction survey. Employee satisfaction was 92% in 2016-2017, which is the same score as the year before.

The CDC will continue to support the industry as it adapts to the changing markets. As it supports the implementation of important changes for the sector, its planning encompasses the following key result areas:

- Investment, innovation and growth in the Canadian dairy sector
- The role of the CDC in the industry
- A well-administered supply management system
- A well-managed CDC

The CDC borrows money from both the Consolidated Revenue Fund and from a line of credit. Interest rates are expected to increase slightly over the planning period, which would impact interest expenses paid by either dairy farmers or the marketplace, depending on the program for which borrowings are made.

The CDC is not planning large capital projects during the planning period. An increased demand for several of its services on the part of the dairy industry required additional FTEs that are paid by the industry.

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<sup>1</sup> Data in this paragraph are for 2016 unless otherwise indicated.

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## BACKGROUND

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### THE CANADIAN DAIRY COMMISSION

The Canadian Dairy Commission (CDC) administers two of the three pillars of the supply management<sup>2</sup> system, namely the control of milk prices at the farm gate and the control of milk production through quotas to ensure that production meets demand. In the case of prices, the CDC calculates the formula that signals annual price adjustments and, if the result of the formula is incompatible with market conditions at the time, initiates consultations with industry stakeholders to override the results of the formula. The resulting adjustment is then used by provincial authorities to set the price that producers get for their milk. To control milk production, the CDC provides marketing boards with monthly demand forecasts. These forecasts help marketing boards make decisions on quota issuance to producers to ensure that quota on the farms is sufficient to serve demand at any time. The CDC then adjusts the national quota based on trends in demand and distributes quota adjustments among the various regions of the country based on a set of rules established by a federal-provincial agreement. To balance the system, the CDC can purchase Canadian butter in periods of surplus and request permits from Global Affairs Canada to import butter in periods of shortage.

The CDC also acts as a facilitator and stakeholder in 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.

In addition, the CDC administers several programs, some of which are created and funded by the industry. More information about these programs is presented in Table 1. To fulfil 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. In most provinces, these marketing boards also have the authority to set the price producers are paid for their milk. Provincial tribunals ensure that marketing boards comply with their mandate. Imports of some dairy products into Canada are controlled by tariff rate quotas (TRQ). A TRQ is a quantity of products that can come into Canada at little or no tariff. Due 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 an effective risk management tool for Canadian dairy farms. Market growth during good times, as well as any shrinkage

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<sup>2</sup> Underlined words and phrases are explained in Appendix A.

of the market during bad times, 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 higher-paying class<sup>3</sup> to a less lucrative class, will also be distributed over many farms, thereby reducing its impact on individual farms. Furthermore, price setting, production management and predictable imports help stabilize the domestic market and reduce risks for both farmers and processors. This system also benefits processors by balancing milk available within each pool and therefore, providing a better guarantee of sufficient milk supplies.

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 price<sup>4</sup>. Under the supply management system, globally, the sector is profitable, and consumers enjoy a continuous supply of dairy products at predictable prices.

As key contributors to the Canadian economy in the 2016 calendar year, approximately 10,951 (2017) farms generated \$6.2 billion in total net farm revenues, a 6% increase over 5 years ago. The same year, the dairy processing industry generated \$15.2 billion worth of products, accounting for 13.9% of all processing sales in the food and beverage industry. This represents an 8% growth from 2012. The dairy processing sector employs approximately 22,900 people.

Overall, demand for dairy products in Canada continues to rise gradually. Domestic demand for dairy products increased by 5.6% in 2016-2017 compared to the previous year and the 5-year average was a 3.5% growth per year. This growth is particularly noticeable for products such as butter, cream, cheese, and yogurt. In the last three years, demand for butter and cream has risen rapidly and this created some challenges in the market.

In 2017, Canada exported \$399 million in dairy products and imported \$872 million in dairy products, for a negative trade balance of -\$473 million. A portion of Canada's exports of dairy products are limited by Canada's export subsidy commitments at the World Trade Organization (WTO). According to the recent Nairobi Decision on Export Competition at the WTO, by the end of 2020, Canada will no longer be allowed to apply export subsidies on dairy products.

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## MANDATE OF THE CDC

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### 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 is:

**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.

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<sup>3</sup> 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>

<sup>4</sup> Exception: some provinces regulate the retail price of fluid milk.

## OFFICIAL LANGUAGES

The *Official Languages Act* applies to the CDC. Since its offices are in the National Capital Region, 90% 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. These policy-making committees create *ad hoc* committees to find solutions to specific issues such as policy harmonization, milk allocation, or transportation to processing plants. The CDC often provides chairmanship, expertise and secretariat services to these *ad hoc* committees. Through its presence and roles on these committees, the CDC provides analyses and recommendations and is in a position to contribute to most of the 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. In these forums, the CDC represents the federal government. Provincial governments, provincial milk marketing boards, and stakeholder organizations representing dairy producers, processors, and consumers are also at 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 Pooling<sup>5</sup>, and the Western Milk Pool Coordinating Committee, administering the Western Milk Pooling Agreement<sup>6</sup>. These regional agreements allow for the pooling of milk revenues and markets among producers of participating provinces (see appendix B for more details).

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## CORPORATE PROFILE

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### CDC AT A GLANCE

Created in 1966

72 employees as of April 1, 2018

Administrative budget for 2018-2019 (dairy year): \$9.33 million

Dairy year: August 1 to July 31

Principal legislation: *Canadian Dairy Commission Act*

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<sup>5</sup> Provincial signatories are Ontario, Quebec, New Brunswick, Nova Scotia, and Prince Edward Island.

<sup>6</sup> Provincial signatories are British Columbia, Alberta, Saskatchewan and Manitoba.

## 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).

The annual adjustment to the price of milk at the farm level is calculated using a mathematical formula that is based on the cost of producing milk (as calculated by the CDC) and on the Consumer Price Index (as published by Statistics Canada)<sup>7</sup>. To be able to fulfil its mandate of providing efficient producers with a fair return, the CDC, in collaboration with stakeholders, implemented a mechanism to override the formula if its results are out of sync with market conditions. For example, if the results of the formula indicate a rise in prices during a period of increasing producer revenues, the results of the formula could be overridden to avoid an unnecessary increase in farm milk prices that would be felt by consumers. By the same token, if the results of the formula indicate a reduction in prices during a period of declining producer revenues, the results could be overridden, and a price increase applied. The CDC consults and informs stakeholders on market conditions and the results of the formula throughout the pricing process. It also announces the price at which it purchases butter under its Seasonality Programs (the support price for butter).

The CDC 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<sup>8</sup> that exist among milk producers. Monthly, the CDC receives data from provincial milk marketing boards and calculates the payment

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<sup>7</sup> % price adjustment = (50% x variation of the cost of production) + (50% x variation of the CPI)

<sup>8</sup> These pools are named and explained in Appendix B.

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 programs<sup>9</sup> 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
Workforce Development Initiative	To enable productivity, competitiveness, and innovation in the Canadian dairy industry by way of supporting the attraction and education of a qualified workforce.	Graduate students Learning institutions Industry associations
Dairy Export Program	To develop 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 <sup>10</sup> during periods of lower consumption (January to September) and typically sells it 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
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

Since 1995-1996, the CDC has received the entire allocation of Canada's WTO tariff rate quota for butter (3,274 tonnes) and it sells it 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 and the Workforce Development Initiative mentioned in the table above.

<sup>9</sup> CDC programs are further described in its Annual Report <http://www.cdc-ccl.gc.ca/CDC/index-eng.php?link=125>

<sup>10</sup> The Seasonality Program for skim milk powder was suspended on February 1, 2017, due to an agreement in principle between producers and processors.

## **Export Monitoring**

The CDC controls Canada's export subsidies on dairy products through the issuance of export permits. These permits have been put in place to ensure that Canadian export subsidies applied to dairy products do not exceed the limits established for Canada at the WTO. These permits will be terminated by the end of 2020 because export subsidies will no longer be possible as per the WTO Nairobi Decision.

## **Links with Other Departments**

The CDC works closely with Agriculture and Agri-Food Canada (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 consistent with international obligations made under 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 Canadian Agricultural Partnership (CAP), which was announced in July 2017 and was launched on April 1, 2018. Priorities of the CAP are: 1) Growing trade and expanding markets, 2) Innovative and sustainable growth of the sector, and 3) Supporting diversity and a dynamic, evolving sector<sup>11</sup>. The CDC's market development strategy aims to develop markets both domestically and abroad and the Milk Access for Growth program provides milk to companies who invest in processing facilities that will grow the market for Canadian dairy products. The Dairy Export Program provides milk to processors who wish to develop niche export markets. CDC's Matching Investment Fund, Dairy Innovation Program, and the Scholarship portion of its Workforce Development Initiative continue to provide support for innovation. The CDC's commitment to improving its services after the 2017 Industry Survey, and its continued collaboration with provincial governments and marketing boards, align with the third priority of CAP.

The CDC also participates in the activities of the National Agriculture and Agri-Food Supervisory Agencies, which bring 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 positioning 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 *Canadian Dairy Commission Act*, federal-provincial agreements provide the authority for many of the programs and services that the CDC staff delivers daily.

### **The Board**

The Board is responsible for overseeing the 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 meets every month and exercises its responsibility in five major areas:

- a) Strategic planning
- b) Risk assessment and management

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<sup>11</sup> More information can be found at [https://www.canada.ca/en/agriculture-agri-food/news/2017/11/canadian\\_agriculturalpartnership.html](https://www.canada.ca/en/agriculture-agri-food/news/2017/11/canadian_agriculturalpartnership.html)

- 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 Report<sup>12</sup>. 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 Commissioner<sup>13</sup>. 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 background in milk production and processing contributes to bringing a balanced approach and building consensus between stakeholders. All positions are part-time<sup>14</sup> 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, 2018, 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.

**Jennifer Hayes, Commissioner (first mandate ends January 2020)**

Ms. Hayes is a dairy and beef farmer on Quebec's Gaspé Peninsula. She is the third generation to farm at Pine Crest Farms in Shigawake, which she co-owns with her father and uncle. Her farm is the most eastern dairy farm on the mainland in Quebec. Ms. Hayes has extensive governance experience as an active member of the UPA (*Union des producteurs agricoles*). In addition to her position as a regional elected board member for *Les Producteurs de lait de la Gaspésie-Les-Îles*, Ms. Hayes was regional vice president for the beef producers' association, and an executive member of the provincial cull cattle and bob calf marketing committee.

<sup>12</sup> 2016-2017 Annual Report: <http://www.cdc-ccl.gc.ca/CDC/index-eng.php?link=125>

<sup>13</sup> The mandate, roles, responsibilities and competencies of the Board and a list of the Board's committees can be found in Appendix C. The Board's bylaws are available at <http://www.cdc-ccl.gc.ca/CDC/userfiles/file/Rules%20of%20governance%202014.pdf>

<sup>14</sup> The CEO position may become full-time pending the outcome of the current nomination process.

Ms. Hayes holds an MBA from Concordia University and has professional networks in the fields of agriculture and rural development.

### **Jacques Laforge, CEO (second mandate ended February 2018)<sup>15</sup>**

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.

### **The Audit Committee**

The Audit Committee ensures proper accountability over CDC operations as required by the *Financial Administration Act*. It reviews and approves the internal audit plan of the CDC. It also receives the annual audit plan of the Office of the Auditor General (OAG) for the CDC's financial statements and the report on this audit. It actively solicits the Auditor General's judgment regarding the corporation's accounting principles and financial reporting. The committee meets quarterly to review the financial statements and receive internal audit and program evaluation reports. Members of the Board form the Audit Committee and a representative of the OAG attends meetings as an observer.

The OAG must carry out a special examination of the CDC at least every 10 years. The last one was done in 2011. In its Special Examination, the OAG had noted good practices in a number of areas and found no significant deficiencies in CDC's systems and practices. The OAG made recommendations on board skill assessment, procedures for conflict of interest declarations and performance indicators. The CDC has implemented all recommendations.

### **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 policies, directives and related instruments on travel, hospitality, conference and event expenditures, in a manner that was consistent with their legal obligations. The CDC is fully compliant with the directive since September 29, 2016.

The CDC continues to ensure that travel, hospitality, conferences and event expenditures are managed with prudence and probity and represent the most economic and efficient use of funds given the nature of the activity in relation to the achievement of its core mandate.

The CDC has been publishing the travel and hospitality expenses of its Board members since September 2007 on its website. The CDC's expense policies, along with reporting on total annual expenditures for travel, hospitality, and conferences and quarterly travel and hospitality expenditures are now available on CDC's website.

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<sup>15</sup> Jacques Laforge's mandate was extended for a term of six months or until such a time as a new CEO was appointed, whichever occurred first. Mr. Serge Riendeau was appointed on May 14, 2018, for a three-year period.

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**STRATEGIC ISSUES FOR THE PLANNING PERIOD**

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As of April 1, 2018, the CDC expects to achieve almost all its objectives for 2017-2018. The status of these objectives is presented in the next section (Assessment of results for 2017-2018). The areas of activity of the CDC are separated into four strategic themes: 1) Investment, innovation and growth in the Canadian dairy sector, 2) The role of the CDC in the industry, 3) Administration of the milk supply management system, and 4) A well-managed CDC. A set of five-year goals were developed under each of these themes and annual objectives were planned for each of these goals.

**ASSESSMENT OF RESULTS FOR 2017-2018**

Following are achievements for each strategic theme as of April 1, 2018. A complete performance report will be presented in the 2017-2018 CDC Annual Report which will be tabled in Parliament in the fall of 2018.

THEME: INVESTMENT, INNOVATION AND GROWTH IN THE CANADIAN DAIRY SECTOR

**5-year goal – Investments and innovation have led to continuous market growth**

<b>Performance indicators</b>	<b>Target for 2022-2023</b>	<b>Target for 2017-2018</b>	<b>Progress as of April 1, 2018</b>
Number of litres used in the Milk Access for Growth program (MAG)	160 million litres in 2022-2023	21 million litres	The board approved 3 major investments under the MAG program. New facilities are expected to start production in 2019 and use about 21 million litres that year.
Market growth rate correlated to CDC activities	4% (cumulative)	0.2%	0%. MAG projects are expected to create growth starting in 2019.
Number of innovative dairy products introduced through the Dairy Innovation Program (DIP)	10 (cumulative)	2	0. The selection committee will meet later this Spring to evaluate applications received.

<b>Strategy</b>	<b>2017-2018 objective</b>	<b>Achievements as of April 1, 2018</b>
Provide support and funding for innovation in the processing sector	Innovation Strategy developed	After consultation with academia and industry, the CDC adopted its Workforce Development Initiative in December 2017. The initiative replaces the planned innovation strategy and will be rolled out starting in April 2018.

Provide support and funding for market development	Market Development Strategy developed	Several opportunities for market development have been explored. A pilot project will be presented to the CDC board in the spring.
Promote investment on farms	The CDC provided info to dairy farmers.	CDC is considering increasing information provided on Cost of Production to dairy farmers and all other stakeholders.

THEME: THE ROLE OF THE CDC IN THE INDUSTRY

**5-year goal – The CDC is valued as an effective facilitator and key contributor in the dairy industry**

Performance indicators	Target for 2022-2023	Target for 2017-2018	Progress as of April 1, 2018
% CDC-led recommendations to industry committees that are accepted	85%	70%	The MAG program was approved. A proposal to streamline quota calculation will be presented for approval in April 2018.
Number of invitations to speak/facilitate/train at non-CDC meetings (excluding reports to provincial boards' annual general meetings)	20 per year	10 per year	9
Results of survey on industry satisfaction	Ratings improve by 20%	None	N/A <sup>16</sup>

Strategy	2017-2018 objective	Achievements as of April 1, 2018
Adapt key services and programs to the industry	Key services and programs are adapted	The CDC prepared a National Central Registration System for the administration of Class 7. Its implementation will follow changes to existing industry systems and CMSMC decisions.
Improve communications with the industry	Most Board decisions are communicated openly	Throughout the year, the CDC provided detailed reports to stakeholders during CMSMC meetings on various decisions of the Board, namely the creation and implementation of the Milk Access for Growth Program, the creation of the Workforce Development Initiative including its four programs, and the results of the Industry Survey.

<sup>16</sup> The survey will be repeated in 2020. In the meantime, the CDC is taking measures included in the action plan that followed the 2017 survey.

Strategy	2017-2018 objective	Achievements as of April 1, 2018
	Stakeholders' engagement is enhanced	In addition to holding pricing consultations, the CDC enhanced stakeholder engagement by holding a post Industry Survey workshop with key industry stakeholders to openly discuss the results of the survey and find means for improvement. The CDC also provided much needed additional caucus time during industry meetings to improve stakeholder engagement on important decisions.

THEME: ADMINISTRATION OF THE MILK SUPPLY MANAGEMENT SYSTEM

**5-year goal – A well administered, responsive and well-understood supply management system**

Performance indicators	Target for 2022-2023	Target for 2017-2018	Progress as of April 1, 2018
Number of audits	100 audits of Class 3(d) 40 audits of Special Milk Class Permit Program participants 50 audits of Class 7 participants	100 audits of Class 3(d) 40 audits of Special Milk Class Permit Program participants 50 audits of Class 7 participants	11 audits of Class 3(d) 8 audits of Special Milk Class Permit Program participants  13 audits of Class 7 participants
Total producer revenue evolves with market growth	1% annual increase	1% annual increase	Producer revenues have increased by 5.75% when comparing calendar year 2017 to 2016. This is exceptional. Isolating the market growth effect is not possible for this unusual year.
Market supply meets demand through accurate quota calculation and improvement of market analysis and forecasts	Quota is between 99% and 101% of demand	Quota is between 99% and 101% of demand	Since the beginning of the year, quota has been at 102% of demand on average. This was adequate because stocks needed to be rebuilt.
Quota allocation and money transfers are performed within the service standards established by the Canadian Milk Supply Management Committee	100% of the time	100% of the time	On track

Performance indicators	Target for 2022-2023	Target for 2017-2018	Progress as of April 1, 2018
Registration to online training modules	15 per year	10 per year	20

Strategy	2017-2018 objective	Achievements as of April 1, 2018
Promote more market-responsive management of milk supply	The industry benefited from the CDC's expertise in reviewing its quota management policies	The CDC is consulting with industry on a timelier quota management system to be implemented on August 1, 2018.
Ensure the respect of federal-provincial and international agreements	CMSMC decisions that are CDC's responsibility are implemented	On track
Ensure that efficient producers receive fair returns	Stable or increasing producer revenues through market growth  Timely and accurate revenue pooling calculations	Producer revenues have increased by 5.75% in calendar year 2017 compared to 2016 while returns per hl have fallen by 0.3%.  On track
Ensure Canadian production meets demand	Timely and sufficient supply of dairy products in the Canadian market  Timely and accurate allocation of quota to meet demand	Canadian milk production meets demand and stocks are sufficient.  On track

THEME: A WELL-MANAGED CDC

**5-year goal – The CDC is organized and resourced to support the dairy industry into the future**

Performance indicators	Target for 2022-2023	Target for 2017-2018	Progress as of April 1, 2018
Level of staff satisfaction as measured by an annual survey	90% or more	80% or more	Survey will be conducted in May 2018.
Number of tools or policies developed internally and adapted to better support the industry	4 per year	4 per year	Integration of pooling calculations into Euclid's automated calculation system New demand forecasting model Monthly quota management Review of the Audit Manual (ongoing)

Strategy	2017-2018 objective	Achievements as of April 1, 2018
Adapt the workforce and IT systems to the industry's new environment	CDC workforce and systems have adapted to the new industry environment	The CDC added 9 positions in the last year to respond to industry needs. The CDC created a National Central Registration System to administer class 7 and provide an audit mechanism. This system will be launched when provincial systems are ready.
Implement new or updated government policies	A clear understanding of the changes required	Upon release of the new Policy on Government Security, the CDC will assess the work that will be required to comply with its requirements.

## 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 yogurt<sup>17</sup>. Manufacturers have responded to these trends. Canada now produces over 1,050 cheeses compared to approximately 500 cheeses 10 years ago. Most Canadian cheeses are made with cow's 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 Program<sup>18</sup> in 1989, 383 projects to create new cheeses, yogurt products and other dairy products used close to 1,008 million litres of milk. The Matching Investment Fund, launched in 2009, has financed 28 innovation projects that have received a total of \$925,000. 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 nutraceutical<sup>19</sup> products. These achievements support the minister of Agriculture and Agri-Food's priority to "provide technical and marketing assistance to help food processors develop new value-added products that reflect changing tastes and market opportunities"<sup>20</sup>. The CDC expects that over the next five years, overall domestic consumption of dairy products will continue to grow at an average rate of 2% per year.

A very clear trend has been the steady increase in butterfat consumption. In the last 10 years, the consumption of 2% milk has risen relative to the consumption of skim milk. Per capita consumption of all types of cream (from 10% to 35% butterfat) has increased by 27%. Since the fall 2013, Canadians have been rapidly increasing their retail purchases of butter and cheese. This increase was so rapid that milk production was not able to follow, and it was below demand for over a year. During this time, the CDC imported butter and cream under Supplementary Import Permits granted by Global Affairs Canada to ensure that the market was supplied. Due to several increases in producer quota, milk production in Canada has now caught up with demand and butter stocks are rebuilding rapidly.

<sup>17</sup> Source: [www.dairyinfo.gc.ca](http://www.dairyinfo.gc.ca)

<sup>18</sup> Replaced by the Dairy Innovation Program on August 1, 2013. Program parameters are essentially the same.

<sup>19</sup> Nutraceutical refers to foods thought to have a beneficial effect on human health. The classic example is yogurt with probiotics. Some specific milk proteins could also have benefits, but more research is needed.

<sup>20</sup> Mandate letter can be found in Appendix D.

### *Production*

According to the International Dairy Federation, the number of dairy farms in Canada has decreased by 2.9% between 2014 and 2016. This attrition rate compares to 3.4% for the United States, 4.9% for Germany and 4.2% for France. In Canada, the overall number of farms has decreased by 6% between 2011 and 2016, the years of the last two Census of Agriculture. This trend is expected to continue over the planning period. As a result, the remaining farms produce more milk<sup>21</sup> and generate more revenues per farm.

Due to a slowdown in market growth and strong production forecasted for the spring, the CDC expects milk production to be higher than demand in the coming months. The CDC is acting as a coordinator between provinces to place surplus milk. Investments announced by processors will alleviate the pressure in the future.

Table 3. Number of farms and production of milk per province in 2016-2017

Province	Number of farms on August 1, 2017		Milk production	
		%	M kg of butterfat	%
Newfoundland and Labrador	32	0.3	2.01	0.6
Prince Edward Island	166	1.5	4.76	1.3
Nova Scotia	213	1.9	8.00	2.2
New Brunswick	194	1.8	6.17	1.7
Quebec	5,368	49.0	133.38	37.3
Ontario	3,613	32.9	118.48	33.1
Manitoba	282	2.6	14.03	3.9
Saskatchewan	160	1.5	10.46	2.29
Alberta	523	4.8	29.89	8.3
British Columbia	400	3.7	31.03	8.7
Canada	10,951	100.0	358.21	100.0

### *Processing*

In the last 12 months, the situation in the processing sector continued to evolve. The agreement in principle between producers and processors, also known as the National Ingredient Strategy, led to the implementation of milk class 7. The CDC was party to the negotiations that resulted in the National Ingredient Strategy. Class 7 gave processors an overall decrease in milk protein price, allowing them to develop markets for Canadian solids non fat.

<sup>21</sup> Canada produces 14% more milk than 5 years ago to respond to domestic demand.

### *Trade*

WTO Members reached an agreement in Nairobi, Kenya, on export subsidies in the agriculture sector on December 19, 2015. According to the Nairobi Decision, Canada is to eliminate all export subsidies for dairy products by the end of 2020. In the meantime, Canada must limit its export subsidy volumes to the actual average of quantities exported in the 2003-2005 base period. Furthermore, there shall be no export subsidies used for either new markets or new products, or products destined for least developed countries.

Canada and the European Union (EU) concluded negotiations toward a Comprehensive Economic and Trade Agreement (CETA) in August 2014. This agreement will increase the EU access to the Canadian cheese market by 17,700 tonnes (approximately 4% of the annual cheese production in Canada) and will also give Canada duty-free access to the EU dairy markets. The implementation legislation (Bill C-30) received royal assent on May 16, 2017, and the provisional application of CETA began on September 21, 2017. These additional imports from the EU are taken into account when setting domestic milk production quota.

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's Gross Domestic Product. The US officially pulled out of this agreement in January 2017, but the remaining countries announced an agreement in principle in January 2018 on the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). This agreement was signed on March 8, 2018, in Chile and the implementing legislation will follow. The CPTPP includes access to the Canadian dairy market for other signatories' products such as butter, cream, and cheese. This will have an effect on the milk quota in Canada and the CDC will take these imports into account when calculating quota once the agreement enters into force.

The US invited its partners in the North American Free Trade Agreement (NAFTA) to renegotiate this important treaty.

### **Financial Trends**

After many years of low rates, interest rates have started to increase slowly. Given that the CDC borrows money from the Consolidated Revenue Fund and from a line of credit, increases in interest rates will increase the interest expense associated with the CDC's programs. However, the 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.

## **CORPORATE RESOURCES**

### **Financial Resources**

The CDC has four sources of revenues: appropriations, its commercial operations, funding 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 \$288.6 million in dairy products 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. Ninety-five percent of these charges are covered by dairy producers and funding from the marketplace. The rest is covered by revenues generated from the sale of imported butter.

Programs that the CDC operates on behalf of the industry are financed by producers and the marketplace. Two of these programs are the Domestic Seasonality Program and the Surplus Removal Program. In operating these programs, the CDC borrows from the Consolidated Revenue Fund and borrowing costs are covered by dairy producers and the marketplace. These loans must be approved by the Minister of Finance and are repaid according to 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 *Canadian Dairy Commission 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.

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.

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, where key groups such as economists and accountants receive higher salaries than in the public service. 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 as well as development paths for some groups such as economists and IT specialists. Furthermore, over 200 procedures have been documented. This allows for a smoother transition when an experienced employee leaves the CDC.

In June 2017, the CDC reviewed its workforce needs to continue to respond to increasing industry needs. As a result of this review, the Board approved the creation of 9 new FTEs.

### **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 and to administer programs. 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 Agriculture and Agri-Food Canada and has signed a lease agreement for the period of April 1, 2017, to March 31, 2022, with the possibility to renew for another 5-year period at the rental market value rates established by Treasury Board Policy on Management of Real Property.

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## **OBJECTIVES, STRATEGIES AND PERFORMANCE MEASURES**

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### **STRATEGIC PLANNING PROCESS**

The CDC strategic planning process engages the Board, the Senior Management Team (SMT) 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 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. Information on goals, objectives and activities is made available to employees before the start of the new dairy year.

This Corporate Plan Summary includes the output of the strategic planning process outlining how the CDC will perform its mission and fulfil its mandate in 2018-2019 and beyond. The CDC reviewed its five-year objectives in 2017-2018. These objectives remained the same for 2018-2019.

### **STRATEGIC THEMES AND STRATEGIES**

The CDC uses four strategic themes to present its goals and objectives for the coming period. The themes related to the dairy sector are: *Investment, innovation and growth in the Canadian dairy sector; CDC's role in the industry; and Administration of the milk supply management system.* Goals and objectives related to internal services, which support the mandate of the CDC, are still grouped together under the strategic theme *A Well-Managed CDC.* The relevance of strategic themes and objectives for the planning period is reviewed annually. Annual objectives are established under each theme.

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 next section of this plan.

## 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, the performance indicators associated with these goals and the objectives for 2018-2019. Specific targets associated with performance indicators can be found in Appendix B.

### *Strategic theme: Investment, Innovation and Growth in the Canadian Dairy Sector*

Under this strategic theme and in line with its mission of providing leadership to enhance the vitality of the Canadian dairy industry, the CDC will provide support and funding for market development. The CDC already has several programs in place that facilitate innovation and market growth<sup>22</sup>. These programs will continue.

#### Five-year goal:

- Investments and innovation have led to continuous market growth in the dairy industry.

#### Performance indicators:

- Number of litres of milk used in the Milk Access for Growth Program
- Market growth rate
- Number of innovative dairy products introduced through the Dairy Innovation Program

STRATEGY	OBJECTIVE FOR 2018-2019
Provide support and funding for market development	<ul style="list-style-type: none"><li>• Market Development Strategy implemented</li></ul>

### *Strategic theme: The Role of the CDC in the Industry*

The success of the milk supply management system rests in part on the cohesion that exists among the various players. As there can be conflicting interests between different players in the system, the presence of an effective facilitator is therefore helpful to maintain cohesion and the CDC, being national in scope and not profit oriented, has been playing this role.

Under this theme, the CDC has spent the last year adapting its programs and services to the evolution of the dairy industry in order to continue to be an effective facilitator and key contributor in the sector. Specific initiatives are inspired by results of an industry survey conducted in the winter 2016-2017 and outcomes will be measured by a similar survey that will be conducted in 2020. Other performance indicators will be used to measure the extent to which the industry considers the CDC as a valuable and reliable source of information.

#### Five-year goal:

- The CDC is valued as an effective facilitator and key contributor in the dairy industry

#### Performance indicators:

- Results of the survey on industry satisfaction

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<sup>22</sup> Such as the Dairy Innovation Program and the Milk Access for Growth Program.

- % CDC-led recommendations to industry committees that are accepted
- Number of invitations to speak/facilitate/train at non-CDC meetings
- Number of registrations to CDC online training modules

STRATEGY	OBJECTIVE FOR 2018-2019
Improve communications with the industry	<ul style="list-style-type: none"> <li>• Stakeholders' engagement is enhanced</li> </ul>

*Strategic theme: Administration of the Milk Supply Management System*

As the administrator of milk prices at the farm gate, production quotas, and revenue and market pooling, the CDC is responsible for the respect of federal-provincial agreements as well as for a series of calculations, money transfers, and audits. These various activities are important to ensure that the supply management system runs smoothly.

Under this strategic theme, the CDC's strategy involves both the day-to-day operation of the milk supply management system, and efforts to improve its administration. The day-to-day administration of the system includes the control of the quantity of milk produced in Canada, the operation of programs that compensate for the seasonality of consumption, and the administration of federal-provincial and international agreements<sup>23</sup>.

Five-year goal:

- A well administered, responsive and well-understood supply management system

Performance indicators:

- Time from receipt of pooling data to quota allocation and money transfers
- Number of audits
- Total producer revenue increase driven by growth
- Quota as a percentage of demand

STRATEGY	OBJECTIVE FOR 2018-2019
Promote a more market-responsive management of milk supply	<ul style="list-style-type: none"> <li>• The new quota management system is in place</li> </ul>
Ensure the respect of federal-provincial and international agreements	<ul style="list-style-type: none"> <li>• Initiate the modernization of the Comprehensive Agreement on Pooling of Milk Revenue and the <u>National Milk Marketing Plan</u> to reflect changes to the industry</li> <li>• Follow NAFTA negotiations</li> </ul>
Ensure that efficient producers receive fair returns	<ul style="list-style-type: none"> <li>• Stable or increasing producer revenues through market growth</li> <li>• Timely and accurate revenue pooling calculations</li> </ul>
Ensure Canadian production meets demand	<ul style="list-style-type: none"> <li>• Timely and sufficient supply of dairy products in the Canadian market</li> </ul>

<sup>23</sup> This entails ensuring Canada is compliant with WTO export subsidy commitments. In addition, the CDC imports the butter tariff rate quota as approved on an annual basis by the Global Affairs Canada.

	<ul style="list-style-type: none"> <li>• Timely and accurate allocation of quota to meet demand</li> </ul>
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*Strategic theme: A Well-Managed CDC*

The focus of the CDC is to ensure that it has the structure, tools, and resources to support the dairy industry into the future. Employee onboarding, retention, collaboration, and productivity will be front and centre.

Five-year goal:

- The CDC is organized and resourced to support the dairy industry into the future.

Performance indicators:

- Level of staff satisfaction as measured by an annual survey
- Number of tools or policies developed and adapted to better support the industry
- 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)

STRATEGY	OBJECTIVE FOR 2018-2019
Ensure a productive and engaged workforce	<ul style="list-style-type: none"> <li>• Improved employee onboarding and retention</li> <li>• Improved internal collaboration among teams</li> </ul>
Adapt the IT systems to the industry's environment	<ul style="list-style-type: none"> <li>• Implement the use of common communication platforms with industry</li> <li>• Improve Web services</li> <li>• Continue adapting IT systems</li> </ul>
Implement new or updated government policies	<ul style="list-style-type: none"> <li>• New government policies are assessed<sup>24</sup></li> </ul>

*Mandate Letter*

In compliance with the mandate letter that the minister of Agriculture and Agri-Food sent to the CDC Chairman in August 2016, the CDC continues to operate programs that advance science and innovation such as the Dairy Innovation Program and the Matching Investment Fund. Its Workforce Development Initiative includes a graduate scholarship program that will also contribute to the development of research capacity and new knowledge.

The CDC continues to review support prices annually and to monitor export subsidies and to prepare for the end of these subsidies as a result of the WTO Nairobi Decision.

<sup>24</sup> Namely the Policy on Government Security and the new Accessibility legislation

Where appropriate, the CDC collaborated with other government departments relative to trade agreements.

And finally, as far as supporting the Governor in council appointment process, the CDC provided the relevant government organizations with any information that they may need in order to conduct the appointment process relative to the position of CEO.

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## FINANCIAL INFORMATION

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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.

The CDC's budgeted financial tables are based on certain assumptions and projections while forecast figures are based partially on actual results up to January 31, 2018.

### ASSUMPTIONS

Financial statements assume that the CDC no longer purchases skim milk powder (SMP) at support prices and that the CDC will sell its current stocks of SMP into the animal feed market by the end of 2018-2019.

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

- The exchange rates used in these budgets are CAD\$1.30 per USD for 2017-2018 and CAD\$1.25 per USD for 2018-2019 through 2022-2023.
- The interest rates used for outstanding loans for 2017-2018 are 1.4%, 2.00% for 2018-2019, and 2.3% for 2019-2020 through 2022-2023.
- Interest rates on loans from the member of Canadian Payments Association will remain at prime which is estimated to be 3.6% for 2017-2018, 4.2% for 2018-2019, and 4.5% for 2019-2020 through to 2022-2023.

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 letters 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 2017, 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, 2017 - 2023

	(in thousands)							
	Actual Audited	Budget	Forecast	Budget				
	2016-2017	2017-2018	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
<b>Sales and Cost of Sales</b>								
Domestic sales revenue	\$ 321,804	\$ 226,786	\$ 286,555	\$ 247,522	\$ 221,595	\$ 222,603	\$ 223,616	\$ 224,633
Cost of goods sold - domestic	299,858	211,743	271,872	241,296	219,578	220,583	221,594	222,610
Transport and carrying charges	7,412	6,997	5,924	3,649	2,797	2,849	2,901	2,955
Finance costs	438	803	1,073	1,605	1,855	1,865	1,874	1,883
Gross profit (loss) on domestic sales	<u>14,096</u>	<u>7,243</u>	<u>7,686</u>	<u>972</u>	<u>(2,635)</u>	<u>(2,694)</u>	<u>(2,753)</u>	<u>(2,815)</u>
Export sales revenue	38,528	0	2,032	4,500	2,000	0	0	0
Cost of goods exported	37,932	0	1,996	4,419	1,964	0	0	0
Transport and carrying charges	2,154	0	21	73	27	0	0	0
Finance costs	12	0	0	0	0	0	0	0
Gross profit (loss) on export sales	<u>(1,570)</u>	<u>0</u>	<u>15</u>	<u>8</u>	<u>9</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total gross profit	<u>12,526</u>	<u>7,243</u>	<u>7,701</u>	<u>980</u>	<u>(2,626)</u>	<u>(2,694)</u>	<u>(2,753)</u>	<u>(2,815)</u>
<b>Other revenues</b>								
Funding from milk pools	7,039	7,364	8,355	8,287	9,831	10,211	10,542	10,879
Funding from the Government of Canada	3,795	3,660	3,904	3,855	3,830	3,830	3,830	3,830
Audit services	186	190	164	174	175	180	180	180
	<u>11,020</u>	<u>11,214</u>	<u>12,423</u>	<u>12,316</u>	<u>13,836</u>	<u>14,221</u>	<u>14,552</u>	<u>14,889</u>
<b>Total</b>	<b><u>23,546</u></b>	<b><u>18,457</u></b>	<b><u>20,124</u></b>	<b><u>13,296</u></b>	<b><u>11,210</u></b>	<b><u>11,527</u></b>	<b><u>11,799</u></b>	<b><u>12,074</u></b>
<b>Operating Expenses</b>								
Industry initiatives	399	9,146	4,176	12,796	5,296	2,296	2,046	2,046
Cost of Production study	825	863	837	851	868	886	903	922
Other charges / (recoveries)	345	63	122	152	167	176	179	166
	<u>1,569</u>	<u>10,072</u>	<u>5,135</u>	<u>13,799</u>	<u>6,331</u>	<u>3,358</u>	<u>3,128</u>	<u>3,134</u>
<b>Administrative Expenses</b>								
Salaries and employee benefits	6,085	6,655	6,528	7,358	7,450	7,543	7,638	7,733
Other administrative expenses	2,112	1,916	2,361	1,968	1,968	1,968	1,968	1,968
	<u>8,197</u>	<u>8,571</u>	<u>8,889</u>	<u>9,326</u>	<u>9,418</u>	<u>9,511</u>	<u>9,606</u>	<u>9,701</u>
<b>Total</b>	<b><u>9,766</u></b>	<b><u>18,643</u></b>	<b><u>14,024</u></b>	<b><u>23,125</u></b>	<b><u>15,749</u></b>	<b><u>12,869</u></b>	<b><u>12,734</u></b>	<b><u>12,835</u></b>
<b>Profit before distribution to provincial milk boards and agencies</b>	<b><u>13,780</u></b>	<b><u>(186)</u></b>	<b><u>6,100</u></b>	<b><u>(9,829)</u></b>	<b><u>(4,539)</u></b>	<b><u>(1,342)</u></b>	<b><u>(935)</u></b>	<b><u>(761)</u></b>
Distribution to provincial milk boards and agencies	8,400	8,718	10,565	3,837	390	383	384	386
<b>Results of operations and comprehensive income (loss)</b>	<b><u>\$ 5,380</u></b>	<b><u>\$ (8,904)</u></b>	<b><u>\$ (4,465)</u></b>	<b><u>\$ (13,666)</u></b>	<b><u>\$ (4,929)</u></b>	<b><u>\$ (1,725)</u></b>	<b><u>\$ (1,319)</u></b>	<b><u>\$ (1,147)</u></b>

CANADIAN DAIRY COMMISSION  
BORROWING PLAN  
for the Dairy Years ended July 31, 2017 - 2023

(in thousands)

**Consolidated Revenue Fund**

Loan transactions	Actual	Forecast	Projected				
	Audited 2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Balance at beginning of year	\$ 94,192	\$ 118,714	\$ 120,440	\$ 118,592	\$ 127,594	\$ 129,962	\$ 131,866
Drawings	266,045	160,000	160,000	160,000	160,000	160,000	160,000
Repayments	(241,523)	(158,274)	(161,848)	(150,998)	(157,632)	(158,097)	(158,232)
Balance at end of year	\$ 118,714	120,440	118,592	127,594	129,962	131,866	133,634
Average level during year:	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000
Highest level during year:							
Month	July	July	July	July	July	July	July
Amount	\$ 118,000	\$ 126,000	\$ 125,000	\$ 130,000	\$ 130,000	\$ 130,000	\$ 130,000

**Member of Canadian Payments Association**

Loan transactions	Actual	Forecast	Projected				
	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Balance at beginning of year	\$ 4,030	\$ 5,989	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000
Drawings	39,428	50,000	50,000	50,000	50,000	50,000	50,000
Repayments	(37,469)	(51,989)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
Balance at end of year	\$ 5,989	4,000	4,000	4,000	4,000	4,000	4,000

**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 \$175 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

- purchase any dairy product and sell, or otherwise dispose of, any dairy product purchased by it;
- 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  
 STATEMENT OF COSTS FINANCED BY THE GOVERNMENT OF CANADA  
 for the Fiscal Years ending March 31, 2017 - 2023

(in thousands of dollars)

	Actual 2016-2017	Forecast 2017-2018	Budget					
			2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	
Administrative expenses								
CDC appropriation Vote 1	\$ 3,590	3,829	3,755	3,755	3,755	3,755	3,755	
Eligible payroll expenditures	184	100	100	75	75	75	75	
Total costs financed by the Government of Canada	<u>\$ 3,774</u>	<u>\$ 3,929</u>	<u>\$ 3,855</u>	<u>\$ 3,830</u>	<u>\$ 3,830</u>	<u>\$ 3,830</u>	<u>\$ 3,830</u>	

CANADIAN DAIRY COMMISSION  
CAPITAL BUDGET  
for the Dairy Years ended July 31, 2017 - 2023

(in thousands)

	Actual	Forecast	Budget				
	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>	<u>2020-2021</u>	<u>2021-2022</u>	<u>2022-2023</u>
Capital	\$ 20	\$ 86	\$ 0	\$ 0	\$ 35	\$ 0	\$ 0
Total capital budget	<u>\$ 20</u>	<u>\$ 86</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 35</u>	<u>\$ 0</u>	<u>\$ 0</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.

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## APPENDICES

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### APPENDIX A GLOSSARY OF DAIRY TERMS

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#### **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.

#### **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.

#### **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 cooperatives that buy raw milk and manufacture fluid milk and cream, or other dairy products.

#### **Skim milk powder (SMP)**

A finished product that contains 96% skim milk solids 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 Price**

The support price is the price at which the CDC offers to purchase domestically produced butter under its Domestic Seasonality programs.

**Tariff Rate Quota (TRQ)**

A quantity of products that can be imported in a country at little or no tariff. For example, Canada's TRQ for butter is 3,274 tonnes as part of its commitments to the World Trade Organization.

**APPENDIX B  
DELIVERY AND EXPECTED RESULTS**

<b>Outcome</b>	<b>Performance indicator</b>	<b>Baseline</b>	<b>2018-2019 Target</b>	<b>2022-2023 Target</b>	<b>Data Strategy</b>
Investments and innovation have led to continuous market growth in the dairy sector	Number of litres used in the Program (MAG)	0 (2017-2018)	21 million litres in 2018-2019	160 million litres in 2022-2023	Annual pull of data from MAG program
	Market growth rate related to CDC activities	Data not available	0.5 % in 2018-2019	4% (cumulative)	Annual growth in milk requirements related to CDC programs
	Number of innovative dairy products introduced through the Dairy Innovation Program (DIP)	2 (2016-2017)	2 in 2018-2019	10 (cumulative)	Annual pull from DIP files
	Results of survey on industry satisfaction	0.07 on a scale of -2 to +2 (2016-2017)	None <sup>25</sup>	Ratings improved by 20%	Satisfaction rates from survey
The CDC is valued as a neutral facilitator and key contributor in the dairy industry	% of CDC-led recommendations to industry committees that are accepted	Data not available	75% in 2018-2019	85% in 2022-2023	Compilation by Policy and Economics
	Number of <u>invitations</u> to speak/facilitate/train at non-CDC meetings (excluding reports to provincial boards' AGMs)	Data not available	12 in 2018-2019	20 in 2022-2023	Compilation by CEO office
	Registration to online training modules	Data not available	10 in 2018-2019	15 in 2022-2023	Compilation by Communications

<sup>25</sup> A survey was performed in 2016-2017 and will serve as a baseline. The survey will be repeated in 2019-2020.

<b>Outcome</b>	<b>Performance indicator</b>	<b>Baseline</b>	<b>2018-2019 Target</b>	<b>2022-2023 Target</b>	<b>Data Strategy</b>
A well administered, responsive and well-understood supply management system	Time from receipt of pooling data to quota allocation and money transfers	8 days maximum (2016-2017)	8 days maximum	8 days maximum	Data from Finance and Administration
	Number of audits	100 audits of Class 3d 40 audits of Special Milk Class Permit Program participants (2016-2017)	20 audits of Class 3d 40 audits of Special Milk Class Permit Program participants 51 audits of class 7 in 2018-2019	20 audits of Class 3d 40 audits of Special Milk Class Permit Program participants 42 audits of class 7 in 2022-2023	Audit & Evaluation data
	Total producer revenue increase driven by growth	1% (evaluation, data not previously measured)	1% in 2018-2019	1% in 2022-2023	Pooling data
	Quota as a percentage of demand	Quota is between 99% and 101% of demand (2016-2017)	Quota is between 99% and 101% of demand	Quota is between 99% and 101% of demand	Data from Policy and Economics
The CDC is organized and resourced to support the dairy industry into the future	Level of staff satisfaction as measured by an annual survey	92% (2016-2017)	80 % or more	90% or more	Data from annual employee satisfaction survey
	Number of tools or policies developed and adapted to better support the industry	2 (2016-2017)	4 in 2018-2019	4 in 2022-2023	Data from Information Technology team and Senior Management Team