



Canadian Dairy  
Commission

Commission  
canadienne du lait

# CORPORATE PLAN SUMMARY FOR 2011-2012 TO 2015-2016

---

OPERATING AND CAPITAL BUDGETS  
FOR THE DAIRY YEAR ENDING JULY 31, 2012

Corporate Plan dated April 1, 2011

# TABLE OF CONTENTS

---

EXECUTIVE SUMMARY .....	II
PROFILE OF THE CANADIAN DAIRY COMMISSION .....	3
CDC at a glance .....	3
Mission .....	3
Overview of the Canadian dairy industry .....	3
Mandate and public policy role .....	4
Official languages .....	6
Organization and Structure .....	6
STRATEGIC ISSUES FOR THE PLANNING PERIOD .....	8
Assessment of results for 2010-2011 .....	8
Analysis of the external environment .....	12
Assessment of CDC resources .....	13
STRATEGIES, GOALS AND PERFORMANCE MEASURES .....	15
Description of strategies .....	15
Goals, objectives and performance measures .....	17
FINANCIAL INFORMATION .....	24
Major assumptions used in the preparation of the budget and forecast .....	24
APPENDIX A .....	30

# EXECUTIVE SUMMARY

In 2009, milk production in Canada generated total net farm receipts of \$5.5 billion and sales of \$13.6 billion, representing 15% of the Canadian food and beverage sector. The Canadian Dairy Commission (CDC), a Crown corporation created in 1966, plays a key role in ensuring that Canadians have a continuous supply of milk and other dairy products available and seeks to ensure that efficient producers have the opportunity to obtain a fair return on their labour and investment. It is led by a board of three part-time GiC appointees.

The CDC receives funding from several sources: government appropriations (about half of its administrative budget), dairy farmers, commercial operations, and the marketplace. It is currently in sound financial position and has followed the cost containment measures contained in the 2010 Federal Budget.

Of the objectives that the CDC has set for itself for 2010-2011, most have already been achieved. However, certain objectives have been deferred or abandoned altogether where industry readiness was a concern or where new priorities emerged.

For next year (2011-2012), the CDC presents its goals and objectives differently than was done in the past. This change was necessary to follow one of the recommendations contained in the Special Examination Report that the Office of the Auditor General (OAG) presented to the CDC Board in March 2011. The OAG asked that CDC's activities be linked to its legislated mandate, as contained in the *Canadian Dairy Commission Act*. For 2011-2012, the three overall goals of the CDC are therefore:

1. To provide efficient producers of milk and cream with the opportunity to obtain a fair return for their labour and investment.
2. To provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality.
3. To improve the CDC.

The third goal was added to continue to improve the operations of the CDC and to include the measures that the CDC needs to take occasionally to conform to government policies such as the new Values and Ethics Code.

From the positive balance generated by its commercial operations, the CDC will continue to finance specific projects that benefit the Canadian dairy industry. Such projects include scholarships for graduate students, the Dairy Marketing Program, support for the Canadian Quality Milk Program (a HACCP-based program that is designed to increase the quality of the milk delivered by Canadian dairy farms), and a partnership with producers and Agriculture and Agri-Food Canada to finance dairy research.

# PROFILE OF THE CANADIAN DAIRY COMMISSION

---

## CDC AT A GLANCE

---

Created in 1966

58 employees (as of April 1, 2011)

Location: Ottawa

Web site: [www.cdc-ccl.gc.ca](http://www.cdc-ccl.gc.ca)

Budget 2011-2012 (fiscal year): \$8.086 million

Dairy year: August 1<sup>st</sup> to July 31<sup>st</sup>

Legislation: *Canadian Dairy Commission Act* and Dairy Products Marketing Regulations  
*Financial Administration Act*  
*Public Service Labour Relations Act*  
*EEC Aged Cheddar Cheese Export Regulations*

---

## MISSION

---

***“To enhance the vitality of the Canadian dairy industry for the benefit of all stakeholders.”***

The Canadian Dairy Commission (CDC) will achieve its mission by administering the dairy supply management system and by providing leadership and guidance to dairy industry stakeholders.

---

## OVERVIEW OF THE CANADIAN DAIRY INDUSTRY

---

The Canadian Dairy Commission operates mainly in the domestic dairy market, although it also performs as a trading agency on international markets. The Canadian dairy industry operates on a “dairy year” basis, which runs from August 1 to July 31. Most dairy policy decisions are made by a federal-provincial committee called the Canadian Milk Supply Management Committee<sup>1</sup> (CMSMC). The Canadian dairy industry benefits from a supply management system where raw milk production is kept in line with demand using production quotas. The quota for industrial milk used to manufacture dairy products such as butter, cheese and yogurt, is called Market Sharing Quota, or MSQ. Other key elements of supply management include regulated farm prices and import controls.

As a key contributor to the Canadian economy in the 2009 calendar year, the dairy industry ranked third behind grains and red meats, generating \$5.5 billion in total net farm receipts. The same year, the dairy processing industry generated \$13.6 billion worth of products shipped from approximately 452 processing plants (272 of which are federally registered) accounting for 15% of all processing sales in the food and beverage industry. The dairy processing sector employs 22,730 people.

---

<sup>1</sup> Underlined words and phrases are described in Appendix A.

---

## MANDATE AND PUBLIC POLICY ROLE

---

The Canadian Dairy Commission is a Crown corporation which was established in 1966 with the mandate of coordinating federal and provincial dairy policies and creating a control mechanism for milk production which would help stabilize revenues and avoid costly surpluses. The *Canadian Dairy Commission Act* states that 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.*

Through its Act, the CDC gets all the necessary powers to intervene in the Canadian dairy industry when production quota or prices need to be adjusted, producers want to pool markets and revenues and surplus products have to be disposed of. The Commission uses these powers with extreme care so as not to artificially disturb market conditions beyond the obvious impacts of a supply management system such as price and production controls.

The CDC also acts as a facilitator and stakeholder in the various forums that influence dairy policy in Canada and offers a framework for the management of the industry as a whole, which is a jurisdiction shared by the federal government and the provinces.

Since supply management was first applied to the dairy sector, the CDC has been in charge of two of the three pillars of the system: support prices and industrial milk quota. Once a year, the CDC sets the support price of butter and skim milk powder following consultations with industry stakeholders. These prices are used as a reference by the provincial milk marketing boards to establish the price of industrial milk in each province. The CDC also monitors national production and demand and recommends the necessary adjustments to the national production target for industrial milk.

Through its many roles and central position in the dairy industry, the CDC ensures that Canadian dairy farmers receive sufficient revenues from the marketplace to achieve decent living standards and invest in their businesses. The CDC also ensures that milk production in Canada matches demand from Canadian consumers. It is important that there is never a shortage of dairy products and it is just as important to avoid production surpluses that are costly to handle, store and dispose of.

To achieve its mandate, the CDC works with provincial governments and dairy industry stakeholders such as dairy producers, processors, further processors and consumers. The CDC, on the federal government's behalf, oversees the core features of the current orderly marketing approach in the dairy sector. In addition, the CDC facilitates and supports the dairy industry in the development and implementation of major programs. On the industry's behalf, the CDC administers the Special Milk Class Permit Program<sup>2</sup>, the Domestic Dairy Product Innovation Program, the Dairy Marketing Program as well as the pooling systems.

The CDC chairs the Canadian Milk Supply Management Committee (CMSMC) and in this capacity, appraises the committee on matters of interest or concern that require resolution and, when necessary,

---

<sup>2</sup> A description of CDC's programs can be found at [www.cdc-ccl.gc.ca](http://www.cdc-ccl.gc.ca).

proposes various solutions, alternatives or recommendations which could contribute to more orderly and efficient marketing and therefore avoid large deficit or surplus milk production. The CDC performs a similar role with regional industry decision making bodies that manage regional revenue and market pooling agreements.

The activities of the Canadian Dairy Commission are separated into two overall goals that fall in three of the 16 outcome areas of the Government of Canada. These outcome areas are :

- Strong economic growth
- A fair and secure marketplace
- Healthy Canadians

Each overall goal represents a part of the mandate outlined in the *CDC Act* and contains several activities. Internal services such as Human Resources, Finance, and Communications, act in support of the goals and activities as illustrated in figure 1.

Figure 1. Activities of the CDC as they relate to its legislated mandate and GoC outcome areas

	<b>Goals</b>	<b>Activities</b>	<b>GoC Outcome Areas</b>
I N T E R N A L	To provide efficient producers of milk and cream with the opportunity to obtain a fair return for their labour and investment	Pricing of industrial and fluid milk	Strong economic growth
		Market development	
		Pool administration	
		External Audits	
S E R V I C E S	To provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality	National industrial milk supply	Fair and secure marketplace Strong economic growth Healthy Canadians
		Seasonality programs	
		Canadian Quality Milk program <sup>3</sup>	

<sup>3</sup> This program is administered by Dairy Farmers of Canada. The CDC reimburses \$300 to each producer who gets validated under the program. The aim of the program is to improve the quality of raw milk.

---

## OFFICIAL LANGUAGES

---

The *Official Languages Act* applies to the Canadian Dairy Commission. Since CDC's offices are in the National Capital Region, 95% 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.

---

## ORGANIZATION AND STRUCTURE

---

As of April 1, 2011, the governing board is composed of the following three members:

**Randy Williamson, Chairman (mandate ends July 2013)**

Mr. Williamson has a Marketing Diploma from the University of Western Ontario and a Sales and Marketing Diploma from the University of British Columbia. He has over 30 years of experience in the dairy processing industry. He began his career with Fraser Valley Milk Producers in 1974, moving to Dairyland Foods in 1986, and subsequently to Dairyworld Foods in 1992 and to Saputo in 2001, where he remained until his retirement in 2006.

Mr. Williamson also has extensive board experience as Director of the National Dairy Council (1990-2006), Director of the Nova Scotia Dairy Council (1998-2005), and President of the British Columbia Dairy Council (1994-1996).

**Gilles Martin, Commissioner (mandate ends July 2013)**

Mr. Martin has a post-secondary degree in Zootechnology from the Institut de technologie agroalimentaire in La Pocatière. He has been involved in the milk producing industry since 1977, and operates a dairy farm in Rivière-Ouelle, Quebec.

Over the past 20 years, Mr. Martin has been a respected member of the Union des producteurs agricoles, and has held various positions within the organization, notably President of his regional farmers' union, the Fédération de l'Union des producteurs agricoles de la Côte-du-Sud, and as a member of the Board of Directors of the Syndicat des producteurs de lait de la Côte-du-Sud. Presently, he is also the President and a founding member of the Centre de développement bioalimentaire du Québec, an agri-food research and development centre, and a board member of the agri-food co-operative Groupe Dynaco.

**John Core, CEO (mandate ends October 2011)**

Mr. Core holds a Masters degree from the University of Guelph. He was a lecturer at Ridgetown College in Ontario at the beginning of his career. He then owned and operated a dairy and cash crop farm in Lambton County, Ontario, with his brothers. During his dairy farming years, Mr. Core was a board member for Dairy Farmers of Ontario from 1981 to 2001. He chaired this organization from 1990 to 2001. He was also a member of the board of Dairy Farmers of Canada from 1986 to 2001, and was the organization's President between 1999 and 2001. He is currently a member of the boards of the Guelph General Hospital and The Royal Agricultural Winter Fair.

All positions are part-time and are appointed by the Governor in Council.

The mandate of the current CEO will expire in October 2011. Minister Ritz is responsible for recommending a candidate to the Governor in Council. A process to find a new CEO is already underway, led by the Privy Council Office (PCO) and including the CDC, AAFC and the office of Minister Ritz.



# STRATEGIC ISSUES FOR THE PLANNING PERIOD

---

## ASSESSMENT OF RESULTS FOR 2010-2011

---

The goals set by the Canadian Dairy Commission (CDC) for the current dairy year, along with a brief summary of the status of achievement of each goal, are described below. These goals and objectives were presented in last year's Corporate Plan using a different approach from the one that we use this year to present goals for 2011-2012 and beyond. That is why the goals and objectives below do not correspond to the model on page 5.

As the readers look at the status of achievement for each goal, they must keep in mind that the current dairy year will end on July 31, 2011.

### STRATEGIC GOALS

#### **Goal 1. The Canadian dairy industry successfully adapts to change.**

Objective	Performance indicators for 2010-2011	Results August 1, 2010 to April 1, 2011
Key dairy industry stakeholders are discussing the evolution of the dairy industry within supply management.	<ul style="list-style-type: none"> <li>• Consultations were held with key industry stakeholders.</li> <li>• A summary report and recommendations were written and circulated to stakeholders.</li> <li>• The Commission consulted on, and adopted a new methodology for establishing support prices.</li> </ul>	<ul style="list-style-type: none"> <li>• The CDC attempted to undertake these consultations but the industry chose not to participate. The CDC, in collaboration with Dairy Farmers of Canada (DFC) held other consultations on the implementation of a national pool for all milk, as mandated by the Canadian Milk Supply Management Committee (CMSMC).</li> <li>• The Commission held consultations and adopted a new methodology to calculate the cost of production used in the establishment of support prices.</li> </ul>
The CDC is better prepared to deal with potential issues impacting the industry.	<ul style="list-style-type: none"> <li>• A review of the current provincial and federal legal frameworks was performed and a summary was prepared and circulated to stakeholders.</li> <li>• Monthly reports and specific analysis on trade negotiations were presented to the</li> </ul>	<ul style="list-style-type: none"> <li>• The review of the federal legal framework is completed. Information has now been received from provinces and the review of the provincial legal framework can start.</li> <li>• Trade negotiations are monitored on an ongoing basis and specific analysis is done as required.</li> </ul>

Objective	Performance indicators for 2010-2011	Results August 1, 2010 to April 1, 2011
	<p>Commission.</p> <ul style="list-style-type: none"> <li>• Reports on the effectiveness of the current tariffs for dairy products were prepared and circulated to the industry.</li> <li>• The CDC Web site was redesigned to include new interactive tools for efficient information flow.</li> </ul>	<ul style="list-style-type: none"> <li>• The effectiveness of current tariffs for dairy products is monitored monthly in collaboration with Agriculture and Agri-Food Canada (AAFC).</li> <li>• A new Web site was launched in July 2010. It includes the online version of the orientation session for decision makers of the industry. Interactive tools are being developed.</li> </ul>
<p>Facilitate further harmonization within the pools and at the national level in order to be better positioned for a national pool.</p>	<ul style="list-style-type: none"> <li>• The Quebec/Ontario Milk Allocation Working Group reconvened negotiations.</li> <li>• The Maritimes Milk Allocation Working Group has completed its analysis and prepared a report.</li> <li>• Harmonized policies were presented to provincial boards for approval and eventually, implementation.</li> <li>• A meeting of provincial auditors was held to identify differences in milk use declaration and audit procedures and to recommend best practices for harmonization.</li> <li>• Progress was achieved on various files such as fluid milk component pricing, the Domestic Dairy Product Innovation Program (DDPIP), and East-West pricing.</li> </ul>	<ul style="list-style-type: none"> <li>• Negotiations have not reconvened due to pending interpretation of a decision by the Régie des marchés agricoles et alimentaires du Québec.</li> <li>• The report was presented to processors and detailed negotiations are now underway between producers and processors.</li> <li>• In the Western Milk Pool, provisions on yards, lanes and milk receiving have been drafted and are being considered by provincial boards and stakeholders.</li> <li>• Provincial auditors met and recommended best practices for harmonization. Revisions to the Milk Utilization Audit Standards were adopted by the CMSMC.</li> <li>• The industry agreed to set up a committee to review the national fluid milk pricing formula; a report on the DDPIP was provided at the January meeting of the CMSMC; and the CMSMC agreed to reduce the landed cost differential for industrial milk to 2% for class 2 and 1% for classes 3 and 4<sup>4</sup>.</li> </ul>

<sup>4</sup> Definitions of milk classes can be found at <http://www.cdc-ccl.gc.ca/CDC/index-eng.php?id=3811>

Objective	Performance indicators for 2010-2011	Results August 1, 2010 to April 1, 2011
	<ul style="list-style-type: none"> <li>• Reports presented to each pool were harmonized and simplified.</li> </ul>	<ul style="list-style-type: none"> <li>• The calculation of component price adjustments for milk in classes 1 to 4 was harmonized, along with reporting.</li> </ul>

**Goal 2. The Canadian dairy industry takes a strategic approach to market development.**

Objective	Performance indicators for 2010-2011	Results August 1, 2010 to April 1, 2011
Grow the demand for milk components.	<ul style="list-style-type: none"> <li>• The new DDPIP program was agreed to and implemented by the CMSMC.</li> <li>• \$1.5 million were allocated to projects under the Matching Investment Fund<sup>5</sup> (MIF).</li> <li>• The CMSMC made a decision on a methodology to introduce and remove the growth allowance.</li> <li>• A market development committee for processors was created, held meetings and its recommendations were shared with the Market Committee and the CMSMC.</li> </ul>	<ul style="list-style-type: none"> <li>• DDPIP was extended with different market sharing provisions for a one-year period to July 2011.</li> <li>• 4 new MIF proposals have been submitted for review since August 2010, amounting to \$310,000 in potential funding.</li> <li>• The CMSMC approved a proposal on a method to introduce and remove the growth allowance.</li> <li>• The CDC approached the association of processors about creating such a committee but there was no appetite on their part. This project has therefore been set aside.</li> </ul>
Optimize producer returns for solids non fat (SNF) and further reduce closing skim milk powder (SMP) inventories from 20,000 to 10,000 tonnes.	<ul style="list-style-type: none"> <li>• Use of milk protein concentrates in class 4(m) has increased.</li> <li>• Use of SNF in class 4(a)1 went from 18,000 to 20,000t.</li> <li>• Use of SNF in Special Classes went from 8,000 to 10,000 t.</li> <li>• Inventories of SMP are at 10,000 t.</li> </ul>	<ul style="list-style-type: none"> <li>• Use of milk protein concentrates in class 4(m) has increased.</li> <li>• Projected utilization of SNF in class 4(a)1 for the year is 20,000 t.</li> <li>• The use of SNF in Special Classes is on target to increase from 8,000 to 10,000 t.</li> <li>• Inventories of SMP are at 13,000 t as of April 1, 2011, on target to be below 10,000 t by July 31.</li> </ul>

<sup>5</sup> This CDC program offers funding, on a matching basis, to companies who want to create or modify food products in order to increase the use of milk ingredients. It is a 3-year program in which the CDC can invest \$2 million/year.

**Goal 3. The CDC is a dynamic, learning organization that lives its values.**

Objective	Performance indicators for 2010-2011	Results August 1, 2010 to April 1, 2011
Continue the implementation of the succession plan.	<ul style="list-style-type: none"> <li>• Potential successors were identified for each key position.</li> <li>• Development plans were designed for each potential successor.</li> </ul>	<ul style="list-style-type: none"> <li>• Potential successors were identified during the 2009-2010 end-of-year performance reviews.</li> <li>• A selection committee will assess the candidacies before development plans are designed.</li> </ul>
Attract and retain employees.	<ul style="list-style-type: none"> <li>• A framework for alternative working arrangements was established, policies modified or written accordingly and acceptable arrangements presented to CDC employees.</li> <li>• The Board made a decision on the renewal of the Scholarship Program.</li> <li>• Managers and staff were made aware of the existence of “non traditional” learning activities and 10 staff members have included them in their development plans.</li> <li>• Scenarios were prepared and the Commission made a decision whether or not to amend the <i>CDC Act</i> to allow for increased mobility of CDC employees within the public service.</li> </ul>	<ul style="list-style-type: none"> <li>• Alternative working arrangements were explored. The CDC decided not to pursue them at this time.</li> <li>• The Board decided to renew the Scholarship Program.</li> <li>• The CDC explored “non-traditional” learning activities for staff development.</li> <li>• Employee mobility options were explored but not pursued as they would require amendments to the <i>CDC Act</i>, which does not seem desirable at this time.</li> </ul>
Deal with emerging and existing governance trends.	<ul style="list-style-type: none"> <li>• The recommended governance structure of the CDC was implemented in partnership with government bodies.</li> <li>• Systems are ready to prepare financial statements using both the GAAP and the IFRS.</li> <li>• An assessment of the resources needed to comply with government security policies</li> </ul>	<ul style="list-style-type: none"> <li>• The CDC put forward its position to government bodies for consideration.</li> <li>• An assessment of the potential impact of the transition to IFRS is almost complete. No significant impact on the existing financial and reporting systems is expected and transition to IFRS is on track for August 2012.</li> <li>• The assessment is almost completed and the Health and Safety Committee of the CDC</li> </ul>

Objective	Performance indicators for 2010-2011	Results August 1, 2010 to April 1, 2011
	was prepared and submitted to the senior management team.	will make recommendations to management on policy changes before the end of the dairy year.

---

## ANALYSIS OF THE EXTERNAL ENVIRONMENT

---

### Trends in the dairy industry

Because of the supply management system, the environment in which the CDC operates is more stable than dairy industries in other countries and more stable than some other agricultural industries in Canada. The support of the Canadian and provincial governments for this system bodes well for the stability of our environment and the industry generally enjoys a positive public image. The Canadian dairy industry is highly regulated and organized and over the years, it has developed some excellent risk mitigation tools such as the pooling of markets and revenues as well as innovation incentives such as the Matching Investment Fund. It is also worth noting that most of the industry, whether at the farm or at the plant, is profitable while consumers enjoy a continuous supply of dairy products at predictable prices.

The trend toward the harmonization of policies among provinces that started three years ago is still strong, especially in the Western provinces. These provinces commissioned a study on the potential for harmonization and are now following up on the recommendations of the report. In the Eastern provinces harmonization is slowing down except in the case of milk allocation to processing plants in the Maritimes. Detailed discussions have started between marketing boards and processors of New Brunswick, Nova Scotia and Prince Edward Island to find a common policy.

Discussions are also ongoing with provincial auditors who are responsible to audit milk utilization at the plant level in order to choose and promote uniform best practices across the country during those audits. The CDC acts as a facilitator and a technical advisor in the discussions and negotiations that lead to greater harmonization. The results of greater harmonization are a simpler milk marketing system and a more level playing field for both producers and processors.

Differences in provincial legislations may well become an obstacle to the harmonization of dairy policies between provinces. To measure the extent of this potential obstacle, the CDC initiated, in collaboration with provinces, a comparative analysis of provincial regulations that are related to milk and dairy products. The results of this analysis will be presented to provincial governments and industry stakeholders.

The industry is not without its challenges. Its markets are mostly mature, growth is expected to be modest and there might be limited opportunity for expansion both at the farm and at the plant level. In addition, the industry faces competition from substitute products. Soy milk, cheese analogs, frozen deserts and dairy beverages are serious contenders for the markets traditionally occupied by milk, mozzarella, ice cream and chocolate milk. This substitution limits even more the market growth for dairy producers and processors. Still, demand for dairy products in Canada continues to rise slowly. Canadian requirements for dairy products increased by 2% in 2009-2010 and by 7% in the last 5 years. The popularity of products such as yogurt and specialty cheeses keeps increasing. The CDC will continue to follow trends in demand and adjust milk quota accordingly.

On the international front, negotiations have picked up at the World Trade Organization but it is unclear at this time whether or not a new trade agreement will come into force in the next dairy year (2011-2012). Furthermore, negotiations between Canada and the European Union are progressing and it is possible that an agreement will be reached within the next year. The impacts of such an agreement on the Canadian dairy industry are not clear for the time being.

The CDC monitors trade negotiations and market fluctuations very closely. It is expected that any new trade deal will have more impact on the dairy industry than on the organization itself. The current trade rules already pose a risk to the domestic dairy market. World dairy prices and exchange rates are increasingly volatile. The tariff wall that protects domestic markets from large volumes of imports has been threatened on a few occasions in the past years. Although world prices are relatively high right now, these high prices tend to be followed by lower prices. It is possible that at some point, world prices will be low enough that butter, for example, could be imported despite the tariffs imposed at the border and transportation costs. The risk is even higher when the Canadian dollar is strong. Depending on the volumes, such imports could disrupt milk supply management significantly. In response to such concerns, the Government has made the WTO Special Agricultural Safeguard for supply-managed products ready for implementation as required.

### **Financial trends**

After several years of low interest rates, the CDC expects to see them rise in 2011-2012. Given that the CDC borrows money from the Consolidated Revenue Fund and from a line of credit, an increase in interest rates has 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 Canadian consumers, depending on programs. Therefore, increases in interest rates will have no impact on the financial results of the CDC.

Starting with dairy year 2011-2012, the CDC will change its basis for accounting from generally accepted accounting principles to International Financial Reporting Standards (IFRS). The CDC's accounting systems are gradually being prepared for this change and the new standards are not expected to significantly impact the CDC's financial results.

---

## **ASSESSMENT OF CDC RESOURCES**

---

### **Financial resources**

Approximately half of the CDC's administrative budget comes from federal government appropriations whereas the other half comes from dairy producers, the marketplace and commercial operations. Programs that the CDC operates on behalf of the industry are financed by producers and the marketplace (consumers). Two of these are the Domestic Seasonality Program and the Surplus Removal Program. The operation of these programs uses borrowings from the Government of Canada and costs are covered by dairy producers and the marketplace. Industry support initiatives such as scholarships, the Canadian Quality Milk Program and the Matching Investment Fund are financed by margins on commercial operations.

The CDC is responding to the cost containment measures of the 2010 federal Budget by doing everything in its power to contain costs and control discretionary spending. The CDC has therefore forecasted government appropriations at their 2010-2011 (fiscal) levels in its administrative budget for the next two years. The administrative budget that the Commission approved for dairy year 2011-2012 is the same as for the previous year.

## **Human resources**

The CDC's employees are knowledgeable and experienced within their respective specialized field. The CDC invests in training and development to ensure that employees succeed at meeting CDC's goals. Every year, the CDC allocates the equivalent of 1.5% of its payroll expenses to training and professional development. It also has a generous training policy that makes it easier for CDC staff to earn a university degree or a professional designation.

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 stiff competition from other government departments and the private sector to replace people who either move on or retire. New generations entering the job market have priorities that differ from those of previous generations and the job market is such that they have a choice. To respond to these trends, the CDC has developed a succession plan for its key positions and is in the process of implementing it. The CDC has also modernized its Orientation Manual for new employees.

In addition, in an attempt to satisfy increases in stakeholder demands using a small workforce, the CDC continues to automate and streamline as many processes as possible to increase efficiency.

## **Material resources**

The CDC does not own real estate, vehicles, or specialized equipment. 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 and therefore material resources are deemed to be adequate.

The CDC leases office space from Agriculture and Agri-Food Canada under a five-year lease which is due to expire at the end of March 2012. The CDC received a letter from Agriculture and Agri-Food Canada indicating their intent to renew the lease at market rate. The CDC therefore intends to remain in its current location.

# STRATEGIES, GOALS AND PERFORMANCE MEASURES

---

## DESCRIPTION OF STRATEGIES

---

Following a recommendation contained in the Special Examination performed by the Office of the Auditor General (OAG) in 2010, the CDC is changing the format and content of this section of its Corporate Plan Summary. In the past, the CDC only presented objectives that were of a strategic nature; in other words, what the CDC intended to do to adapt and respond to a changing environment. According to the OAG, this method did not provide assurance that the CDC also performed its core mandate. The OAG therefore recommended that the objectives of the CDC be tied to the mandate of the organization as it is written in the *CDC Act*. To follow this recommendation, the CDC grouped all its operational activities under one or the other of the two parts of its legislated mandate. These activities are therefore found under the business segment *Producer revenue*, or the business segment *Supply of dairy products*. Each of these business segments has an overall goal that is one part of our legislated mandate. Non strategic objectives (expected results) are found in a table, whereas strategic activities are explained in the text that follows the table for each business segment. Initiatives related to internal services, which simply support the legislated mandate, have been grouped together under the business segment *Improve the CDC*.

Expected results, performance indicators and strategic activities will be reviewed every year and are subject to change based on the policy decisions made at the Canadian Milk Supply Management Committee, the conclusions of the current trade negotiations, and the general orientations of the federal government.

*a) Business segment: Producer revenue*

**Goal 1. To provide efficient producers of milk and cream with the opportunity to obtain a fair return for their labour and investment.**

Under this business segment, the CDC's strategy is twofold, maintaining fair milk prices at the farm level and developing markets. The Commission will continue to set support prices, to calculate fluid milk prices, to administer innovation programs, to perform pooling calculations and transfers, and to perform external audits. These audits ensure that companies that purchase milk pay the appropriate price, depending on the end use of the milk components.

Under this business segment, strategic activities in 2011-2012 will include improving the mechanisms used in establishing milk prices at the farm level and encouraging the creation of new dairy products or food products that contain dairy ingredients. One way that the CDC encourages this type of development is through the allocation of graduate scholarships in Canadian universities in the areas of dairy and food sciences, dairy economics and policy, and animal science. The first edition of the CDC Scholarship Program ends in July 2011. A program evaluation report strongly supported the continuation of the program. The Commission Board therefore decided to launch the second edition of the Scholarship Program, starting in August 2011. The CDC committed \$3 million over five years to this new phase of the program.



As part of its role as the administrator of the three milk pools in Canada, the CDC has been asked by the industry to facilitate negotiations for the implementation of one national pool for all classes of milk. This will require significant human resources from the CDC. Achieving this national all milk pool would create a very powerful risk management tool for Canadian dairy farmers.

*b) Business segment: Supply of dairy products*

**Goal 2. To provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality.**

Under this business segment, the CDC's strategy involves the control of the quantity of milk produced and incentives for raw milk quality at the farm level. Under this business segment, the CDC will continue to adjust milk quotas to match as closely as possible milk production and Canadian demand, to fully utilize Canada's permitted exports to dispose of surpluses, to administer seasonality programs and to support Dairy Farmers of Canada's Canadian Quality Milk Program.

Under this business segment, strategic activities for 2011-2012 will include the continuous improvement of the tools that are used to measure and evaluate demand for milk and dairy products, the further reduction of CDC inventories of skim milk powder in class 4(m) (animal feed), and the use of new consultation tools such as brainstorming sessions to improve CDC's recommendations and advice to the industry.

In an effort to contain its costs, the CDC will also try new ways of working with the industry to reduce meeting costs. Many of the activities of the CDC entail face to face meetings with industry stakeholders. A collection of committees meets at regular intervals. This results in expenses for meeting room rentals, travel, simultaneous interpretation and translation. Some of these costs are shared with the industry but CDC's share is still significant. The Commission will therefore try a new approach: it will hold more meetings but these will be shorter and more focussed on one or two topics so that they can be held by conference call or webinar. In addition, the CDC will make better use of its Internet site to share information with committee members.

*c) Business segment: Improve the CDC*

This has been, in one form or another, an important aspect of CDC's management for several years. Throughout this time, the CDC has documented over 200 procedures which are now available to all employees in their Intranet site, it has developed a succession plan for its key positions and it has automated many processes. The CDC also has a continuous internal audit and program evaluation function that yields recommendations for the improvement of CDC's systems, processes and practices.

Under this business segment, strategic activities for 2011-2012 will include finalizing the transition to International Financial Reporting Standards, implementing the recommendations contained in the OAG Special Examination Report 2010, aligning the CDC Annual Report to the new TBS guidelines, implementing a new code of values and ethics, examining how to make some administrative functions more efficient, and preparing and posting unaudited quarterly financial statements, in accordance with amendments to the *Financial Administration Act*.

In addition, the CDC will begin a process to evaluate the potential impact of abandoning the dairy year and following the government's fiscal year for all planning and reporting activities. This process will include consultations with industry stakeholders as well as central government agencies.

---

## GOALS, OBJECTIVES AND PERFORMANCE MEASURES

---

Over the next five years, the CDC plans to continue to work in close collaboration with the major stakeholders of the Canadian dairy industry, as well as with provincial governments, to move the industry forward and help this very important segment of the Canadian economy to adapt to its environment. What follows is a presentation of our overall goals, which can be found in the *CDC Act*. The tables also show what the CDC expects to achieve in 2011-2012 for each of the activities under each goal. Activities of an ongoing nature are found in the tables, whereas activities of a strategic nature are found in the text that follows each table.

*a) Business segment: Producer revenue*

**Goal 1. To provide efficient producers of milk and cream with the opportunity to obtain a fair return for their labour and investment.**

Activity	Expected result	Performance indicator
Pricing of industrial and fluid milk	Efficient producers of milk receive adequate revenues	In 2011-2012, revenues from milk sales covered the cost of a reasonable percentage of the milk produced in Canada
Market development	Canadian demand for dairy products and components is sustained or increased	5 new projects approved in MIF New version of DDPIP up and running CDC Scholarship Program renewed
Pool administration	Market and revenues are shared between pool partners in accordance with federal-provincial agreements	Pooling calculation is done within 3 working days of reception of all provincial data Funds are transferred no later than 5 working days after calculations No requests for recalculation of pooling transfers were received from provincial marketing boards
External Audits	Milk components are paid for in accordance with their end use and products imported under the Import for Re export Program (IREP) are re exported	40 audits of special class participants 6 audits of IREP participants Milk plant utilization audits in 5 provinces Milk plant utilization audits are monitored and reported on twice a year in the other 5 provinces An audit of pooling data has been performed in all 10 provinces and data have been accurately reported.

## SUMMARY OF STRATEGIC ACTIVITIES

### ***Pricing***

The CDC plays two roles when it comes to the pricing of milk at the farm level. The most important of these two roles is to establish support prices for butter and skim milk powder (SMP). These are prices at which the CDC purchases and sells butter and skim milk powder within the framework of its various programs. Support prices are used as references by provincial milk marketing boards and agencies for determining the price paid by processors for the portion of the milk produced that gets processed into butter, skim milk powder, cheese, yogurt, ice cream, etc. In 2010-2011, the CDC made changes to the way it calculates the national cost of producing one hectolitre of milk. This cost is one of the main drivers of support prices.

Strategic activity: In 2011-2012, the CDC will continue to refine its calculation of the cost of production by updating the rates allocated to management time by producers.

The CDC also calculates the pricing formula for fluid milk twice a year. The current formula, which was agreed to by the dairy industry from coast to coast, expires in August 2011.

Strategic activity: In 2011-2012, the CDC will facilitate discussions with all industry stakeholders to arrive at a formula for the period after August 2011.

### ***Market development***

The CDC administers several programs aimed at expanding the market for dairy products and ingredients. Some of these programs encourage innovation and education while others involve public policy. The Domestic Dairy Product Innovation Program aims at encouraging dairy processors to develop new dairy products by providing access to additional milk. The anticipated renewal of the DDPIP will see changes brought to the eligibility criteria that should stimulate further interest on the part of dairy processors to bring new dairy products to market.

The Dairy Marketing Program provides expertise and easy access to programs and services that encourage the manufacture and use of dairy ingredients. Through the Matching Investment Fund (MIF), \$2 million per year is made available to companies that develop new products using milk components. Participating companies have to match the CDC contribution.

Strategic activity: 2011-2012 will be the third and final year of the MIF and at least five new projects are expected to receive approval. The CDC will be reviewing the MIF to determine whether it should be renewed beyond 2012 and in what form.

Through its Scholarship Program, the CDC encourages graduate students to choose research topics that are related to the dairy industry. Between 2006 and 2011, the CDC funded 50 masters' projects and 19 doctorates. In addition, several projects funded to date have the potential to increase the market for dairy products and ingredients. A program evaluation concluded that the program was "*a very popular and useful program based on the results of the evaluation. It is assisting the relevant departments to build dairy research capacity and it is increasing the pool of people available to fill positions in many areas of the industry and in government*".

Strategic activity: In 2011-2012, the CDC will renew its Scholarship Program for five years, from 2011 to 2016. Canadian establishments will receive \$3 million to fund graduate studies related to the dairy industry and will continue to be encouraged to match the CDC's contribution.

The CDC also administers the Special Milk Class Permit Program. This program allows food manufacturers to have access to dairy ingredients at competitive prices through permits that are issued by the CDC. The administration of this program involves about one third of the CDC staff.

Strategic activity: In an effort to gain efficiency in the administration of the program (including audits and IT requirements), the CDC will conduct a business process analysis of the program from start to finish.

***Pool administration***

The CDC administers three federal-provincial agreements that frame the sharing of revenues and markets among Canadian milk producers. One of these agreements allows for the pooling of revenues from special classes of milk among the 10 Canadian provinces while the other two allow for the pooling of revenues and markets for all milk classes in two distinct regions: the East (Maritimes, Quebec, Ontario) and the West (from BC to Manitoba). As the administrator of the pools, the CDC chairs the decision making bodies and provides them with technical expertise and secretariat services.

Strategic activity: In 2011-2012, the CDC will facilitate negotiations among industry stakeholders to arrive at a new federal-provincial agreement that would pool all milk from British Columbia to Newfoundland and Labrador. The CDC also aims to continue to efficiently administer the pools, ensuring the processing of data and transferring of funds within specific deadlines.

***External audits***

As part of its administration of the Special Milk Class Permit Program, the CDC audits some of the participants to the program to ensure that components bought at special class prices are used in eligible products. The CDC also audits the same companies for the Import for Re-export Program if they participate in this program, which is administered by Foreign Affairs and International Trade Canada. In addition, the CDC monitors milk utilization audits in all provinces and in 5 of the provinces, performs these audits itself on a cost-recovery basis. The CDC also provides assurance on the accuracy of pooled revenues for all provinces.

Strategic activities: In 2011-2012, the CDC will seek to further harmonize audit practices in all provinces and further promote the use of software to automate the declaration of milk utilization in all provinces.

*b) Business segment: Supply of dairy products*

**Goal 2. To provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality.**

Activity	Expected result	Performance indicator
National industrial milk supply	The Canadian milk production matches demand	Milk production was between 99.5 and 100.5% of total quota
	Exports of solids non fat are maximized	Subsidized export categories of skim milk powder and incorporated products were filled

Activity	Expected result	Performance indicator
		at least at 95%
Seasonality programs	Dairy products are available to Canadians all year	Provincial milk marketing boards reported no seasonal shortages of dairy products <u>Plan A</u> butter stocks never fell below 90% of normal levels
Canadian Quality Milk program (CQM)	Improve the quality of milk at the farm level	60% of Canadian milk producers are validated under the CQM by August 1, 2012

## SUMMARY OF STRATEGIC ACTIVITIES

### ***Manage industrial milk supply***

One of the most important roles of the CDC is to administer Canada's supply management system for milk. Under this system, Canadian milk producers only produce the volume of milk that is required to fill markets. Guiding principles of this system are included in the National Milk Marketing Plan, a federal-provincial agreement that dates back to 1983. The overall objective of this system is to ensure that domestic production is adequate to meet Canadian demand for dairy products plus allowable exports. To do so, the CDC monitors demand monthly and notifies provincial authorities if a change in demand justifies a change in the national quota for industrial milk, called the market sharing quota (MSQ). In 2009-2010, total milk production reached 100.5% of total quota and therefore was deemed satisfactory.

Strategic activity: In 2011-2012, the CDC will continue discussions and technical analysis with members of the Secretariat<sup>6</sup> in order to monitor potential improvements in methods to evaluate demand and adjust quota accordingly.

To balance a system which generates a surplus of milk solids non fat<sup>7</sup>, the CDC administers the Surplus Removal Program (SRP) which aims to remove surpluses from the market in a timely manner, while maximizing revenues for producers. Low levels of skim milk powder inventories held by the CDC in class 4(m) are an indication of the success of the program. In recent years, the CDC has been successful in gradually reducing this inventory. This effort will continue.

Strategic activity: In 2011-2012, the CDC will reduce its class 4(m) inventories of skim milk powder to 5,000 t by the end of the dairy year.

In its administration of the industrial milk supply and as the main facilitator of the Canadian dairy industry, the CDC organizes and participates in many meetings with representatives of that industry. Travelling to these meetings is a major cost to the organization and given the freeze in government appropriations, the CDC is looking for ways to control its overall operating costs.

Strategic activity: In 2011-2012, the CDC will reduce meeting expenses by making better use of existing technologies and by implementing new ways of working with the industry.

<sup>6</sup> The technical committee of the CMSMC.

<sup>7</sup> What is left after the butterfat has been removed from milk. Solids non fat contain protein, lactose, minerals and other minor components.

The Canadian dairy industry largely relies on the CDC for technical advice and economic analyses. Only a few staff members are involved in these functions. Both the Commission and the industry would benefit if more people were involved in creating ideas and solutions.

Strategic activity: In 2011-2012, the CDC will hold targeted technical discussions and brainstorming sessions among its staff members. These sessions will be related to key issues of the industry and will allow different staff members to contribute opinions and solutions. If this format of discussions seems to be beneficial, people from outside the CDC, including experts within AAFC, may be invited from time to time, depending on the issue to be discussed.

### ***Seasonality programs***

While milk production is fairly constant throughout the year in Canada, it is not the case for consumption of dairy products. Consumption tends to fall in the spring and rise in autumn. To ensure an adequate supply of dairy products year round, the CDC operates Seasonality Programs. Under these programs, the CDC buys some dairy products in the spring and sells them back into the market in the fall. The products involved are products that can withstand storage, like butter and skim milk powder. These purchases and sales are done at support prices. To ensure an adequate supply of butterfat all year, the CDC aims to keep a certain quantity in stock. This quantity varies depending on the time of year. At any point in time, the target stock is called the normal butter stocks.

Strategic activity: In 2011-2012, the CDC will continue to administer the Seasonality Programs.

c) *Business segment: Improve the CDC*

### ***INTERNAL SERVICES***

Internal Services are activities that support the needs of programs and other corporate obligations of an organization. In the case of the CDC, they include Communications, Corporate Services, Finance and Administration, Human Resources, IM/IT, Internal Audits and Program Evaluations.

The CDC plans to undertake the following strategic initiatives during dairy year 2011-2012.

#### **Complete the transition to IFRS**

CDC financial systems will be compliant with IFRS by August 1, 2011. Financial statements of dairy year 2011-2012 will be prepared using IFRS and the CDC aims for a clean opinion from the OAG to confirm that all systems are compliant with IFRS. This opinion will be available in September 2012.

#### **Implement the recommendations contained in the OAG Special Examination Report**

In its Special Examination of the CDC, the OAG recommended that the Commission's Board periodically assess its collective skills and that if the Board identifies a gap in its skills, it should seek outside expertise to complement the skills of its members. The OAG further recommended that the Commission Board develop procedures for members to declare and manage conflicts of interest.

Strategic activity: In 2011-2012, the Commission's Board will periodically assess its collective skills and continue to seek outside expertise when deemed necessary for specific projects such as IFRS and it will continue to explore possible approaches with federal government central agencies.

Strategic activity: In 2011-2012, the Board of the CDC will create a provision in its by-laws that will require each member to put on record any existing (potential, real or perceived) conflicts under the *Conflict of Interest Act*, and will develop procedures to manage conflicts. The CDC will discuss specific issue with the Privy Council Office in an attempt to find workable solutions.

#### **Align the CDC Annual Report to the TBS guidelines**

Last fall, TBS circulated new guidelines on Crown Corporations Annual Reports. Although the version circulated was not quite final, the CDC undertook to examine the changes that would be required to comply with these new guidelines. In January 2011, the CDC decided that its next Annual Report would comply with the draft guidelines and that adjustments would be made later if the final version of the guidelines differed slightly from the draft.

Strategic activity: In 2011-2012, the CDC will produce the annual report on dairy year 2010-2011 using the draft TBS guidelines.

#### **Adopt the government fiscal year for all activities**

Decades ago, the CDC decided to use a dairy year that started on August 1 for some of its activities. This made sense, considering the seasonal nature of milk production. This seasonality in production has almost disappeared and with the adoption of the continuous quota management policy in 2008, it seems that the last reason to hold on to our dairy year may have disappeared. Keeping two different years for different purposes complicates the operations and reporting of the Corporation.

Strategic activity: In 2011-2012, the CDC will identify and analyze the implications of planning all activities and reporting on them on a fiscal year basis only. This analysis will include consultations with the industry and central government agencies.

#### **Prepare and post unaudited quarterly financial statements**

In accordance with the amendments to the *Financial Administration Act*, the CDC has to prepare unaudited quarterly financial statements. These must be posted on the CDC Internet site and sent to the Minister of AAF and Treasury Board Secretariat within 60 days of the end of each quarter.

Strategic activity: In 2011-2012, the CDC will prepare quarterly financial statements, post them on its Internet site and send them to TBS within 60 days of the end of each quarter.

#### **Program evaluations**

Every year, the CDC performs a certain number of program evaluations to ensure that the programs achieve their objectives and are still relevant to their target audience.

Strategic activity: In 2011-2012, as part of its 5-year Program Evaluation Cycle, the CDC will conduct a program evaluation on the Matching Investment Fund to inform decisions regarding its renewal.

### **Internal audits**

The CDC also performs internal audits to examine CDC's programs, systems, practices and procedures. These audits ensure that CDC's assets are safeguarded, that decisions are informed and that controls are in place.

Strategic activities: In 2011-2012, as part of its 6-year Audit Plan, the CDC will conduct internal audits on the following activities: Business resumption plan (monitoring), threat risk assessments (monitoring), financial statements and responsiveness of management accounting to accountability needs, the Corporate Plan, and a peer review of the internal audit function.

### **Appointment of a CEO**

The mandate of the current CEO will expire in October 2011. Minister Ritz is responsible for recommending a candidate to the Governor in Council. A process to find a new CEO is already underway, led by the Privy Council Office (PCO) and including the CDC, AAFC and the office of Minister Ritz.

Strategic activity: Once the new CEO is appointed by the Governor-in-Council, the CDC's Corporate Services, other commissioners and senior management will ensure that he or she gets all the training and orientation required to fully participate in Board activities and efficiently lead the CDC towards the accomplishment of its goals.

### **Implement new code of values and ethics**

TBS requires that all organizations that are part of the federal government adopt and implement a new values and ethics code. This new code will replace the current one and will be based on TBS's new model once approved. TBS's new code applies to all public servants, heads of departments and separate agencies. Its adherence continues to be a condition of employment for all public servants including employees of Crown corporations. Although government departments and agencies are required to implement their organizational code by March 2011, delays are expected and the CDC must wait before it can write and implement its own code.

Strategic activity: In 2011-2012, the CDC will implement a new code of values and ethics based on the model provided by TBS.

### **Increase the efficiency of CDC's operations**

The CDC has vast amounts of valuable data in its possession. In the past years, the CDC has put a lot of effort into presenting this information to the industry. As there is an increasing number of requests from the industry, there is now an even greater demand for more analysis of the data. This presents a problem for the IT section as it has to prioritize these demands.

Strategic activity: In 2011-2012 the CDC will create an internal committee to prioritize the reporting and analysis needs of the CDC, so that the IT section is able to respond to the most important requests.

Certain administrative functions at the CDC are performed by several staff members in various teams. It might be more efficient for the CDC to centralize some of these functions, to automate certain steps of these functions or to review some of the processes.

Strategic activity: In 2011-2012, the CDC will create a small internal task force that will be mandated to study how to make some administrative functions, such as travel claims and bill payment, more efficient. This group will report to the Senior Management Team.



# FINANCIAL INFORMATION

---

## MAJOR ASSUMPTIONS USED IN THE PREPARATION OF THE BUDGET AND FORECAST

---

Figures for 2009-2010 are actual. Figures for 2010-2011 are forecasted while those for subsequent years are projected.

During the dairy year 2009-2010, Canadian requirements finished the year at 183.8 million kg of butterfat. They continued to increase slowly during the first part of the current dairy year. As of March 1, 2011, Canadian requirements stand at 185.0 million kg of butterfat. Given the recent trends and the state of the economy, it is reasonable to assume that the Canadian requirements will continue to increase slightly during the rest of the 2010-2011 dairy year.

Beyond 2012, 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 of industrial milk, domestic requirements, support prices and world market conditions for the sales of dairy products. Any significant changes in the assumptions will affect the budgeted results.

CANADIAN DAIRY COMMISSION  
Statement of Operations and Comprehensive Income  
for the Dairy Years ending July 31, 2010 - 2016

(in thousands of dollars)

	Actual Audited	Budget	Forecast CGAAP	Forecast IFRS (1)	Budget				
					2009-10	2010-11	2010-11	2010-11	2011-12
Domestic sales revenue	\$ 241,042	\$ 220,220	\$ 215,903	\$ 215,903	\$ 208,765	\$ 206,249	\$ 202,171	\$ 205,568	\$ 209,034
Cost of goods sold domestically	226,815	202,750	191,945	191,945	198,447	199,988	195,910	199,214	202,611
Transport	681	601	662	662	400	376	376	379	379
Interest expenses	379	468	629	629	1,606	2,319	2,320	2,320	2,320
Storage and handling	4,638	3,939	3,006	3,006	2,841	2,809	2,809	2,866	2,866
Other expenses	220	143	139	139	146	150	152	155	157
Total domestic charges	232,733	207,901	196,381	196,381	203,440	205,642	201,567	204,934	208,333
Net profit (loss) on domestic sales	8,309	12,319	19,522	19,522	5,325	607	604	634	701
Export sales revenue	23,734	30,750	39,019	39,019	32,500	29,250	29,250	29,250	29,250
Cost of goods exported	24,632	29,626	37,779	37,779	31,620	28,350	28,350	28,350	28,350
Transport	435	392	555	555	570	551	551	562	562
Interest expenses	2	-	23	23	-	-	-	-	-
Storage and handling	264	155	151	151	126	118	118	120	120
Other expenses	110	114	114	114	97	99	99	101	101
Total export charges	25,443	30,287	38,622	38,622	32,413	29,118	29,118	29,133	29,133
Net profit (loss) on export sales	(1,709 )	463	397	397	87	132	132	117	117
Total profit (loss) on sales	6,600	12,782	19,919	19,919	5,412	739	736	751	818
Industry initiatives	2,481	3,129	1,555	1,555	4,165	974	1,864	371	379
Cost of production study	817	803	827	827	836	847	858	869	880
Other charges and recoveries	(293 )	6	(294 )	(294 )	(294 )	(298 )	(300 )	(300 )	(300 )
Administrative expenses	7,951	8,086	8,086	8,086	8,086	8,086	8,146	8,237	8,330
Recovered audit services	(147 )	(157)	(114 )	(114 )	(236 )	(170 )	(170 )	(170 )	(170 )
Other operating costs	10,809	11,867	10,060	10,060	12,557	9,439	10,398	9,007	9,119
Margin (loss) before funding	(4,209 )	915	9,859	9,859	(7,145 )	(8,700 )	(9,662 )	(8,256 )	(8,301 )
Pool funding (2)	7,508	6,900	6,613	6,613	7,000	7,256	7,372	7,529	8,220
Funding by the Government of Canada	3,819	4,086	4,135	4,135	4,090	4,055	4,055	4,055	4,055
Total funding	11,327	10,986	10,748	10,748	11,090	11,311	11,427	11,584	12,275
Results of operations and comprehensive income	7,118	11,901	20,607	20,607	3,945	2,611	1,765	3,328	3,974
Refund of operational surplus (3)	(4,385 )	(14,792 )	(22,181 )	(22,181 )	(8,435 )	(4,477 )	(4,476 )	(4,547 )	(4,614 )
Increase (decrease) to retained earnings	\$ 2,733	\$ (2,891 )	\$ (1,574 )	\$ (1,574 )	\$ (4,490 )	\$ (1,866 )	\$ (2,711 )	\$ (1,219 )	\$ (640 )

NOTES:

(1) The 2010-11 forecast is being shown on both a Canadian GAAP and IFRS basis, while 2011-12 and beyond are shown on an IFRS basis only.

(2) Pooling contributions withheld to fund operating and administrative expenses.

(3) Operational surplus consists of a portion of the CDC's margin on sales. The provision is set up in the year the margin is earned and refunded to provincial milk boards and agencies for the benefit of dairy producers the following year.

CANADIAN DAIRY COMMISSION  
STATEMENT OF COSTS FINANCED BY THE GOVERNMENT OF CANADA  
for the DAIRY YEARS ending JULY 31, 2010 - 2016

(in thousands of dollars)

	Actual 2009-10	Forecast 2010-11	Budget				
			2011-12	2012-13	2013-14	2014-15	2015-16
Administrative expenses							
CDC appropriation Vote 25	\$ 3,758	\$ 3,930	\$ 3,930	\$ 3,930	\$ 3,930	\$ 3,930	\$ 3,930
Eligible payroll expenditures	61	205	160	125	125	125	125
Total costs financed by the Government of Canada	<u>\$ 3,819</u>	<u>\$ 4,135</u>	<u>\$ 4,090</u>	<u>\$ 4,055</u>	<u>\$ 4,055</u>	<u>\$ 4,055</u>	<u>\$ 4,055</u>

**Notes:**

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

CANADIAN DAIRY COMMISSION  
 STATEMENT OF COSTS FINANCED BY THE GOVERNMENT OF CANADA  
 for the FISCAL YEARS ending MARCH 31, 2010 - 2016

(in thousands of dollars)

	Actual 2009-10	Actual 2010-11	Budget				
			2011-12	2012-13	2013-14	2014-15	2015-16
Administrative expenses							
CDC appropriation Vote 25	\$ 3,952	\$ 3,930	\$ 3,930	\$ 3,930	\$ 3,930	\$ 3,930	\$ 3,930
Eligible payroll expenditures	61	205	160	125	125	125	125
Total costs financed by the Government of Canada	<u>\$ 4,013</u>	<u>\$ 4,135</u>	<u>\$ 4,090</u>	<u>\$ 4,055</u>	<u>\$ 4,055</u>	<u>\$ 4,055</u>	<u>\$ 4,055</u>

**Notes:**

In the foreseeable future the Commission will maintain its current level of staffing.

CANADIAN DAIRY COMMISSION  
BORROWING PLAN  
for the DAIRY YEARS ending JULY 31, 2010 - 2016

(in thousands of dollars)

**Consolidated Revenue Fund**

Loan transactions	Actual Audited 2009-10	Forecast 2010-11	Projected				
			2011-12	2012-13	2013-14	2014-15	2015-16
Balance at beginning of year	\$ 129,488	\$ 98,927	\$ 60,562	\$ 105,702	\$ 106,081	\$ 110,690	\$ 113,885
Drawings	140,805	125,000	140,000	140,000	140,000	140,000	140,000
Repayments	(171,366)	(163,365)	(94,860)	(139,621)	(135,391)	(136,805)	(137,305)
Balance at end of year	\$ 98,927	\$ 60,562	\$ 105,702	\$ 106,081	\$ 110,690	\$ 113,885	\$ 116,580
Average level during year:	\$98,752	\$50,000	\$71,000	\$75,000	\$80,000	\$80,000	\$80,000
Highest level during year: Month Amount	August \$115M	August \$93M	June \$123M	June \$127M	June \$132M	June \$136M	June \$139M

**Member of Canadian Payments Association**

Loan transactions	Actual 2009-10	Forecast 2010-11	Projected				
			2011-12	2012-13	2013-14	2014-15	2015-16
Balance at beginning of year	\$ 825	\$ 2,314	\$ 950	\$ 950	\$ 950	\$ 950	\$ 950
Drawings	22,044	14,114	15,500	15,500	15,500	15,500	15,500
Repayments	(20,555)	(15,478)	(15,500)	(15,500)	(15,500)	(15,500)	(15,500)
Balance at end of year	\$ 2,314	\$ 950	\$ 950	\$ 950	\$ 950	\$ 950	\$ 950

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

CANADIAN DAIRY COMMISSION  
CAPITAL BUDGET  
for the DAIRY YEARS ending JULY 31, 2010 - 2016

(in thousands of dollars)

	Actual	Forecast	Budget				
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Major capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Minor capital	<u>119</u>	<u>144</u>	<u>135</u>	<u>135</u>	<u>135</u>	<u>135</u>	<u>135</u>
Total capital budget	<u>\$ 119</u>	<u>\$ 144</u>	<u>\$ 135</u>	<u>\$ 135</u>	<u>\$ 135</u>	<u>\$ 135</u>	<u>\$ 135</u>

Minor Capital expenditures for the years 2010-2011 through to 2015-2016 are for the planned replacement of servers, desktop computers, laptops and peripherals. These amounts also include software licence fees purchases and renewals.

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

# APPENDIX A

---

## GLOSSARY OF DAIRY TERMS

---

### **Canadian Milk Supply Management Committee (CMSMC)**

The CMSMC 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 and promotional activities; the pooling systems established for market returns from certain milk sales; and provincial quota allocations and utilization. The CMSMC determines the national production target or Market Sharing Quota (MSQ).

### **Canadian Requirements**

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

### **Dairy Producers**

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

### **Domestic Requirements**

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

### **Further Processors**

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

### **Industrial Milk**

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

### **Market Sharing Quota (MSQ)**

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

### **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.

**Plan A**

A program by which the CDC buys butter at times of the year when butterfat demand is low, stores it, then sells it to the market when consumption rises. This program ensures adequate supplies all year despite the seasonality of demand for butterfat.

**Processors**

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

**Supply Management**

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

DM201499