



Canadian Dairy
Commission

Commission
canadienne du lait

CORPORATE PLAN SUMMARY FOR 2012-2013 TO 2016-2017

OPERATING AND CAPITAL BUDGETS
FOR THE DAIRY YEAR ENDING JULY 31, 2013

Corporate Plan dated April 1, 2012

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EXECUTIVE SUMMARY

The Canadian Dairy Commission (CDC) is a Crown Corporation of 60 employees that coordinates milk production in Canada, and sets reference levels for the establishment of farm gate milk prices. The CDC is also a facilitator and a stakeholder in decision-making bodies that establish policies for the marketing of milk and dairy products. It operates on a dairy year basis that starts August 1 and ends July 31.

As of April 1, 2012, the CDC is in good financial position and will achieve most of its objectives for the 2011-2012 dairy year. It has limited its expenses to comply with the budget freeze for fiscal year 2011-2012 and made plans to realize a 10% reduction in its annual budget by 2014-2015, as outlined in the federal Budget 2012. Good planning and internal communications will be used to mitigate the impact of budget cuts on employee engagement.

Over the planning period, the CDC will continue to review and prioritize its activities to achieve increased efficiency and cost savings. It is expected that domestic demand for dairy products will keep growing at a constant albeit modest pace. The CDC will keep a close eye on demand, stocks and milk supplies to ensure that production follows demand and to further reduce the risk of shortages or surpluses.

The CDC will continue to support the industry in the harmonization of its policies and of its milk utilization audit standards. The CDC will also continue to improve its study on the cost of producing milk to increase the reliability of the results. This study is important as it has an impact on the farm gate price of milk. The CDC will also ensure that its stocks remain at reasonable levels.

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

Because the environment in which the CDC operates has changed little in the last year, its overall objectives remain relevant for the planning period under review. These are:

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 CDC plans no key capital projects during the planning period nor does it anticipate the creation of new programs or major changes to its current programs.

PROFILE OF THE CANADIAN DAIRY COMMISSION

CDC AT A GLANCE

Created in 1966

60 employees as of April 1, 2012

Budget 2012-2013 (dairy year): \$7.990 million

Dairy year: August 1 to July 31

Principal legislation: *Canadian Dairy Commission Act*
Dairy Products Marketing Regulations
Financial Administration Act
Public Service Labour Relations Act
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 most aspects of the dairy supply management¹ system on behalf of the dairy industry and by providing leadership and guidance to dairy industry stakeholders.

MANDATE

The Canadian Dairy Commission (CDC) 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 farm 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.

PUBLIC POLICY ROLE

The CDC acts as a facilitator and stakeholder in the various forums that influence dairy policy in Canada. These forums include policy-making committees created by federal-provincial agreements (one national and two regional) that allow the pooling of milk revenues and the sharing of markets between milk producers. The CDC chairs these

¹ Underlined words or phrases are described in Appendix A.

committees and provides technical expertise, logistical support and secretariat services. These policy-making committees create many advisory committees to which the CDC often provides chairmanship, expertise and secretariat services. Through its presence and roles on these committees, the CDC is in a position to influence most of the national and regional dairy policy decisions that are made. In these forums, the CDC represents the federal government and works with provincial governments and dairy industry stakeholders such as dairy producers, processors, further processors and consumers.

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

MAIN ACTIVITIES

The Canadian milk supply management system rests on three pillars: production management, price setting and import controls. Since supply management was first applied to the dairy sector, the CDC has been directly involved in the administration of two of the three pillars (production management and price setting) via the establishment of 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 can therefore ensure that Canadian dairy farmers receive sufficient revenues from the marketplace to ensure they are appropriately compensated for their labour and investment.

The CDC also monitors national milk production and demand for dairy products and recommends the necessary adjustments to the national quota for industrial milk. In this way, the CDC helps to ensure that milk production in Canada matches demand from Canadian consumers. 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 pooling and market sharing pools that exist among milk producers. Monthly, the CDC receives data from provincial milk marketing boards and calculates the payment transfers between provinces to equalize returns and adjusts quota allocations to provinces to account for the sharing of markets.

To ensure a steady supply of dairy products on the Canadian market, the CDC operates the Domestic Seasonality Programs. To ensure that milk components for which there is no outlet on the domestic market are removed in a timely fashion, the CDC operates the Surplus Removal Program. Furthermore, in order to promote the use of dairy products and ingredients in processed foods, the CDC operates the Dairy Marketing Program.

In addition, the CDC, on the industry's behalf, administers the Special Milk Class Permit Program (SMCPP) and the Domestic Dairy Product Innovation Program. The parameters of these industry programs are decided by the Canadian Milk Supply Management Committee (CMSMC). In the case of the Special Milk Class Permit Program, the CDC also performs audits of program participants to ensure that they comply with program rules.

The CDC imports the tariff rate quota of butter and sells this butter to participants in the SMCPP through butter manufacturers. Profits that the CDC generates by this activity are used to finance initiatives that provide benefits to the industry. Examples of these initiatives are graduate scholarships in Canadian establishments and the validation of dairy farms under the Canadian Quality Milk Program, an on-farm quality assurance program.

The CDC also controls the subsidized exports of Canadian dairy products through the issuance of export permits. These permits have been put in place to ensure that Canadian exports of dairy products do not exceed the limits imposed on Canada by the World Trade Organization (WTO) for subsidized exports.

As requested by the Minister of Agriculture and Agri-Food in his statement of priorities addressed to the CDC Chairman in July 2011, 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 close 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 the trade agreements signed by Canada.

In many aspects, the roles that the CDC assumes for the dairy industry are in line with AAFC's strategic priorities as outlined in the policy framework *Growing Forward (GF)*. GF is based on three strategic outcomes, two of which are *a competitive and innovative sector* and *a sector proactive in managing risks*. One of the objectives of CDC's Dairy Marketing Program is to favour innovation and the development of new products. The CDC Scholarship Program also favours innovation and contributes to the constitution of a pool of young minds that will continue to bring innovation to the entire agri-food sector.

Furthermore, the supply management system and particularly the three milk pools that exist currently are a great risk management tool. Whereas market growth is shared among many producers during good times, during bad times, any shrinkage of the market is shared among many producers. This reduces the impact that a plant closure, for example, could have on local farms or a small province. As revenues are also pooled among producers, the effect of a change in the use of milk in one province, from a profitable class to a less lucrative class, will also be distributed on many farms, thereby reducing its impact on individual farms. To further mitigate risk for the Canadian dairy industry, the CDC is heading negotiations with all ten provinces to arrive at the national pool of all milk. These negotiations focus on three main areas: revenue and cost sharing, market sharing and milk allocation to dairy processors. Furthermore, price setting, production management and predictable imports provide stability in the domestic market and reduce risks for both farmers and processors.

The next agricultural policy framework, *Growing Forward 2 (GF2)*, will put renewed focus on competitiveness and sustainability, and recognition that enabling innovation and providing the right institutional and physical infrastructure are critical to the sector's success. While the new framework is not scheduled to come into effect until April 2013, the provisions of the framework are expected to recognize supply management as a business risk management program. The CDC will continue to support the *Growing Forward* vision by working with AAFC to ensure its roles and activities are in line with its vision for the dairy sector. These roles are critical in ensuring that consumers can access an adequate supply of high quality dairy products throughout the year.

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.

GOVERNANCE AND STRUCTURE

The Canadian Dairy Commission (CDC) is a federal Crown corporation listed in Part I of Schedule III and in Schedule IV of the *Financial Administration Act*. The CDC reports to Parliament through the Minister of Agriculture and Agri-Food. In addition to the *CDC Act*, federal-provincial agreements provide the authority for many of the programs and activities that the CDC staff administers and facilitates on a daily basis.

The governing Board of the CDC is composed of the Chairperson, the CEO and the Commissioner. 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 the main contact with stakeholders. The Commissioner supports both the Chairperson and the CEO in their functions and chairs the CDC Audit Committee. The members of the Board have many years of dairy industry experience and their backgrounds in milk production and processing aid in bringing a balanced approach to the often divergent objectives of the stakeholders. They are subject to the *Conflict of Interest Act*.

All positions are part-time and are appointed by the Governor in Council. Members are appointed for three-year terms and may be reappointed.

As of April 1, 2012, the Board is composed of the following three members:

Randy Williamson, Chairman (second 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 (second 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. He is also the President and a founding member of the Centre de développement bioalimentaire du Québec, an agri-food research and development centre.

Jacques Laforge, CEO (first mandate ends February 2015)

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 of directors 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 provides a venue for on-farm research trials to producers and manufacturers.

Having served on the board of directors of the 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.

STRATEGIC ISSUES FOR THE PLANNING PERIOD

ASSESSMENT OF RESULTS FOR 2011-2012

As of April 1, 2012, the Canadian Dairy Commission (CDC) is on its way to achieving most of its objectives for 2011-2012. No changes in roles are expected in the foreseeable future and therefore the main goals will remain unchanged for 2012-2013. The goals set by the Canadian Dairy Commission (CDC) for 2011-2012, along with a brief summary of the status of achievement of each goal as of April 1, 2012, are described below. Operational activities related to the daily operations of the CDC are found in Tables A and B whereas strategic activities are listed below each table.

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.

Area of activity	Expected result	Performance indicator	Achievements
Pricing of industrial and fluid milk	Efficient producers of milk receive adequate revenues	In 2011-2012, revenues from milk sales cover the cost of a reasonable percentage of the milk produced in Canada	In the last 12 months, revenues from milk sales covered a reasonable percentage of the milk produced in Canada.
Market development	Canadian demand for dairy products and components is sustained or increased	<ul style="list-style-type: none"> Approval of 5 new projects in the Matching Investment Fund New version of the Domestic Dairy Product Innovation Program (DDPIP) up and running Renewal of the CDC Scholarship Program 	<ul style="list-style-type: none"> As of April 1, 2012, only one new project has been fully approved but three others have received preliminary approval The revised DDPIP guidelines were implemented August 1, 2011. The CDC Scholarship Program has been renewed.
Pool administration	Market and revenues are shared between pool partners in accordance with federal-provincial agreements	<ul style="list-style-type: none"> Pooling calculations are 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 received from provincial marketing boards 	<ul style="list-style-type: none"> Pooling calculations are done monthly within 3 working days of reception of provincial data Funds are transferred no later than 5 working days after calculations No request received so far.
External Audits	Milk components are paid for in accordance with their end use and	<ul style="list-style-type: none"> 45 audits of special class participants 	<ul style="list-style-type: none"> 39 of 45 audits have been completed as of April 1, 2012.

Area of activity	Expected result	Performance indicator	Achievements
	products imported under the Import for Re-export Program (IREP) are re-exported	<ul style="list-style-type: none"> • 6 audits of IREP participants • Milk plant utilization audits in 6 provinces • Milk plant utilization audits are monitored and reported on twice a year in the other 4 provinces • An audit of pooling data is performed in all 10 provinces and data are accurately reported. 	<ul style="list-style-type: none"> • 3 of 6 audits have been completed • Milk plant utilization audits are underway in 6 provinces • These audits are being monitored and reported on in the other 4 provinces • Reports on pooling of data have been completed for 6 provinces.

Pricing

The CDC plays two roles when it comes to the pricing of milk at the farm level. One 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. To support the decision on support prices, the CDC calculates the national cost of producing one hectolitre of milk.

Strategic activity	Achievement
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 did not change the rates allocated to management for its February 1, 2012 support price decision. Analyses are ongoing.

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, expired in August 2011.

Strategic activity	Achievement
In 2011-2012, the CDC will facilitate discussions with all industry stakeholders to arrive at a formula for the period after August 2011.	An industry committee arrived at a new fluid pricing formula in October 2011. This formula will be in place for 2 years effective February 1, 2012. The CDC facilitated the discussions of the committee and the conclusion will reduce the uncertainty in this market.

Market development

The Dairy Marketing Program provides expertise and easy access to programs and services that encourage the manufacture and use of dairy ingredients. Since its beginnings in 2009, the Matching Investment Fund (MIF) has been offering \$2 million per year to Canadian companies. Participating companies have to match the CDC contribution and each project can receive a maximum of \$300,000. Eligible activities include product development and consultations with experts. The objective of the program is to support product development initiatives that help grow the business for milk and dairy ingredients. The CDC staff follows the evolution of each project closely by communicating regularly with the companies.

As 2011-2012 is the last year of the MIF, the CDC undertook both an evaluation and an audit of the program to gather information to be used in the decision to renew it or not. CDC management has proposed a new version of the MIF to the CDC Board, along with a communication strategy, and the Board will decide whether or not to renew the program and in what format.

Strategic activity	Achievement
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.	So far this year, only one project has been fully approved. The Board will decide on the renewal of the program before July 31, 2012. It will base its decision on the results of an audit and of a program evaluation made in 2011-2012, and on recommendations by staff.

In 2006, the CDC started to fund graduate studies in the areas of food and dairy science, dairy policy and economics, and animal science. The objectives of this program were to attract young scientists in these areas to ensure a pool of candidates for future positions in the dairy industry, and to encourage research and innovation in these areas of expertise. These scholarships are administered by Canadian universities through an agreement with the CDC. The funding amounts to \$20,000 per year for two years for a masters' project and \$30,000 per year for three years for a doctorate project. According to the evaluation of the program conducted in 2010-2011, the program was *"a very popular and useful program. 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"*. During the five years of the first edition of the program, 57 masters' projects and 20 doctorates were funded. In general, research projects funded by the CDC Scholarship Program focus on improving milk production at the farm level by enhancing the health and productivity of dairy cows, improving the quality and safety of Canadian dairy products, defining the health impacts of dairy products, identifying the characteristics on the Canadian market for dairy products, and improving processing technology.

Strategic activity	Achievement
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 Scholarship Program has been renewed 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. 5 out of 8 establishments have signed agreements with the CDC so far. Others are in negotiations.

The CDC also administers the Special Milk Class Permit Program (SMCPP). 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	Achievement
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.	The CDC hired a private firm to conduct the business process analysis and the report was recently presented to the Board. The Board decided to proceed with the recommendations calling for a revamping of the computer system for the administration of the SMCPP.

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, analyses, and secretariat services.

Strategic activity	Achievement
<p>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.</p> <p>The CDC also aims to continue to efficiently administer the pools, ensuring the processing of data and transferring of funds within specific deadlines.</p>	<p>Since September 2011, the CDC has been facilitating an industry negotiating committee and providing technical expertise to the same committee. The Negotiating Committee has had 4 meetings so far. Discussions are centered on market and revenue sharing, as well as milk allocation to plants. The next meeting is in April and provinces have been invited to present their proposal to solve some of the allocation issues. No timelines have been established to arrive at an agreement. All 10 provinces must be unanimous in this regard and this can take years.</p> <p>The CDC also continued to efficiently administer the pools.</p>

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 the Department of Foreign Affairs and International Trade Canada. In addition, the CDC monitors milk utilization audits in all provinces and in 6 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 activity	Achievement
<p>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.</p>	<p>CDC met with Quebec and Ontario to harmonize audit practices across the Eastern milk pool. The conclusion of this meeting was to support the reporting software already in use in Ontario and Quebec for use in the Maritime provinces. This advance needs to be discussed at the Eastern pool level to obtain agreement and resources required for implementation. This promotion of the software is ongoing and will require more than a year to implement. No timelines have been established. The same consultations will have to take place in the West through the Western Milk Pool.</p>

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

Area of activity	Expected result	Performance indicator	Achievements
National industrial milk supply	The Canadian milk production matches demand Exports of <u>solids non fat</u> are maximized	<ul style="list-style-type: none"> Milk production is between 99.5 and 100.5% of total quota Subsidized export categories of skim milk powder and incorporated products are filled at least at 95% 	<ul style="list-style-type: none"> For the first 7 months of the dairy year, milk production is at 100.1% of total quota For the first 7 months of the dairy year, these exports categories are filled at 36% for SMP and 70% for the incorporated products and are expected to be completely filled by the end of the year.
Seasonality programs	Dairy products are available to Canadians all year	<ul style="list-style-type: none"> Provincial milk marketing boards report no seasonal shortages of dairy products Plan A butter stocks never fall below 90% of normal level 	<ul style="list-style-type: none"> So far no shortages have been reported by provincial milk marketing boards Plan A butter stocks fell below 90% of their normal level in November, when production was slow and seasonal demand was high². The CDC imported butter under Canada's tariff rate quota during that time to ensure a steady supply in the market.
Canadian Quality Milk program (CQM)	Ensure the quality of milk at the farm level	60% of Canadian milk producers are validated under the CQM by August 1, 2012	According to reports submitted by provinces in January 2012, 36% of producers were validated. Data for the end of the dairy year will be available in August 2012 but it is unlikely that 60% of producers will be validated by then as the process is very slow in Ontario and Saskatchewan.

Manage industrial milk supply

One of the most important roles of the CDC is to administer Canada's planning of milk production. Canadian milk producers only produce the volume of milk that is required to fill markets. 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).

² Production has since increased significantly and stocks are being rebuilt.

Strategic activity	Achievement
In 2011-2012, the CDC will continue discussions and technical analysis with members of the Secretariat ³ in order to monitor potential improvements in methods to evaluate demand and adjust quota accordingly.	The CDC developed tools to illustrate any lag of production compared to demand and the resulting pressure on stocks. These tools allow for better decision making related to the implementation of a growth allowance on the milk quota.

To balance a system which generates a surplus of milk solids non fat, 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 (SMP) inventories held by the CDC in Class 4(m) (destined for animal feed) 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	Achievement
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.	As of April 1, 2012, class 4(m) inventories of SMP stand at 12,946 t and are not expected to reach the target of 5,000 t by the end of the year. This is due partly to increased milk production and partly to low world prices for SMP. During the first part of the dairy year, the CDC decided to temporarily reduce SMP sales and wait for better prices. SMP stocks in Class 4(m) are expected to be at 12,000 t at the end of the dairy year, 2,000 t above last year's levels.

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. Traveling to these meetings is a major cost to the organization and given the freeze in government appropriations, the CDC looked for ways to control its overall operating costs.

Strategic activity	Achievement
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.	As of March 1, the number of meetings held via conference calls and Webinars increased by 10% while the number of participants increased by approximately 100 people compared to the same period last year. This increased the meeting costs using these two technologies by \$740 only. The increase in meeting costs would have been a lot greater if all these people had to travel. Webinars and conference calls were used as appropriate.

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 CDC and the industry would benefit if more people were involved in creating ideas and solutions.

³ A technical committee chaired by the CDC and that provides advice to the CMSMC. All 10 provinces are represented.

Strategic activity	Achievement
<p>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 Agriculture and Agri-Food Canada (AAFC), may be invited from time to time, depending on the issue to be discussed.</p>	<p>So far, the CDC held two of these brainstorming sessions. In August 2011, 10 employees participated in a session on national all milk pooling and in February 2012, 15 employees participated in a session on a comprehensive long term strategy for the marketing of milk solids non fat.</p>

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	Achievement
<p>In 2011-2012, the CDC will continue to administer the Seasonality Programs.</p>	<p>The CDC continued to administer these programs. In December 2011, it announced some changes to its program policies to encourage butter manufacturers to sell butter to the CDC under the <u>Plan A</u> in 2012 to ensure supplies during that calendar year. The success of these changes will be evaluated during 2012 and adjustments will be made if necessary.</p>

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 planned to undertake the following strategic initiatives during dairy year 2011-2012.

Complete the transition to IFRS (International Financial Reporting Standards)

CDC financial systems were compliant with IFRS by August 1, 2011. Quarterly financial statements were prepared using IFRS and so will year-end financial statements of dairy year 2011-2012. The CDC aims for a clean opinion from the Office of the Auditor General (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 2011 Special Examination of the CDC, the OAG recommended that the CDC 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 Board develop procedures for members to declare and manage conflicts of interest.

As a result, the Board periodically assesses its collective skills and continues to seek outside expertise when deemed necessary for specific projects.

The Board also created a provision in its by-laws that requires each member to put on record any existing (potential, real or perceived) conflicts under the *Conflict of Interest Act*, and developed procedures to manage conflicts.

Align the CDC Annual Report to the TBS guidelines

In the fall of 2010, TBS circulated new guidelines on Crown corporations Annual Reports. Although the version circulated was not quite final, 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.

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 seemed that the last reason to hold on to the dairy year may have disappeared. Keeping two different years for different purposes complicates the operations and reporting of the Corporation.

In 2011-2012, the CDC analyzed the implications of planning all activities and reporting on them on a fiscal year basis only. This analysis included consultations with the industry and central government agencies. The results of this analysis were that such a change would require too many resources to adapt all the applications and systems of the CDC as many functions are automated. The CDC therefore decided to solve the problem using the opposite approach, which is to transfer any activity currently managed on a fiscal year basis to a dairy year basis. These functions are essentially limited to the planning, adoption and monitoring of the CDC administrative budget. During the transition of its administrative budget from the fiscal year to the dairy year, the CDC will prepare and adopt a transition budget of four months (April to July 2012).

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 Agriculture and Agri-Food and Treasury Board Secretariat within 60 days of the end of each quarter.

As a result, the CDC prepared quarterly financial statements, posted them on its Internet site and sent them to TBS and the minister of Agriculture and Agri-Food within 60 days of the end of each quarter.

Program evaluations

Every year, the CDC performs at least one program evaluation to ensure that the programs achieve their objectives and are still relevant to their target audience.

In 2011-2012, as part of its 5-year program evaluation cycle, the CDC conducted a program evaluation of the Matching Investment Fund to provide input to 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.

So far in 2011-2012, as part of its Audit Plan, the CDC conducted an internal audit of the Matching Investment Fund. A peer review of the internal audit function was also performed by a private firm and the report was approved by the Board in January 2012. Other planned internal audits will take place during the second part of the dairy year. These are: freight and merchandising, business resumption plan (monitoring), and threat risk assessments (monitoring). The audit of financial statements and responsiveness of management accounting to accountability needs is postponed to the following year. The internal audit of the preparation of the Corporate Plan was cancelled due to a shortage of audit resources.

Appointment of a CEO

The mandate of the CEO expired in October 2011. Minister Ritz extended the mandate of the incumbent until the end of 2011 after which, the CDC Chairman became acting CEO until a new CEO was nominated. On February 7, 2012, Minister Ritz announced the appointment of Mr. Jacques Laforge as CEO of the Canadian Dairy Commission for a three-year term. Mr. Laforge started his functions on the day of his nomination.

The new CEO was rapidly presented with a briefing book and he met with all CDC managers who explained the roles of the various teams within the CDC. Corporate Services, other commissioners and senior management ensured that he got all the information required to fully participate in Board activities and efficiently lead the CDC towards the accomplishment of its goals.

Implement a new code of values and ethics

The *Public Servants Disclosure Protection Act* requires that all organizations that are part of the federal government adopt and implement a new values and ethics code. Its adherence will be a condition of employment for all public servants including employees of Crown corporations.

Accordingly, the CDC drafted a new code of ethics based on the model code provided by TBS and on the TBS *Policy on Conflict of Interest and Post-Employment*. The draft code was approved by the Senior Management Team then sent to legal counsel for comments and presented to the Board, who adopted the CDC Code of Ethics in March 2012. In the next few months, this document will be presented to CDC staff.

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 are 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.

So far, the internal committee that the CDC planned to create to prioritize the reporting and analysis needs of the CDC has not been put in place. In the new dairy year, this mandate will be given to an IT Advisory Committee (see objectives for dairy year 2012-2013).

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. In 2011-2012, the CDC created a small internal task force mandated to study how to make some administrative functions, such as travel claims and bill payment, more efficient. This group will report its recommendations to the Senior Management Team in May 2012.

EXTERNAL ENVIRONMENT

Because of supply management, the environment in which the CDC operates is stable. The support of the Canadian and provincial governments for this system bodes well for this stability and the industry generally enjoys a positive public image. Because of the very nature of supply management, the Canadian dairy industry can rely on some valuable risk mitigation tools such as the pooling of markets and revenues, as well as innovation incentives. As a result, most of the industry is profitable and consumers enjoy a continuous supply of dairy products at predictable prices.

As a key contributor to the Canadian economy in the 2010 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 \$13.7 billion worth of products shipped from approximately 455 processing plants (274 of which are federally registered) accounting for 15% of all processing sales in the food and beverage industry. The dairy processing sector employs 22,650 people.

In 2010, Canada exported \$227 million in dairy products and imported \$610 million in value, for a negative trade balance of -\$383 million. As the World Trade Organization considers a significant portion of Canada's exports of dairy products subsidized, Canada is a minor player on the dairy product export scene.

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 beverages, cheese analogs, frozen desserts 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 gradually continues to rise. Canadian requirements for dairy products increased by 2% in 2010-2011, and by 7% over the last 5 years. The CDC continues to follow trends in demand and adjust milk quota accordingly.

Trends in the Dairy Industry

Milk production is characterized by the strong spirit of collaboration that gave rise to and supports the supply management system. This system aims to match supply to demand as closely as possible and thanks to an appropriate regulatory framework and the collaboration of all parties involved, it achieves this goal.

Table 1. Number of farms and production of milk per province in 2010-2011

Province	Number of farms	Total milk production
	On Aug. 1, 2011	Million kg butterfat
Newfoundland and Labrador	34	1.90
Prince Edward Island	200	3.98
Nova Scotia	245	6.75
New Brunswick	219	5.30
Quebec	6,281	117.00
Ontario	4,137	99.71
Manitoba	344	12.03
Saskatchewan	182	8.55
Alberta	592	25.11
British Columbia	512	25.34
Canada	12,746	305.67

Over the last 20 years, Canadian consumers started consuming less fluid milk, butter and ice cream but increased their per capita consumption of cream, specialty cheeses and yogurt⁴. Manufacturers have responded to these trends by offering more diversity. Canada now produces over 650 distinct varieties of cheese. Seventy-one percent of these are made in Quebec, 19% in Ontario and 10% in other provinces. Innovation programs administered by the CDC were certainly a factor in the development of some of these new products. The CDC expects that over the next five years, overall domestic consumption of dairy products will continue to grow at a modest pace.

On the international front, negotiations at the World Trade Organization (WTO) have not progressed during the last 12 months and it is unclear whether or not a new multilateral trade agreement will come into force in the next dairy year (2012-2013). Trade negotiations between Canada and the European Union are progressing and it is possible that an agreement will be reached in 2012. The EU's proposal for enhanced protection of Geographical Indications remains a concern for the dairy sector. Canadian products such as cheese have been developed over many generations in Canada, using the same methods and generic names as cheeses made in Europe and elsewhere (e.g. Parmesan and Feta).

In the fall of 2011, milk production was lagging behind demand. The Western provinces had to deal with bad weather (floods followed by drought) and in the East, milk boards waited too long, in the opinion of the CDC, before issuing significant incentives to their producers to increase production. Because demand is usually high in the fall, the CDC imported most of the butter that needs to be imported annually under Canada's WTO obligations. It also resold into the market a large part of the butter inventories that it keeps specifically for such situations. At the same time, the CDC and provinces put in place several production incentives for farmers and production is now increasing at a satisfying rate. This will likely increase the amount of surplus skim milk powder (SMP) that the CDC will need to purchase in the Surplus Removal Program during the rest of the 2011-2012 dairy year and possibly into 2012-2013. In the last two years, the CDC had been successful in reducing its inventory of SMP from 33,300 t to

⁴ Source: www.dairyinfo.gc.ca

11,000 t. To maintain stocks at a reasonable level, the CDC will reduce the selling price of its SMP to encourage the use of additional amounts in animal feed and will export as much as possible given the limits imposed by the WTO. It will also work with the industry to create new products and markets for solids non fat. This will be done largely through existing means such as the Dairy Marketing Program and the Domestic Dairy Product Innovation Program.

Over the years, the CDC has established excellent working relationships with industry stakeholders. The CDC is largely seen as an unbiased partner that has an intricate understanding of the milk supply management system and can propose solutions that will be acceptable to the entire industry. It is also seen as a good program administrator, as several industry programs are administered by CDC staff.

Financial Trends

After several years of low interest rates, the CDC expects to see them rise in 2012-2013. 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 the program. Therefore, increases in interest rates will have no impact on the financial situation of the CDC.

In recent years, the world price of dairy products has been increasingly volatile. This directly affects CDC revenues from skim milk powder export sales and indirectly affects revenues from the sale of surplus skim milk powder on the animal feed market. It becomes difficult to establish a purchase price for these products that will allow the CDC to break even once these products are resold. Close monitoring of world prices, of milk production in the various areas of the world, and of demand in emerging economies allow the CDC to fine-tune its determination of purchase prices.

CORPORATE RESOURCES

Financial Resources

The CDC has an administrative budget of \$7.99 million, approximately half of which is covered by government appropriations. The other half comes from the dairy industry, commercial operations and the marketplace.

In order to reduce its administrative budget for 2012-2013 and still grant its employees the pay increases that are provided for in the various collective agreements, the CDC is taking several cost reduction measures. The main ones are as follows: reduce the purchasing of professional services and data and the budget for travel and professional development. Further budgetary reductions are planned for 2013-2014 and 2014-2015.

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 Consolidated Revenue Fund and costs are covered by dairy producers and the marketplace. These loans are repaid within their terms and conditions.

In order to perform the pooling of revenues and markets on behalf of the dairy industry, the CDC maintains a line of credit with a member of the Canadian Payments Association. As established in the *CDC Act*, the CDC recovers all expenses related to the administration of the pools from those pools.

The CDC does not own capital assets such as buildings. However, due to the programs already mentioned, it owns inventory of dairy products such as butter and skim milk powder. The level of these stocks varies within one 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 any fluctuations. Further details will be presented in the financial section of this Corporate Plan.

Human Resources

The CDC's employees are knowledgeable and experienced within their respective specialized fields. They are definitely one of the CDC's biggest strengths. Thanks to its staff, the CDC has a global view of the industry. The CDC invests in training and development to ensure that employees succeed at meeting CDC's goals. For the upcoming year, the CDC will allocate the equivalent of 1.25% 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, especially during a time of budgetary constraints. 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. Furthermore, the CDC will give particular attention, in 2012-2013, to the potential disengagement of its work force that can be caused by budget cuts.

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. No changes in the number of employees are forecasted in the next year. A reduction of two FTEs is planned over the next three years.

Material Resources

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

The CDC leases office space from Agriculture and Agri-Food Canada and has signed a new lease agreement for the period of April 1, 2012 to March 31, 2017 with the possibility to renew for another 5 year period at rental market value rates established by Treasury Board Policy on Management of Real Property.

OBJECTIVES, STRATEGIES AND PERFORMANCE MEASURES

STRATEGIC PLANNING PROCESS

The Canadian Dairy Commission (CDC) strategic planning process engages the Board, the Senior Management Team and all managers. It 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 future direction, objectives, performance measures and activities for the next dairy year. The plan is used to create individual objectives for directors, managers and employees. Each employee receives a summary of the objectives and activities before the start of the new year.

This Corporate Plan Summary is an output of the strategic planning process outlining how the CDC will perform its mission and achieve its mandate in 2012-2013.

BUSINESS SEGMENTS AND STRATEGIES

The CDC uses three business segments to present its objectives for the coming period. The business segments that are related to CDC's services to the industry match the two parts of its legislated mandate. 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 the CDC's legislated mandate. Activities 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 specific 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 priorities of the federal government.

a) Business segment: Producer revenue

Under this business segment, the CDC's strategy is twofold: maintaining fair milk prices at the farm level and developing markets. The CDC 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.

b) Business segment: Supply of dairy products

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. 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.

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.

GOALS, OBJECTIVES AND PERFORMANCE MEASURES FOR 2012-2013

Goal 1. 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

Expected result	Performance indicator
Efficient producers of milk receive adequate revenues.	Revenues from milk sales cover the cost of a reasonable percentage of the milk produced in Canada.

The CDC plays two roles when it comes to the pricing of milk at the farm level. One role is to establish support prices for butter and skim milk powder (SMP)⁵. Every year, the CDC coordinates a nationwide study on the cost of producing one hectolitre of milk (COP study). This cost is one of the main drivers of support prices.

Specific activities for 2012-2013	Performance indicator
Review the calculations of the labour component of the COP study.	<ul style="list-style-type: none"> • Analysis of labor calculations • Allocation of appropriate rates to producer management time
Update and harmonize the procedures for the COP study.	<ul style="list-style-type: none"> • A COP Technical Committee is in place and makes recommendations to the CDC regarding the harmonization of COP data collection and reconciliation with a focus on reducing the cost of this annual study.

⁵ The other role of the CDC is to calculate the result of the formula used to establish the price of fluid milk.

Market development

Expected result	Performance indicator
Canadian demand for dairy products and components is sustained or increased.	<ul style="list-style-type: none"> • Programs that the CDC administers and that promote innovation are used by their intended audience.

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 CDC administers the Domestic Dairy Products Innovation Program (DDPIP) on behalf of the dairy industry. This program gives access to a certain quantity of milk to dairy processors who want to launch a new dairy product. In 2011-2012, the Canadian Milk Supply Management Committee (CMSMC) extended the program for two years but changed some of its guidelines.

Specific activities for 2012-2013	Performance indicator
Implement the new guidelines of the DDPIP and monitor compliance by program participants with the new guidelines.	<ul style="list-style-type: none"> • Communication of new guidelines to participants • Participants comply with the new guidelines • Reception of 40 applications

The Dairy Marketing Program (DMP) provides expertise and easy access to programs and services that encourage the manufacture and use of dairy ingredients. The Matching Investment Fund (MIF) is part of the DMP and 2011-2012 was the last year of the program. A decision on its renewal should be made between April 1 and July 31, 2012.

Specific activities for 2012-2013	Performance indicator
Implement the new format of the MIF program.	<ul style="list-style-type: none"> • Reception of 5 applications under the new program⁶
Increase the level of activity under the Dairy Marketing Program.	<ul style="list-style-type: none"> • 55 visits to targeted dairy ingredient users • 5 trade shows • 5 outreach activities

The administration of the Special Milk Class Permit Program (SMCPP) involves about one third of the CDC staff. In an effort to gain efficiency in the administration of the program (including audits and IT requirements), the CDC conducted a business process analysis of the program in 2011-2012.

Specific activities for 2012-2013	Performance indicator
Implement the agreed to recommendations of the business process analysis report.	<ul style="list-style-type: none"> • Undertake the creation of the new Special Class Web-based, interactive computer application under the supervision of an internal Steering Committee.

⁶ If it is renewed.

Pool administration

Expected results	Performance indicators
Market and revenues are shared between pool partners in accordance with federal-provincial agreements.	<ul style="list-style-type: none"> • 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 received from provincial marketing boards

The CDC currently co-chairs the P10 Negotiating Committee, a group that was mandated to negotiate the establishment of a national pool for all milk.

Specific activities for 2012-2013	Performance indicators
Continue working with the P10 Negotiating Committee to arrive at an agreement on revenue sharing, market sharing and milk allocation. Provide relevant and required technical analyses.	<ul style="list-style-type: none"> • Circulation of a draft agreement to all provinces and reception of comments

External audits

Expected results	Performance indicators
Milk components are paid for in accordance with their end use and any audited company that does not comply with Import for Re-export Program (IREP) requirements is reported to the Department of Foreign affairs and International Trade (DFAIT).	<ul style="list-style-type: none"> • 45 audits of special class participants • 6 audits of IREP participants • Milk plant utilization audits in 6 provinces • Milk plant utilization audits are monitored and reported on twice a year in the other 4 provinces • Audit assurance is obtained through specified procedures performed in all 10 provinces and data are accurately reported

The CDC promotes the harmonization of audit practices in all 10 provinces as well as the utilization of best audit practices.

Specific activities for 2012-2013	Performance indicators
Hold a meeting of provincial auditors at the national level to promote the use of harmonized best audit practices	Hold meeting
Participate in harmonization efforts at the regional levels (East and West).	More harmonized audit practices in the East and the West
Report on progress of audit activities in the four provinces where the CDC is not the auditor and promote continuity	Presentation of reports

of services and the use of a common milk utilization audit software.	
Continue to encourage the reception of audited electronic data from Ontario and Quebec for the purpose of administering the program and auditing participants of the Special Milk Class Permit Program.	Regular reception of audited data from Ontario and Quebec

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

Manage the national industrial milk supply

Expected results	Performance indicators
<ul style="list-style-type: none"> The Canadian milk production matches demand. Exports of solids non fat are maximized. 	<ul style="list-style-type: none"> Milk production is between 99.5 and 100.5% of total quota Subsidized export categories of skim milk powder and incorporated products are filled at least at 95%

The CDC administers the production management pillar of Canada’s supply management system for milk. To do so, the CDC calculates demand and examines various ways to ensure that production meets demand.

Specific activities for 2012-2013	Performance indicators
Review the calculation of total demand and the level of stocks needed to ensure sufficient supplies of dairy products year round.	<ul style="list-style-type: none"> Presentation of recommendations to the CMSMC Secretariat.
Examine the need for a permanent growth reserve to be added to the quota for industrial milk. This reserve would ensure that enough milk is available during periods of significant market growth.	<ul style="list-style-type: none"> Close monitoring and periodical assessment of the need for a growth allowance. In addition, develop a recommendation for a permanent growth reserve to ensure that enough milk is available during periods of significant market growth.

In order to produce enough butterfat to supply the domestic market, the current system generates a surplus of milk solids non fat. The CDC believes that a long term strategy is required to develop markets for these milk solids non fat.

Specific activities for 2012-2013	Performance indicators
Initiate discussions and consultations with the industry to develop a long term ingredient strategy that would build on past initiatives and increase utilization of surplus solids non fat.	<ul style="list-style-type: none"> Presentation of a draft strategy to the CMSMC Agreement on a final strategy by the CMSMC

Seasonality programs

Expected results	Performance indicators
Dairy products are available to Canadians all year.	<ul style="list-style-type: none">• Provincial milk marketing boards report no seasonal shortages of dairy products• CDC butter stocks never fall below 90% of normal level

Specific activities for 2012-2013	Performance indicators
Monitor the effects of the changes to Seasonality Program policies for the 2012 calendar year to ensure that they meet their objectives and adjust policies for 2013 if required.	<ul style="list-style-type: none">• Submission of report to the Board on the effects of the 2012 changes• Presentation to the Board of adjustments to the policies

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 activities during dairy year 2012-2013.

Adopt a dairy year basis for all activities

Harmonize all CDC activities and operations to be based on the dairy year (August 1 to July 31).
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Program evaluations

Conduct a program evaluation of Class 4(a)1, a class put in place in 2005 to encourage the use of solids non fat in the manufacture of non-standardized products in the processed cheese category.
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Internal audits

Perform internal audits of the following activities: funding of the Dairy Research Cluster by the CDC, conformity of the Annual Report to TBS guidelines, the memorandum of understanding (MOU) between the CDC and Justice Canada for legal services, the MOU between the CDC and Agriculture and Agri-Food Canada for IT services, the management of butter resale, and data collection for the annual survey on the cost of production. Internal auditors will also monitor and provide advice for the design of the new computer application for the Special Milk Class Permit Program.

Implement new code of values and ethics

The *Public Servants Disclosure Protection Act* requires that all organizations that are part of the Federal government adopt and implement a new values and ethics code. The CDC Board adopted a Code of Ethics for the CDC on March 28, 2012 and this code constitutes a condition of employment for employees. This new code replaces the Values and Ethics Code for the Public Service.

Communicate its new Code of Ethics to its staff. This code includes employee obligations related to conflicts of interest and post-employment.

Increase the efficiency of CDC's operations

Create an IT Advisory Committee to prioritize the needs of the CDC, so that the IT section is able to respond first to the most important requests.

Implement the agreed upon recommendations made by a small internal task force that was mandated in 2011-2012 to study how to make some administrative functions more efficient.

Maintain employee engagement in a cost-reduction environment

The administrative budget of the CDC will be reduced over the next three years. This may cause some employees to feel insecure and disengaged if nothing is done to reassure and inform them of the situation.

Assess current and future HR requirements and work load to mitigate the impact of the budgetary constraints on the CDC workforce and on the delivery of programs and services.

Implement mechanisms that encourage co-operation, exchange of ideas and sharing of resources within the CDC to produce efficiency gains and reduce costs.

Ensure continuous communication with its staff members about the actual budget constraints and how they will be managed.

BROAD OBJECTIVES FOR THE REST OF THE PLANNING PERIOD

For the rest of the planning period (2013-2014 to 2016-2017) the broad orientations of the CDC are expected to remain relatively unchanged. The organization will therefore continue to articulate its areas of activity around the two parts of the mandate contained in the *CDC Act* – ensuring fair revenues to dairy farmers and ensuring a steady supply of dairy products to Canadian consumers. The programs administered or offered by the CDC may be modified by the CMSMC and the CDC Board over the years but their target audience and basic principles should remain the same. These principles include favouring the development of new products, encouraging the use of dairy products and ingredients in further processing, ensuring a sufficient supply of milk and dairy products, and maximizing producer revenues.

Some of the CDC initiatives for 2012-2013 will likely continue into 2013-2014 and beyond. Initiatives such as the negotiation of a national pool for all milk and the harmonization of audit practices require the participation and the unanimous approval of all 10 provinces and are therefore longer term projects. Discussions with the industry on a long term ingredient strategy and the overhaul of the administration of the Special Milk Class Permit Program will also extend past 2012-2013.

The CDC also plans to continue to refine the tools it uses to calculate the cost of production for milk, to estimate domestic demand and to set production quotas. It will continue to buy the structural surplus of skim milk powder and to sell it in marginal domestic markets such as animal feed, or to export it within Canada's commitments to the World Trade Organization. Provided that it continues to receive the import permit for the butter tariff rate quota, the CDC will fund initiatives that benefit the entire industry.

The CDC will continue to improve its internal operations to find efficiencies and reduce costs, at least until 2014-2015, to adapt to the 10% reduction in its appropriations. Efforts will also continue to maintain employee engagement in this cost-reduction environment.

FINANCIAL INFORMATION

SUMMARY

Financially, the planning period covered in this Corporate Plan will not be very different from the few years past. No new capital expenses and no significant changes to programs and activities are forecasted. The transition to the International Financial Reporting Standards is completed and the financial statements presented in this Plan are based on these standards.

MAJOR ASSUMPTIONS USED IN THE PREPARATION OF THE BUDGET AND FORECAST

Figures for 2010-2011 are actual. Figures for 2011-2012 are forecasted while those for subsequent years are projected.

For dairy year 2010-2011, Canadian requirements finished the year at 189.5 million kg of butterfat. They decreased slightly during the first part of the current dairy year. As of March 1, 2012, Canadian requirements stood at 185.0 million kg of butterfat. Given the recent trends and the state of the economy, it is expected that the Canadian requirements will increase during the rest of the 2011-2012 dairy year to reach about 190.5 million kg of butterfat.

A reduction of 10% of appropriations is forecasted between 2012-2013 and 2014-2015.

CANADIAN DAIRY COMMISSION
STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
for the Dairy Years ended July 31, 2011 - 2017

(in thousands)

	Actual Audited	Budget	Forecast	Budget					
				2010-11	2011-12	2011-12	2012-13	2013-14	2014-15
Sales and Cost of Sales									
Domestic sales revenue	\$ 241,335	\$ 208,765	\$ 228,299	\$ 220,113	\$ 232,094	\$ 235,709	\$ 239,458	\$ 243,177	
Cost of goods sold domestically	214,746	198,447	204,742	207,090	218,363	221,765	225,475	229,207	
Transport and carrying charges	4,199	4,993	4,645	4,845	5,664	5,798	5,917	6,037	
Gross profit on domestic sales	22,390	5,325	18,912	8,178	8,067	8,145	8,066	7,933	
Export sales revenue	37,614	32,500	27,379	26,680	26,680	26,680	26,680	26,680	
Cost of goods exported	36,187	31,620	26,267	25,984	25,954	25,944	25,944	25,944	
Transport and carrying charges	919	793	974	660	667	681	694	708	
Gross profit on export sales	508	87	138	36	59	55	42	28	
Total gross profit	22,898	5,412	19,050	8,214	8,126	8,201	8,108	7,960	
Other revenues									
Pooling contributions withheld to fund operating expenses	6,419	7,000	5,469	5,258	5,760	6,131	7,317	7,385	
Funding from the Government of Canada	4,031	4,090	4,473	4,180	3,949	3,612	3,612	3,612	
Audit services	124	236	221	173	173	173	173	173	
	10,574	11,326	10,163	9,611	9,882	9,916	11,102	11,170	
Total	33,472	16,738	29,213	17,825	18,008	18,117	19,210	19,130	
Operating Expenses									
Industry initiatives	426	4,165	3,043	1,465	2,014	46	46	46	
Concentrated Milk Assistance Program	109	350	4	-	-	-	-	-	
Cost of Production study	824	836	840	859	870	882	893	905	
Other charges / (recoveries)	(43)	(294)	(280)	(273)	(300)	(300)	(300)	(300)	
	1,207	4,707	3,603	2,050	2,584	628	639	651	
Administrative Expenses									
Salaries and employee benefits	5,683	5,965	5,893	6,001	5,925	5,773	5,773	5,773	
Other administrative expenses	2,043	2,121	2,193	1,989	1,934	1,920	1,920	1,920	
	7,726	8,086	8,086	7,990	7,859	7,693	7,693	7,693	
Total	9,042	12,793	11,693	10,040	10,443	8,321	8,332	8,344	
Results of operations before distribution to provincial milk boards and agencies	24,430	3,945	17,520	7,784	7,565	9,796	10,878	10,786	
Distribution to provincial milk boards and agencies	24,573	8,435	21,225	10,668	11,270	11,426	11,415	11,350	
Results of operations and comprehensive income	\$ (143)	\$ (4,490)	\$ (3,705)	\$ (2,884)	\$ (3,706)	\$ (1,630)	\$ (537)	\$ (564)	

CANADIAN DAIRY COMMISSION
STATEMENT OF COSTS FINANCED BY THE GOVERNMENT OF CANADA
for the Dairy Years ending July 31, 2011 - 2017

(in thousands)

	Actual	Forecast	Budget				
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Administrative expenses							
CDC appropriation Vote 15	\$ 3,825	\$ 3,930	\$ 3,932	\$ 3,804	\$ 3,542	\$ 3,542	\$ 3,542
Eligible payroll expenditures	206	543	248	145	70	70	70
Total costs financed by the							
Government of Canada	\$ <u>4,031</u>	\$ <u>4,473</u>	\$ <u>4,180</u>	\$ <u>3,949</u>	\$ <u>3,612</u>	\$ <u>3,612</u>	\$ <u>3,612</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, 2011 - 2017

(in thousands)

	Actual 2010-11	Forecast 2011-12	Budget				
	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Administrative expenses							
CDC appropriation Vote 15	\$ 3,930	\$ 3,914	\$ 3,935	\$ 3,935	\$ 3,542	\$ 3,542	\$ 3,542
Eligible payroll expenditures	217	541	245	145	70	70	70
Total costs financed by the Government of Canada	<u>\$ 4,147</u>	<u>\$ 4,455</u>	<u>\$ 4,180</u>	<u>\$ 4,080</u>	<u>\$ 3,612</u>	<u>\$ 3,612</u>	<u>\$ 3,612</u>

CANADIAN DAIRY COMMISSION
BORROWING PLAN
for the Dairy Years ending July 31, 2011 - 2017

(in thousands)

Consolidated Revenue Fund

Loan transactions	Actual	Forecast	Projected				
	Audited 2010-11		2012-13	2013-14	2014-15	2015-16	2016-17
Balance at beginning of year	\$ 98,927	\$ 55,848	\$ 96,920	\$ 97,992	\$ 99,693	\$ 103,324	\$ 106,035
Drawings	157,921	160,000	155,000	155,000	155,000	155,000	155,000
Repayments	(201,000)	(118,928)	(153,928)	(153,299)	(151,369)	(152,289)	(152,167)
Balance at end of year	<u>\$ 55,848</u>	<u>\$ 96,920</u>	<u>\$ 97,992</u>	<u>\$ 99,693</u>	<u>\$ 103,324</u>	<u>\$ 106,035</u>	<u>\$ 108,868</u>
Average level during year:	\$43,594	\$48,362	\$60,000	\$65,000	\$70,000	\$70,000	\$75,000
Highest level during year:							
Month	August	June	June	June	June	June	June
Amount	\$ 99M	\$ 120M	\$ 122M	\$ 127M	\$ 131M	\$ 133M	\$ 136M

Member of Canadian Payments Association

Loan transactions	Actual	Forecast	Projected				
	2010-11		2012-13	2013-14	2014-15	2015-16	2016-17
Balance at beginning of year	\$ 2,314	\$ 1,154	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Drawings	15,615	14,114	15,500	15,500	15,500	15,500	15,500
Repayments	(16,775)	(14,268)	(15,500)	(15,500)	(15,500)	(15,500)	(15,500)
Balance at end of year	<u>\$ 1,154</u>	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ 1,000</u>

Authority:

Under the authority of the *Canadian Dairy Commission Act*, the Commission may borrow money from the Government of Canada out of the Consolidated Revenue Fund.

The Commission has also established a line of credit with a member of the Canadian Payments Association. Currently, the Minister of Finance has authorized borrowings from the Consolidated Revenue Fund (CRF) for which the outstanding amount shall not exceed \$165 million at any time.

The Minister of Finance has also approved lines of credit of up to \$50 million outstanding with members of the Canadian Payments Association.

Reason for borrowing:

These loans are required so that the Commission may fulfill 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
CAPITAL BUDGET
for the Dairy Years ending July 31, 2011 - 2017

(in thousands)

	Actual	Forecast	Budget				
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Major capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Minor capital	<u>106</u>	<u>135</u>	<u>120</u>	<u>120</u>	<u>120</u>	<u>120</u>	<u>120</u>
Total capital budget	<u>\$ 106</u>	<u>\$ 135</u>	<u>\$ 120</u>	<u>\$ 120</u>	<u>\$ 120</u>	<u>\$ 120</u>	<u>\$ 120</u>

Minor Capital expenditures for the years 2011-2012 through to 2016-2017 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 in the financial tables.

APPENDIX

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.

Skim milk powder

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

Solids non fat

What is left from the milk after the butterfat and water have been removed. Solids non fat (SNF) 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.

Structural Surplus

Since milk production quotas are measured in terms of kg of butterfat, and because the demand in Canada is greater for butterfat than for the non fat portion of milk, there is a surplus of non fat milk components, mainly in the form of skim milk powder.

Support Prices

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

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