



Canadian Dairy
Commission

Commission
canadienne du lait

CORPORATE PLAN SUMMARY FOR 2013-2014 TO 2017-2018

OPERATING AND CAPITAL BUDGETS
FOR THE DAIRY YEAR ENDING JULY 31, 2014

Corporate Plan dated April 1, 2013

DM249155

TABLE OF CONTENTS

TABLE OF CONTENTS	1
EXECUTIVE SUMMARY	2
PROFILE OF THE CANADIAN DAIRY COMMISSION	1
CDC at a glance.....	1
Mission.....	1
Mandate.....	1
Public policy role.....	1
Main Activities	2
Official Languages.....	3
Governance and structure.....	4
STRATEGIC ISSUES FOR THE PLANNING PERIOD	6
ASSESSMENT OF RESULTS FOR 2012-2013.....	6
External Environment.....	14
Corporate Resources.....	16
OBJECTIVES, STRATEGIES AND PERFORMANCE MEASURES	18
Strategic Planning Process	18
Business Segments and strategies	18
Goals, objectives and performance measures for 2013-2014	19
Broad objectives for the rest of the planning period.....	26
FINANCIAL INFORMATION	27
Summary	27
Major assumptions used in the preparation of the budget and forecast	27
APPENDIX	33

EXECUTIVE SUMMARY

The Canadian Dairy Commission (CDC) is a Crown Corporation of 61 employees that coordinates milk production in Canada, and sets reference levels for the establishment of farm gate milk price. 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, 2013, the CDC is in good financial position and will achieve most of its objectives for the 2012-2013 dairy year. It has exercised the necessary budget restraints to realize a 10% reduction in its annual budget by 2014-2015, as outlined in the federal Budget 2012. Over the planning period, the CDC will continue to review and prioritize its activities to achieve increased efficiency and cost savings. Good planning and internal communications are being used to mitigate the impact of budget cuts on service delivery and employee engagement.

It is expected that domestic demand for dairy products will keep growing at a constant albeit modest pace during the planning period. 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 as it adapts to the changing markets. It will encourage the industry to direct the milk to growing markets such as yogurt and cheese and continue its efforts to develop new markets for the non fat portion of the 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

61 employees as of April 1, 2013

Budget 2013-2014 (dairy year): \$7.75 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 management 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 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 producers¹, 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 total quantity of butter in Canada's World Trade Organization (WTO) tariff rate quota and sells this butter to participants in the SMCPP through butter manufacturers. Part of any profit that the CDC generates by this activity is used to finance initiatives that provide benefits to the industry. Examples of these

¹ Underlined words and phrases are explained in Appendix A.

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 established for Canada at the WTO for subsidized exports.

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 new five-year Growing Forward 2 (GF2) agriculture policy framework. GF2, which comes into effect on April 1, 2013, focuses on strategic initiatives in innovation, competitiveness and market development to further strengthen the sector's capacity to grow and prosper. Several CDC-administered programs fall exactly in line with these priorities. Programs such as the Matching Investment Fund, the Domestic Dairy Product Innovation Program, the Scholarship Program and the activities under the Dairy Marketing Program are good examples. 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 class² to a less lucrative class, will also be distributed on many farms, thereby reducing its impact on individual farms. Furthermore, price setting, production management and predictable imports provide stability in the domestic market and reduce risks for both farmers and processors.

The CDC will continue to support the Growing Forward 2 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, 97% 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.

² A description of milk classes can be found at: <http://www.cdc-ccl.gc.ca/CDC/index-eng.php?id=3811>

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 Commissioner³. 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. The Chairperson and the Commissioner are paid a yearly retainer and a per diem whereas the CEO is paid a per diem. Amounts are set by the Governor in Council.

As of April 1, 2013, 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

³ The Board's bylaws are available at http://www.cdc-ccl.gc.ca/CDC/userfiles/file/Governance_2011.pdf

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 2012-2013

As of April 1, 2013, the Canadian Dairy Commission (CDC) is on its way to achieving most of its objectives for 2012-2013. No changes in roles are expected in the foreseeable future and therefore the main goals will remain unchanged for the planning period. The CDC will continue to improve and adapt the various aspects of milk supply management over which it has some influence. These include the annual study on the cost of producing milk in Canada, the tools used to forecast demand and production, the required levels of stocks, and audits. The CDC will also continue to improve the efficiency of its operations and follow good governance practices.

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. As 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, 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	Achievements as of April 1, 2013
Efficient producers of milk receive fair revenues.	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.

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)⁴. 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	Achievements as of April 1, 2013
Review the calculations of the labour component of the COP study.	<ul style="list-style-type: none"> • Analysis of labour calculations • Allocation of appropriate rates to producer management time 	<ul style="list-style-type: none"> • The analysis is completed and recommendations will be presented to the CDC board in June. A decision on rates is expected at that time.
Update and harmonize the procedures for the	<ul style="list-style-type: none"> • A COP Technical Committee⁵ is in 	<ul style="list-style-type: none"> • In collaboration with the COP

⁴ The other role of the CDC is to calculate the result of the formula used to establish the price of fluid milk.

COP study.	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.	Technical Committee, the CDC updated the COP manual.
------------	--	--

Market development

Expected result	Performance indicator	Achievements as of April 1, 2013
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. 	<ul style="list-style-type: none"> 19 new applications received under the Domestic Dairy Product Innovation Program (DDPIP) (more than the previous year) 16 new applications received under the Matching Investment Fund (MIF) (similar to previous year) These numbers of applications are considered satisfactory.

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	Achievements as of April 1, 2013
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 	<ul style="list-style-type: none"> The new guidelines were communicated to participants in September 2012 and are used by the Selection Committee The CDC received 19 applications so far and 3 were approved.

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 it has been renewed until 2013-2014.

Specific activities for 2012-	Performance indicator	Achievements as of April 1, 2013
-------------------------------	-----------------------	----------------------------------

⁵ With membership from the CDC, Dairy Farmers of Canada, and milk marketing boards from Quebec, Ontario, the Atlantic and Western Canada.

2013		
Implement the new format of the MIF program.	<ul style="list-style-type: none"> • Reception of 5 applications under the new program 	<ul style="list-style-type: none"> • 16 applications have been received for the new program so far and 4 were approved. Four applications are awaiting review by the evaluation committee.
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 	<ul style="list-style-type: none"> • Meetings/exchanges with over 50 dairy processors/further processors took place while participating in four major industry events.

The administration of the Special Milk Class Permit Program (SMCPP) directly 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	Achievements as of April 1, 2013
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. 	<ul style="list-style-type: none"> • The new computer application is being developed and set to be launched on August 1, 2013.

Pool administration

Expected results	Performance indicators	Achievements as of April 1, 2013
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 	<ul style="list-style-type: none"> • Pooling calculations have been done within 3 working days of reception of all provincial data • Funds were transferred no later than 5 working days after calculations • No request for recalculation of pooling transfers received so far

For part of this year, the CDC co-chaired the P10 Negotiating Committee, a group that was mandated to negotiate the establishment of a national pool for all milk. The activities of this group were suspended in September 2012.

Specific activities for 2012-2013	Performance indicators	Achievements as of April 1, 2013
Continue working with the P10 Negotiating Committee to arrive at an agreement on revenue sharing, market sharing	<ul style="list-style-type: none"> • Circulation of a draft agreement to all provinces and reception of comments 	<ul style="list-style-type: none"> • The P10 Negotiating Committee was unable to reach a consensus that would allow the drafting of a

and milk allocation. Provide relevant and required technical analyses.		<p>new pooling agreement.</p> <ul style="list-style-type: none"> • It did, however, make several recommendations to the CMSMC and some of these were approved while others are still under discussion. • Further work on an agreement for national revenue and market sharing is suspended until the industry decides to resume discussions.
--	--	--

External audits

Expected results	Performance indicators	Achievements as of April 1, 2013
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 	<ul style="list-style-type: none"> • 43 special class audits have been completed or are in progress. • 5 IREP audits have been completed or are in progress. • Utilization audit work is complete in all six provinces. • Done twice. • Reports were received for 9 of 10 provinces.

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	Achievements as of April 1, 2013
Hold a meeting of provincial auditors at the national level to promote the use of harmonized best audit practices	Hold meeting	<ul style="list-style-type: none"> • A meeting of provincial auditors will be held on April 25, 2013 and results will be reflected in the National Milk Utilization Audit Standards
Participate in harmonization efforts at the regional levels (East and West).	More harmonized audit practices in the East and the West	<ul style="list-style-type: none"> • Since the adoption of amendments to the National Milk Utilization Audit Standards by CMSMC in late July 2012, reporting requirements for class 4(a)1 have been improved. • Audit and administration procedures are being discussed

		and developed for the new class 3(d) (see page 21).
Report on progress of audit activities in the four provinces where the CDC is not the auditor and promote continuity of services and the use of a common milk utilization audit software.	Presentation of reports to the CMSMC	<ul style="list-style-type: none"> • Progress reports for all provinces on audit activities were presented to CMSMC. • Some discussions were held with the Maritime provinces to promote and adopt a common software for Eastern provinces. Benefits would include: <ul style="list-style-type: none"> • efficiency gains by eliminating manual data entry, • improved data accuracy, • mitigation of loss of industry specific audit knowledge because of retirements.
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	<ul style="list-style-type: none"> • Discussions have been held with Ontario and Quebec but more are needed to address the following: <ul style="list-style-type: none"> • processor confidentiality issues, • direct reporting to CDC from Ontario and Quebec software, • automation of data exchange on inter-provincial transfers of dairy products.

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	Achievements as of April 1, 2013
<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 (SMP) 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 101.8% of total quota⁶ • For the first 7 months of the dairy year, these exports categories are filled at 51% for SMP and at 50% for incorporated products. They are expected to be completely filled

⁶ In 2011-2012, total milk production reached 100.8% of total quota and therefore was close to satisfactory.

		by the end of the year.
--	--	-------------------------

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	Achievements as of April 1, 2013
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. 	<ul style="list-style-type: none"> • A detailed presentation on milk demand, supplies and inventories is made to each Secretariat and CMSMC meetings • A review of the information and tools used to forecast production and demand is planned for 2013-2014.
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. 	<ul style="list-style-type: none"> • A permanent 1% growth allowance was approved by the CMSMC in July 2012 and implemented by the Western and the Eastern pools on August 1 and October 1, 2012, respectively.

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	Achievements as of April 1, 2013
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 	<ul style="list-style-type: none"> • A three-year strategy was presented to stakeholders individually. This strategy includes measures related to the surplus of skim milk solids. • Some of the elements of this strategy have been presented to the CMSMC and approved. Other elements will be presented during the rest of the dairy year.

Seasonality programs

Expected results	Performance indicators	Achievements as of April 1, 2013
Dairy products are available to Canadians all year.	<ul style="list-style-type: none"> • Provincial milk marketing boards report no seasonal shortages of dairy 	<ul style="list-style-type: none"> • So far, no shortages have been reported by provincial milk

	products <ul style="list-style-type: none"> • CDC butter stocks never fall below 90% of normal level 	marketing boards. <ul style="list-style-type: none"> • So far, butter stocks have not been below 90% of their normal level this dairy year.
--	---	--

Specific activities for 2012-2013	Performance indicators	Achievements as of April 1, 2013
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 	<ul style="list-style-type: none"> • The level of stocks during the year was such that there was no need to make policy changes. This was reported to the board.

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 had planned to undertake the following strategic activities during dairy year 2012-2013.

Adopt a dairy year basis for all activities

Specific activities for 2012-2013	Achievements as of April 1, 2013
Harmonize all CDC activities and operations to be based on the dairy year (August 1 to July 31).	All activities have been harmonized with the dairy year as of August 1, 2012.

Program evaluations

Specific activities for 2012-2013	Achievements as of April 1, 2013
Conduct a program evaluation of milk 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.	The program evaluation of class 4(a)1 is well underway.

Internal audits

Specific activities for 2012-2013	Achievements as of April 1, 2013
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 cost of production	So far internal audit of the MOU between CDC and Justice Canada for legal services has been completed. Other internal audits will be performed before the end of the dairy year.

study.	
Internal auditors will also monitor and provide advice for the design of the new computer application for the Special Milk Class Permit Program.	An audit manager continues to provide advice to the project management team.

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.

Specific activities for 2012-2013	Achievements as of April 1, 2013
Communicate its new Code of Ethics to its staff. This code includes employee obligations related to conflicts of interest and post-employment.	Presentations on the new Code of Ethics were made to staff members in May 2012 and since then, it is part of the orientation of new employees.

Increase the efficiency of CDC's operations

Specific activities for 2012-2013	Achievements as of April 1, 2013
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.	The IT Advisory Committee was created on March 19, 2013 and a first meeting will be held before the end of the dairy year.
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.	The task force report was received and approved by SMT in May 2012. Most of the recommendations have been implemented.

Maintain employee engagement in a cost-reduction environment

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

Specific activities for 2012-2013	Achievements as of April 1, 2013
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.	HR requirements and work load are currently under review.
Implement mechanisms that encourage co-operation, exchange of ideas and sharing of resources within the CDC to produce efficiency gains and reduce costs.	The CDC held two brainstorming sessions with selected staff members on the current issues facing the dairy industry and potential solutions. More of these sessions are planned for the rest of the dairy year. Furthermore, several inter-team meetings were held to coordinate the implementation of new milk classes.
Ensure continuous communication with its staff	Senior Management has been communicating with their

members about the actual budget constraints and how they will be managed.	respective team. Regular updates by the CEO on budget constraints and other topics have also resumed.
---	--

EXTERNAL ENVIRONMENT

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.

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. Given 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 2011 calendar year, the dairy industry ranked third behind grains and red meats, generating \$5.8 billion in total net farm receipts. The same year, the dairy processing industry generated \$13.7 billion worth of products shipped from approximately 453 processing plants (273 of which are federally registered) accounting for 16% of all processing sales in the food and beverage industry. The dairy processing sector employs 22,500 people.

In 2011, Canada exported \$252 million in dairy products and imported \$670 million in value, for a negative trade balance of -\$418 million. As a significant portion of Canada's exports of dairy products are deemed subsidized and thus, limited by Canada's commitments at the World Trade Organization (WTO), 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. Competition from substitute products is still a reality and further limits growth for dairy producers and processors. Still, demand for dairy products in Canada continues to rise gradually. Although Canadian requirements for dairy products decreased by 0.9% in 2011-2012, the trend for the last five years was a 5% growth. The CDC continues to follow trends in demand and adjust milk quota accordingly.

If the Canadian dairy industry is to adapt to new trends and prosper, it will have to be open to new possibilities and welcome new business opportunities. The CDC intends to encourage the industry in this direction.

Trends in the Dairy Industry

In the last five years, Canada lost 1,058 dairy farms, a 8% reduction. Although it has slowed down considerably, this attrition rate is not very different from rates in non supply-managed commodities, or in US dairy farms. This trend is expected to continue over the planning period. As a result, the financial cost of operating the supply management system will be borne by fewer farmers. This has already had a clear impact on the industry as provincial marketing boards are now trying to share resources and harmonize their policies. This represents an opportunity for the CDC in the coming years to provide facilitation and expertise during interprovincial harmonization.

In the 2011-2012 dairy year, milk production increased rapidly following measures put in place by the various provincial milk boards. This increased production was necessary to satisfy the Canadian demand in butterfat and replenish stocks.

Table 1. Number of farms and production of milk per province in 2011-2012

Province	Number of farms On Aug. 1, 2012	Total milk production Million kg butterfat
Newfoundland and Labrador	33	1.88
Prince Edward Island	193	4.05
Nova Scotia	237	6.87
New Brunswick	214	5.39
Quebec	6,189	118.65
Ontario	4,083	102.37
Manitoba	332	12.87
Saskatchewan	172	9.05
Alberta	585	26.39
British Columbia	491	26.60
Canada	12,529	314.12

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 yogurt⁷. Manufacturers have responded to these trends by offering more diversity. Canada now produces over 1,050 cheeses, 781 of which are made with cow milk. Sixty-eight percent of these are made in Quebec, 19% in Ontario and 13% 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 trade policy front, the agriculture negotiations at the World Trade Organization (WTO) have stalled. The Doha round of agriculture negotiations will not conclude in the next dairy year (2013-2014). Trade negotiations between Canada and the European Union are progressing and an agreement is expected to be concluded in 2013.

The CDC monitors trade negotiations very closely but it is extremely difficult to forecast their results. In any case, it is expected that any new trade deal would have more impact on the dairy industry than on the organization itself. In the current trade talks, the government maintains its support for the supply management system. It has not prevented Canada from signing numerous trade agreements with various nations in the past.

Over the years, the CDC has established excellent working relationships with industry stakeholders. The CDC 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 during the planning period, but only slightly. 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.

⁷ Source: www.dairyinfo.gc.ca

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 has become 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 a number of sources of revenues. It sells approximately \$240 million in dairy products on the domestic and international markets. It receives funding from the dairy industry for programs administered on its behalf as well as appropriations from the federal government. Its most important expense is the purchase of dairy products on the domestic and international markets. The CDC also pays carrying charges for its inventories. These include storage, insurance, transportation and interest charges. A large part of these charges are reimbursed to the CDC by the dairy industry and the market.

The CDC's administrative budget for dairy year 2012-2013 is \$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.

The government has undertaken a Deficit Reduction Action Plan (DRAP) with the goal of reducing expenditures on an ongoing basis until fiscal year 2014-2015. According to the 2012 Federal Budget the funding that the CDC receives from the government will be reduced by 10% or \$393,000 by April 1, 2014. The CDC has taken measures to reduce its overall 2012-2013 administrative budget by \$96,000 compared to 2011-2012. The budget presented in this Corporate Plan includes additional budgetary reductions for the dairy years 2013-2014 (\$243,000) and 2014-2015 to achieve the net savings required by government, including the elimination of two positions.

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 a 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.

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 continue to 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 and to the risk posed by the loss of corporate knowledge due to retirements, the CDC has developed a succession plan for its key positions and is in the process of implementing it. Furthermore, over 200 procedures have been documented and are updated yearly.

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. This is increasingly important given that two FTEs will be removed from the workforce by April 1, 2014 as part of the DRAP . This reduction in employee number is not expected to have a significant impact on the services offered by the CDC. Efforts will also continue to maintain employee engagement in this cost-reduction environment.

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 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 is an output of the strategic planning process outlining how the CDC will perform its mission and achieve its mandate in 2013-2014 and beyond.

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 mandate found in the *CDC Act*. Activities related to internal services, which simply support the legislated mandate, have been grouped together under the business segment *Improve the CDC*. Activities for the three business segments are detailed under the section of this plan entitled *Goals, Objectives and Performance indicators*.

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.

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. In order to maintain fair milk prices, the CDC will continue to improve the tools it uses to set support prices, such as the annual study on the cost of producing milk in Canada. It will also continue to administer the milk pools and make the calculations that ensure that producer revenues are shared according to existing federal-provincial agreements and it will continue 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. Any claims resulting from these audits are returned to dairy farmers.

Business segment: Supply of dairy products

Under this business segment, the CDC's strategy involves the control of the quantity of milk produced in Canada and incentives for raw milk quality at the farm level. The CDC will continue to improve the tools that are used to estimate demand and forecast production so that quotas can be adjusted to satisfy demand as closely

as possible. The CDC will also continue its efforts to fully utilize Canada's permitted exports to dispose of surpluses.

Business segment: Improve the CDC

Dairy year 2013-2014 will be exceptional in the sense that two of the CDC's three board members will see their mandate expire near the beginning of the year. Depending on the outcome of the appointment process, the CDC might need to spend significant effort in providing new members with the information they will need to fulfill their roles.

Improving the governance of the CDC will also mean altering the structure of the organization to manage finances as an individual function that will report directly to the CEO, ensuring a smooth transition in anticipation of retirements in key positions, and implementing the budget and staff restrictions resulting from the 2012 Federal Budget.

The CDC has improved communication with industry representatives concerning meeting logistics and documents has also been automated with the launch of a new section of the CDC's web site that is reserved for this purpose.

Several administrative processes have been automated. These include authorizations and expense claims, contract management, and production of reports from databases. Programming is currently taking place to develop a new application for the administration of the Special Milk Class Permit Program. To coordinate and prioritize all the work which remains to be done in automation, an IT Advisory Committee has been created.

GOALS, OBJECTIVES AND PERFORMANCE MEASURES FOR 2013-2014

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 fair revenues	Revenues from milk sales cover the costs of a reasonable percentage of producers in Canada

The CDC plays two roles when it comes to the pricing of milk at the farm level. Its most important role is to establish support prices for butter and skim milk powder (SMP). 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 activity for 2013-2014	Performance indicator
Review and implement the procedures contained in the updated manual for the COP study	The COP data collection in the summer of 2013 follows the guidelines of the updated COP manual, ensuring uniform calculations across Canada
Implement measures to reduce the overall cost of the COP study	The cost of the COP study is reduced from \$882,000 in calendar year 2013 to \$780,000 in 2014.
Evaluate the need to perform a new study on the processor margin and yields for butter and skim milk powder	A recommendation is presented to the CDC board as to the need to perform a new study and if the board agrees, a mandate for the study is given to a private firm.

The second role of the CDC in pricing is to calculate the result of a formula that establishes the farm prices for the milk used to make fluid milk and cream. Some discussions have been initiated by regional pools about using a similar formula for some industrial classes of milk that are currently priced based on support prices.

Specific activity for 2013-2014	Performance indicator
Continue discussions with the industry on the possibility of implementing a pricing formula for classes 2 (yogurt) and 3 (cheese)	A recommendation on a formula is brought to the CMSMC if the industry representatives can reach a consensus. Upon approval, the formula is implemented by the CDC.

Market development

Expected result	Performance indicator
Programs that the CDC administers and that promote innovation are used by their intended audience	<ul style="list-style-type: none"> • 5 new projects accepted under the Matching Investment Fund • Renewal of the Matching Investment Fund before the end of the dairy year⁸ • Participation in 3 major dairy/food trade shows across Canada and in the Atlantic Dairy Research Collaboration Summit in PEI
The structural surplus of milk solids non fat is reduced	<ul style="list-style-type: none"> • Structural surplus of milk solids non fat is reduced to 70,000 tonnes⁹

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. The current version of the program expires on July 31, 2013. The CMSMC is expected to make a decision on the renewal of the DDPIP at its April 2013 meeting.

Specific activities for 2013-2014	Performance indicator
Implement the decision of the CMSMC concerning the DDPIP (renewal or not, new criteria, etc.)	If the program is renewed, the CDC will update the guidelines as instructed by the CMSMC, publish them and apply them in its administration of the program.

Exports of Canadian dairy products are considered by the WTO as being subsidized, and therefore cheese is subject to an export limit of approximately 6,000 t. In recent years, processors have not taken advantage of these exports to establish markets in foreign countries for Canadian cheeses. The CDC feels that these markets represent an interesting opportunity for Canadian processors.

Specific activities for 2013-2014	Performance indicator
Encourage dairy producers and processors to develop profitable international markets for cheese	A strategy to develop exports of cheese made entirely from Canadian components is developed and

⁸ 2013-2014 is the last year of the current edition of the Matching Investment Fund.

⁹ From a forecast of 80,000 tonnes in 2012-2013.

	implemented in collaboration with the industry. The remaining cheese export category subsidy room available over and above the cheese contracts signed in 2013-2014 was utilized to export solids non-fat in order to fill 90% of this category
--	---

At its January 2013 meeting, the CMSMC approved the creation of a new class of milk for mozzarella cheese that is used on fresh pizzas. The administrative and audit requirements of this new class are currently in development

Specific activities for 2013-2014	Performance indicator
Implement the administration and audit requirements of the new class 3(d) for mozzarella cheese on fresh pizzas	The administrative requirements are written, approved by the CMSMC and communicated to the target audience (restaurants). The audit requirements are adopted by the CMSMC and added to the National Milk Utilization Audit Standards.

Over the years, the CDC has put in place specific market development measures to reduce the structural surplus of solids non fat produced in Canada. These efforts will continue in the coming year.

Specific activities for 2013-2014	Performance indicator
Put in place incentives to increase the use of solids non fat in higher-value milk classes that are showing growth, such as yogurt and cheese.	50 million litres of liquid skim milk has been redirected from skim milk powder production to yogurt and/or cheese production
Create a medium-term plan to develop the manufacturing of infant formula in Canada. This sector has the potential to use significant quantities of solids non fat, thereby reducing the structural surplus.	A plan has been drafted and approved by the CDC board. Implementation would follow the next year.

Pool administration

Expected results	Performance indicators
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

In 2012-2013, the CDC co-chaired the P10 Negotiating Committee, a group that was mandated to negotiate the establishment of a national pool for all milk. Although this group was not able to establish a national pool for all milk, it made several recommendations to the CMSMC concerning the allocation of milk to processing plants, and some of these have been approved.

Specific activities for 2013-2014	Performance indicator
Implement the recommendations from the P10 Negotiating Committee that are adopted by the CMSMC.	The recommendations are implemented following their adoption in accordance with the deadlines dictated by the CMSMC.

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 requirements is reported to the Department of Foreign Affairs and International Trade (DFAIT).	45 audits of special class and 4(m) 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 that are 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 the best audit practices.

Specific activities for 2013-2014	Performance indicators
Report on progress of audit activities in all 10 provinces including the four provinces where the CDC is not the auditor. Promote continuity of services and the use of a common milk utilization audit software.	Present 2 reports per year to the CMSMC
Continue to encourage the reception of electronic data from Ontario and Québec processors for the purpose of administering the program and auditing participants of the Special Milk Class Permit Program.	Hold discussions with Québec and Ontario auditors, marketing boards, and processor representatives to obtain their approval to receive these data directly from utilization audit software The issue of confidentiality is addressed.

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 result	Performance indicator
The Canadian milk production matches demand Exports of solids non fat are maximized	Milk production is between 99.5 and 100.5% of total quota Subsidized export categories of skim milk powder, incorporated products and other products are filled at least at 99%

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 2013-2014	Performance indicators
Improve market information provided to the dairy industry	Simplified calculations are proposed for total quota, MSQ and skim-off to simplify and improve decisions related to the milk supply
Improve the tools used to forecast milk production	An improved model to forecast national milk production is developed Comparative reports on quota issuance and policies are distributed quarterly

Specific activities for 2013-2014	Performance indicators
In consultation with milk producers, develop a mechanism aimed at maintaining the predictability and stability in the milk production system and the dairy industry.	The mechanism is developed and implemented

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 2013-2014	Performance indicators
Hold discussions and consultations with the industry on the possibility of setting the price of the milk used to make skim milk powder at world price.	Scenarios are developed and presented to the CMSMC and if one is adopted, it is implemented

Seasonality programs

Expected results	Performance indicators
Dairy products are available to Canadians all year.	Provincial milk marketing boards report no seasonal shortages of dairy products CDC butter stocks never fall below 90% of normal level, thereby ensuring domestic supplies

There are no specific activities planned for seasonality programs in 2013-2014 as the CDC butter stocks are plentiful and require no specific measures to be replenished.

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 2013-2014.

Program evaluations

Strategic activity for 2013-2014	Performance indicator
Conduct program evaluations based on the CDC program Evaluation Plan	Program evaluations reports are submitted to the Internal Audit and Program Evaluation Advisory Committee, including a management response. Corrective measures are taken where necessary.

Internal audits

Strategic activity for 2013-2014	Performance indicator
Conduct internal audits based on the CDC Internal Audit Plan.	Internal audit reports are submitted to the Internal Audit and Program Evaluation Advisory Committee, including a management response. Corrective measures are taken where necessary.

Governance

Strategic activity for 2013-2014	Performance indicator
Fully brief its new board members and provide them with the training opportunities that they need to fully participate in the orientation of the corporation ¹⁰ .	Briefing books are prepared and submitted to new board members within one week of their appointment.
Recruit a person for the new position of director of finance and administration and ensure a smooth transition from the current structure to this new structure.	The position is created and staffed.

Strategic activity for 2013-2014	Performance indicator
Implement the required budget restrictions throughout the year to respect its 10% reduction in appropriations.	The 2013-2014 administrative budget is reduced by \$243,000. Further cuts are planned the following year to complete our 10% reduction.

Strategic activity for 2013-2014	Performance indicator
Implement its succession plan, especially in view of the impending retirement of employees holding key positions.	In case of retirements, a smooth transition without service interruption and minimal loss of knowledge

Increase the efficiency of CDC's operations

Strategic activity for 2013-2014	Performance indicator
Automate and streamline the processes identified by the IT Advisory Committee as being priorities	Two processes automated

Strategic activity for 2013-2014	Performance indicator
Implement a new computer system for the administration of the SMCPP, as recommended in the 2011-2012 business process analysis.	All SMCPP participants use the new system to file their reports to the CDC.

Strategic activity for 2013-2014	Performance indicator
Develop an information management strategy in response to Library and Archives Canada's recently announced limitations on their acceptance of records.	The strategy is developed, adopted by the Senior Management Team and communicated to the staff. Implementation will follow.

Maintain employee engagement in a cost-reduction environment

To implement the measures contained in the 2012 Budget, the CDC will continue to reduce its administrative budget until 2014-2015. Some staff reduction may be necessary and this may cause some employees to feel insecure and disengaged if nothing is done to reassure and inform them of the situation.

Strategic activity for 2013-2014	Performance indicator
Foster co-operation, exchange of ideas and sharing of resources within the CDC to produce efficiency gains and reduce costs.	Representatives from all sections participate in the IT Advisory Committee and the HR Advisory Committee Four Managers' Forums are held during the year.

¹⁰ If new people are appointed.

	Staff is invited to quarterly brainstorming sessions to exchange ideas
Continue to ensure good communication with its staff members about the potential changes in the workplace.	The CEO makes quarterly presentations to the staff on both the potential changes in the workplace and the state of the dairy industry.

BROAD OBJECTIVES FOR THE REST OF THE PLANNING PERIOD

For the rest of the planning period (2014-2015 to 2017-2018) 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 optimizing producer revenues.

Some of the CDC activities for 2013-2014 will likely continue into 2014-2015 and beyond. Initiatives such as the harmonization of audit practices and increasing the use of solids non fat in higher-value, growing milk classes require the participation and the unanimous approval of all 10 provinces and are therefore longer term projects.

The CDC 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.

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. Cost reductions of \$40,000 are planned for 2014-2015. Budget items that will be affected by these reductions include consultant fees and data purchases.

FINANCIAL INFORMATION

SUMMARY

Financially, the planning period covered in this Corporate Plan will not vary significantly from past years. Few capital expenses and no significant changes to programs and activities are forecasted. The transition to the International Financial Reporting Standards is complete and the financial statements presented in this Plan are based on these standards. Thanks to an increase in milk production, butter stocks have returned to normal levels.

MAJOR ASSUMPTIONS USED IN THE PREPARATION OF THE BUDGET AND FORECAST

Figures for 2011-2012 are actual. Figures for 2012-2013 are forecasted while those for subsequent years are projected.

For dairy year 2011-2012, Canadian requirements finished the year at 187.9 million kg of butterfat. They increased slightly during the first part of the current dairy year. As of March 1, 2013, Canadian requirements stood at 189.8 million kg of butterfat. Given the recent trends and the state of the economy, it is expected that the Canadian requirements will increase slightly during the rest of the 2012-2013 dairy year to reach about 192 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, 2012 - 2018

	(in thousands)							
	Actual Audited	Budget	Forecast	Budget				
	2011-2012	2012-2013	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Sales and Cost of Sales								
Domestic sales revenue	\$ 211,280	\$ 220,113	\$ 242,928	234,875	233,906	209,277	211,080	212,901
Cost of goods sold - domestic	189,808	207,090	224,946	217,983	216,251	201,406	203,203	205,018
Transport and carrying charges	4,790	4,029	5,060	4,878	4,566	3,934	4,014	4,095
Finance costs	579	816	1,111	1,030	1,725	1,743	1,760	1,778
Gross profit on domestic sales	<u>16,103</u>	<u>8,178</u>	<u>11,811</u>	<u>10,984</u>	<u>11,364</u>	<u>2,194</u>	<u>2,103</u>	<u>2,010</u>
Export sales revenue	27,076	26,680	46,701	34,720	34,720	34,720	34,720	34,720
Cost of goods exported	26,111	25,984	45,727	33,600	33,600	33,600	33,600	33,600
Transport and carrying charges	978	640	1,159	1,014	1,032	1,051	1,070	1,090
Finance costs	1	20	29	21	18	18	18	18
Gross profit (loss) on export sales	<u>(14)</u>	<u>36</u>	<u>(214)</u>	<u>85</u>	<u>70</u>	<u>51</u>	<u>32</u>	<u>12</u>
Total gross profit	<u>16,089</u>	<u>8,214</u>	<u>11,597</u>	<u>11,069</u>	<u>11,434</u>	<u>2,245</u>	<u>2,135</u>	<u>2,022</u>
Other revenues								
Funding from milk pools	5,676	5,258	6,144	5,741	6,125	7,910	7,969	8,027
Funding from the Government of Canada	4,668	4,180	4,102	3,919	3,647	3,633	3,633	3,633
Audit services	237	173	173	184	185	189	189	189
	<u>10,581</u>	<u>9,611</u>	<u>10,419</u>	<u>9,844</u>	<u>9,957</u>	<u>11,732</u>	<u>11,791</u>	<u>11,849</u>
Total	<u>26,670</u>	<u>17,825</u>	<u>22,016</u>	<u>20,913</u>	<u>21,391</u>	<u>13,977</u>	<u>13,926</u>	<u>13,871</u>
Operating Expenses								
Industry initiatives	2,528	1,465	1,640	2,328	546	46	46	46
Cost of Production study	840	859	882	824	724	682	682	682
Other charges / (recoveries)	(305)	(273)	(127)	(85)	(31)	(8)	(8)	(8)
	<u>3,063</u>	<u>2,051</u>	<u>2,395</u>	<u>3,067</u>	<u>1,239</u>	<u>720</u>	<u>720</u>	<u>720</u>
Administrative Expenses								
Salaries and employee benefits	5,842	6,001	5,974	6,072	6,120	6,120	6,120	6,120
Other administrative expenses	2,025	1,989	1,831	1,676	1,587	1,587	1,587	1,587
	<u>7,867</u>	<u>7,990</u>	<u>7,805</u>	<u>7,748</u>	<u>7,707</u>	<u>7,707</u>	<u>7,707</u>	<u>7,707</u>
Total	<u>10,930</u>	<u>10,041</u>	<u>10,200</u>	<u>10,815</u>	<u>8,946</u>	<u>8,427</u>	<u>8,427</u>	<u>8,427</u>
Profit before distribution to provincial milk boards and agencies	<u>15,740</u>	<u>7,784</u>	<u>11,816</u>	<u>10,098</u>	<u>12,445</u>	<u>5,550</u>	<u>5,499</u>	<u>5,444</u>
Distribution to provincial milk boards and agencies	18,672	10,668	13,629	13,852	14,893	5,814	5,777	5,738
Results of operations and comprehensive income	<u>\$ (2,932)</u>	<u>\$ (2,884)</u>	<u>\$ (1,813)</u>	<u>\$ (3,754)</u>	<u>\$ (2,448)</u>	<u>\$ (264)</u>	<u>\$ (278)</u>	<u>\$ (294)</u>

CANADIAN DAIRY COMMISSION
STATEMENT OF COSTS FINANCED BY THE GOVERNMENT OF CANADA
for the Dairy Years ending July 31, 2012 - 2018

(in thousands)

	Actual 2011-12	Forecast 2012-13	Budget				
			2013-14	2014-15	2015-16	2016-17	2017-18
Administrative expenses							
CDC appropriation Vote 15	\$ 4,127	\$ 3,953	\$ 3,859	\$ 3,597	\$ 3,583	\$ 3,583	\$ 3,583
Eligible payroll expenditures	541	149	60	50	50	50	50
Total costs financed by the Government of Canada	\$ <u>4,668</u>	\$ <u>4,102</u>	\$ <u>3,919</u>	\$ <u>3,647</u>	\$ <u>3,633</u>	\$ <u>3,633</u>	\$ <u>3,633</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, 2012 - 2018

(in thousands of dollars)

	Actual 2011-12	Forecast 2012-13	Budget				
			2013-14	2014-15	2015-16	2016-17	2017-18
Administrative expenses							
CDC appropriation Vote 15	\$ 3,940	\$ 3,937	\$ 3,986	\$ 3,604	\$ 3,583	\$ 3,583	\$ 3,583
Eligible payroll expenditures	540	149	60	50	50	50	50
Total costs financed by the Government of Canada	<u>\$ 4,480</u>	<u>\$ 4,086</u>	<u>\$ 4,046</u>	<u>\$ 3,654</u>	<u>\$ 3,633</u>	<u>\$ 3,633</u>	<u>\$ 3,633</u>

CANADIAN DAIRY COMMISSION
BORROWING PLAN
for the Dairy Years ending July 31, 2012 - 2018

(in thousands)

Consolidated Revenue Fund

Loan transactions	Actual Audited 2011-12	Forecast 2012-13	Projected				
			2013-14	2014-15	2015-16	2016-17	2017-18
Balance at beginning of year	\$ 55,848	\$ 127,277	\$ 121,896	\$ 103,960	\$ 95,063	\$ 105,439	\$ 106,827
Drawings	235,186	200,000	160,000	160,000	160,000	160,000	160,000
Repayments	(163,757)	(205,381)	(177,936)	(168,897)	(149,624)	(158,612)	(158,569)
Balance at end of year	\$ <u>127,277</u>	<u>121,896</u>	<u>103,960</u>	<u>95,063</u>	<u>105,439</u>	<u>106,827</u>	<u>108,258</u>
Average level during year:	\$59,000	\$98,000	\$80,000	\$75,000	\$75,000	\$75,000	\$75,000
Highest level during year:							
Month	July	June	June	June	June	June	June
Amount	\$ 127M	\$ 133M	\$ 130M	\$ 129M	\$ 131M	\$ 133M	\$ 135M

Member of Canadian Payments Association

Loan transactions	Actual 2011-12	Forecast 2012-13	Projected				
			2013-14	2014-15	2015-16	2016-17	2017-18
Balance at beginning of year	\$ 1,154	\$ 1,794	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
Drawings	16,259	29,000	25,000	25,000	25,000	25,000	25,000
Repayments	(15,619)	(28,794)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)
Balance at end of year	\$ <u>1,794</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</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 fulfil its mandate within the *CDC Act* which is to

- a) purchase any dairy product and sell, or otherwise dispose of, any dairy product purchased by it;
- b) package, process, store, ship, insure, import or export any dairy product purchased by the Commission.

The line of credit is necessary to provide bridge financing and ensure efficient operation of the pooling of market returns system administered on behalf of the provinces.

CANADIAN DAIRY COMMISSION
CAPITAL BUDGET
for the Dairy Years ending July 31, 2012 - 2018

(in thousands)

	Actual	Forecast	Budget				
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Major capital	\$ -	\$ 220	\$ -	\$ -	\$ -	\$ -	\$ -
Minor capital	108	121	98	98	98	98	98
Total capital budget	\$ 108	\$ 341	\$ 98	\$ 98	\$ 98	\$ 98	\$ 98

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

Minor Capital expenditures for the years 2012-2013 through to 2017-2018 are for the planned replacement of servers, desktop computers, laptops and peripherals. These amounts also include software licence fees purchases and renewals.

Major capital is presented on the Statement of Financial Position

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.

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.

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.

DM249155