



Canadian Dairy  
Commission

Commission  
canadienne du lait

# CORPORATE PLAN SUMMARY FOR 2017-2018 TO 2021-2022

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OPERATING AND CAPITAL BUDGETS  
FOR THE DAIRY YEAR ENDING JULY 31, 2018

Corporate Plan dated April 1, 2017

No 1502087

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## EXECUTIVE SUMMARY

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The Canadian dairy industry includes approximately 11,280 farms and 474 milk processing plants (2015). Canada produces over 98 million hectolitres of milk per year, essentially for the domestic market. Dairy farms have total revenues of \$6.0 billion (2015). The processing industry ships \$17.7 billion in products and employs about 22,900 people<sup>1</sup>. The consumption patterns have changed in the last 10 years. Canadians drink less fluid milk and eat less ice cream, but they consume more cream, yogurt, butter and cheeses. This trend translates into an average market growth of 2% per year. Over the last two years, this trend increased further, resulting in a noticeable increase in demand for Canadian dairy products of approximately 5% per year.

The Canadian Dairy Commission (CDC) is a Crown Corporation of 63 employees. The CDC operates the elements of the milk supply management system that are under its authority pursuant to the *Canadian Dairy Commission Act* and federal-provincial agreements. It calculates the adjustment of the price producers get for their milk. It provides information and tools to the industry to ensure that milk production meets demand. The CDC is also a facilitator and a stakeholder in decision-making bodies that establish policies for the marketing of milk and dairy products. In addition, the CDC administers several programs that are part of the Canadian milk supply management system, as well as programs that have been put in place by the industry. It operates on a dairy year basis that starts August 1 and ends July 31.

As of April 1, 2017, the CDC is expecting to reach almost all of the objectives set for 2016-2017. Largely through existing programs, it continues to encourage the Canadian dairy industry to grow the market and innovate. The Canadian dairy industry has faced challenges such as the continued surplus of the non fat portion of milk, increasing imports of milk protein to be used in dairy products, and a World Trade Organization (WTO) Decision to eliminate export subsidies on dairy products by the end of 2020. It is now experiencing major changes to adapt to these issues and the CDC has already taken steps to adapt its programs and activities to these changes, which are the result of bilateral negotiations between producers and processors.

On the internal front, the CDC has held its third annual employee satisfaction survey. Employee satisfaction was 92%, a very slight increase compared to the year before.

The CDC will continue to support the industry as it adapts to the changing markets. Due to the changes happening in the industry, it reviewed its five-year goals and adjusted its planning to encompass the following key result areas:

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

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

The CDC is not planning large capital projects during the planning period. An increased demand for its audit role on the part of the dairy industry will require additional FTEs that will be paid by the industry.

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

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## BACKGROUND

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### THE CANADIAN DAIRY COMMISSION

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

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

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

### THE CANADIAN DAIRY INDUSTRY

Milk production and marketing in Canada are framed by a set of provincial and federal regulations that enable a supply management system. The Canadian milk supply management system rests on three pillars: the setting of milk prices at the farm gate, the control of milk production through quotas, and the control of imports of dairy products. Under this system, dairy producers in each province must sell their milk to their provincial milk marketing board. The main responsibilities of these boards are to issue quota to the dairy farmers on their territory and enforce these quotas so that the quantity of milk produced matches demand for dairy products, to allocate the milk to the various processing plants on their territory, to transport the milk between the farm and the plant, to collect payment from processors, and to pay farmers. In most provinces, these marketing boards also have the authority to set the price producers are paid for their milk. Imports of dairy products into Canada are controlled by tariff rate quotas (TRQ). A TRQ is a quantity of products that can come into Canada at little or no tariff. Dairy product imports above the TRQ are subject to tariffs of 200 to 300%. Thanks to this system, the quantities imported are generally known and can be taken into account when estimating the milk production required to serve the Canadian market.

The supply management system, and particularly the three milk pools that currently exist, is a great risk management tool for Canadian dairy farms. Market growth, as well as any shrinkage of the market, is shared among many producers. This reduces the impact that a plant closure, for example, can have on local farms or a small province. As revenues are also pooled among producers, the effect of a change in the use

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

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

The processing sector, which manufactures the various dairy products, is outside of the supply management system. Market forces therefore influence which dairy products are manufactured, as well as their selling price<sup>4</sup>. Under the supply management system, globally, the industry is profitable and consumers enjoy a continuous supply of dairy products at predictable prices.

As key contributors to the Canadian economy in the 2016 calendar year, approximately 11,280 farms generated \$6.0 billion (2015) in total net farm revenues, a 9% increase over 5 years ago. The same year, the dairy processing industry generated \$17.7 billion worth of products, accounting for 15.8% of all processing sales in the food and beverage industry. This represents a 25% growth from 2012. The dairy processing sector employs approximately 22,900 people.

Overall, demand for dairy products in Canada continues to rise gradually. Domestic demand for dairy products increased by 4.9% in 2015-2016 and the 5-year average was a 2.1% growth per year. This growth is particularly noticeable for products such as butter, cream, and yogurt. In the last two years, demand for butter has risen rapidly and this created some imbalances in the market.

A long-term challenge of the dairy industry is the presence of a surplus of milk solids non fat<sup>5</sup>. This surplus currently exists because the Canadian demand for butterfat exceeds the demand for the corresponding solids non fat contained in the milk produced. The industry has tried for many years to find lucrative markets for these milk components but has had limited success because substitutes for this product, such as whey protein concentrates, are widely available at low cost. Until recently, dairy farmers were responsible for the financial losses resulting from the disposal of this surplus, which was sold mainly in the form of skim milk powder in markets that are less lucrative than the domestic market, such as exports and animal feed. This has had a diluting effect on the revenues of dairy producers. In recent years, the surplus has been increasing, partly because of significant growth in demand for butterfat but also because of imports of milk proteins. The recent Nairobi Decision on Export Competition at the World Trade Organization (WTO) (December 2015) has made this challenge even more pressing. According to the Decision, by the end of 2020, Canada will no longer be allowed to use subsidized exports to dispose of surpluses. Through a recent agreement in principle between producers and processors, the latter will benefit from an overall decrease in milk protein price. This will allow them to develop new uses for solids non fat.

In 2016, Canada exported \$235 million in dairy products and imported \$971 million in dairy products, for a negative trade balance of -\$735 million. A significant portion of Canada's exports of dairy products are deemed subsidized and thus, limited by Canada's export subsidy commitments at the WTO. Canada is a minor player on the dairy product export scene and its dairy trade balance has been declining for the last 10 years.

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

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

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

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## MANDATE OF THE CDC

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### CORPORATE MANDATE

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

8. (...) to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality.

### OFFICIAL LANGUAGES

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

### PUBLIC POLICY

The CDC is both a facilitator and a participant 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 setting and sharing of quota, as well as the pooling of milk revenues and the sharing of markets between milk producers. The CDC chairs these committees and provides technical expertise, logistical support and secretariat services. These policy-making committees create *ad hoc* committees to find solutions to specific issues such as policy harmonization, milk allocation, or transportation to processing plants. The CDC often provides chairmanship, expertise and secretariat services to these *ad hoc* committees. Through its presence and roles on these committees, the CDC provides analyses and recommendations and is in a position to contribute to most of the national and regional dairy policy decisions that are made. These decisions include adjustments to milk production in reaction to market variations, new industry programs, changes to existing industry programs, and modalities for sharing producer revenues between provinces. Provincial governments, provincial milk marketing boards, and stakeholder organizations representing dairy producers, processors, and consumers are also around the table.

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

The two regional committees are the P5 Supervisory Body, which administers the Agreement on the Eastern Canadian Milk Pooling<sup>6</sup>, and the Western Milk Pool Coordinating Committee, administering the

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<sup>6</sup> Provincial signatories are Ontario, Quebec, New Brunswick, Nova Scotia, and Prince Edward Island.

Western Milk Pooling Agreement<sup>7</sup>. These regional agreements allow for the pooling of milk revenues and markets among producers of participating provinces.

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## CORPORATE PROFILE

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### CDC AT A GLANCE

Created in 1966

63 employees as of April 1, 2017

Administrative budget for 2017-2018 (dairy year): \$8.57 million

Dairy year: August 1 to July 31

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

### MISSION

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

### VALUES

EXCELLENCE	INTEGRITY	LEADERSHIP	RESPECT
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### MAIN ACTIVITIES

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

#### **Administration of the Milk Supply Management System**

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

Since last year’s Corporate Plan, the method that the industry uses to set the price of milk at the farm has changed. In the past, provinces, who have the legal authority for pricing, would adjust farm milk prices based on the support prices for butter and skim milk powder that the CDC would announce. These support prices were generally announced in mid-December and the price adjustment would become effective the following February 1. Following an agreement in principle between producers and processors in July 2016, the Eastern and Western milk pools decided that, starting February 1, 2017, farm milk prices would no longer be adjusted based on CDC support prices. Instead, the annual adjustment would be calculated using a mathematical formula that is based on the cost of producing milk (as calculated by the

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<sup>7</sup> Provincial signatories are British Columbia, Alberta, Saskatchewan and Manitoba.

CDC) and on the Consumer Price Index (as published by Statistics Canada)<sup>8</sup>. To be able to fulfill its mandate of providing efficient producers with a fair return, the CDC, in collaboration with stakeholders, will implement a mechanism to override the formula if its results are out of sync with market conditions. For example, if the results of the formula indicated a rise in prices during a period of increasing producer revenues, the results of the formula could be overridden to avoid an unnecessary increase in farm milk prices that would be felt by consumers. By the same token, if the results of the formula indicated a reduction in prices during a period of declining producer revenues, the results could be overridden, and a price increase applied. The CDC will, however, continue to consult and inform stakeholders on market conditions and will announce the price at which it will purchase butter under its Seasonality Programs (formally defined as CDC support price for butter).

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

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

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<sup>8</sup> % price adjustment = (50% x variation of the cost of production) + (50% x variation of the CPI)



## Program Administration

The CDC operates certain programs<sup>9</sup> for the benefit of the entire supply chain. The table below summarizes these programs.

Table 1. Programs administered by the Canadian Dairy Commission

Program Name	Objective	Target Audience
CDC Scholarship program <sup>10</sup>	To encourage graduate studies in the fields of animal science, dairy science and policy and economics as they relate to dairy.	Graduate students
Dairy Export Program	To develop long-term export markets for Canadian dairy products.	Exporters
Dairy Innovation Program	To give processors access to extra milk so that they can develop new dairy products.	Dairy processors
Dairy Marketing Program (including the Matching Investment Fund)	To encourage the use of dairy ingredients in food products.	Food processors
Domestic Seasonality Programs	To ensure a steady supply of dairy products all year long despite the seasonality of consumption. The CDC buys and stores butter and skim milk powder during periods of lower consumption (January to September) and typically sells these products back into the market when consumption rises (October to December).	Consumers
Milk Access for Growth Program	To ensure a supply of milk for investors who build new plants or expand existing plants and thus increase demand for Canadian milk.	Dairy and food processors
Mozzarella for fresh pizzas	To provide fresh pizza restaurants access to mozzarella cheese at discounted prices.	Pizza restaurants
Skim Milk Redirection Program	To redirect skim milk from the skim milk powder market to growing markets such as yogurt.	Dairy processors
Special Milk Class Permit Program (SMCPP)	To give further processors access to dairy products at competitive prices for use in further processing.	Further processors
Surplus Removal Program	To remove surplus dairy products from the Canadian market in a timely manner. Surpluses are either exported, within Canada's commitments to the WTO, or sold on less lucrative markets such as animal feed.	Dairy industry

## Imports

The CDC imports the total quantity of butter in Canada's WTO tariff rate quota (3,274 tonnes) and sells this butter to participants in the Special Milk Class Permit Program (SMCPP) through butter manufacturers. Any profit that the CDC generates by this activity is used to finance initiatives that provide benefits to the entire industry. Examples of these initiatives are the Dairy Marketing Program mentioned in the table above and a Dairy Research Cluster in partnership with Agriculture and Agri-Food Canada (AAFC), the Natural Sciences and Engineering Research Council of Canada, and Dairy Farmers of Canada.

<sup>9</sup> CDC programs are further described in its Annual Report [http://www.cdc-ccl.gc.ca/CDC/userfiles/file/CDC\\_AR\\_2016\\_en.pdf](http://www.cdc-ccl.gc.ca/CDC/userfiles/file/CDC_AR_2016_en.pdf)

<sup>10</sup> Will end on July 31, 2017

## **Export Monitoring**

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

## **Links with other departments**

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

The roles that the CDC assumes for the dairy industry align with AAFC's strategic priorities as outlined in the five-year Growing Forward 2 (GF2) agriculture policy framework, which the CDC supports. GF2, which came into effect on April 1, 2013<sup>11</sup>, focuses on strategic initiatives in innovation, competitiveness and market development to further strengthen the sector's capacity to grow and prosper. Several CDC-administered programs align with these priorities. Programs such as the Matching Investment Fund and the Dairy Innovation Program are good examples. In addition, in January 2014, the CMSMC, on the recommendation of the CDC, approved the implementation of the Planned Export Program for Cheese. Through this program, the CDC has been able to maintain the presence of Canadian cheese on export markets since 2014-2015, within Canada's WTO export subsidy commitments. In October 2015, the CMSMC added other dairy products to this program and renamed it the Dairy Export Program.

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

## **GOVERNANCE**

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

### **The Board**

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

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

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<sup>11</sup> This 5-year initiative will end in 2018.

The CDC reports on its Board's specific activities in its Annual Report<sup>12</sup>. These Board activities include the annual public meeting of the CDC, as well as the review and adoption of the Corporate Plan, the Annual Report, the financial statements, and the Corporate Risk Profile.

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

As of April 1, 2017, the Board is composed of the following three members:

**Alistair Johnston, Chairman (first mandate ends July 2019)**

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

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

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

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

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

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

**Jacques Laforge, CEO (second mandate ends February 2018)**

Mr. Laforge is well known for his leadership in agriculture both nationally and in his home province of New Brunswick, where he and his wife operate a successful 1,000-acre mixed farming operation.

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<sup>12</sup> 2015-2016 Annual Report: [http://www.cdc-ccl.gc.ca/CDC/userfiles/file/CDC\\_AR\\_2016\\_en.pdf](http://www.cdc-ccl.gc.ca/CDC/userfiles/file/CDC_AR_2016_en.pdf)

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

### **The Audit Committee**

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

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

### **Directive on Travel, Hospitality, Conference and Event Expenditures**

On July 16, 2015, Crown corporations were directed by the Governor in Council to align their policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures, in a manner that was consistent with their legal obligations. The CDC is fully compliant with the directive since September 29, 2016.

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

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

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**STRATEGIC ISSUES FOR THE PLANNING PERIOD**

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As of April 1, 2017, the CDC expects to achieve almost all its objectives for 2016-2017. The status of these objectives is presented in the next section (Assessment of results for 2016-2017). The areas of activity of the CDC are separated into four strategic themes: 1) Growing markets, 2) An industry that adapts, 3) A well-administered supply management system, and 4) A well-managed CDC. A set of five-year goals were developed under each of these themes and annual objectives were planned for each of these goals.

**ASSESSMENT OF RESULTS FOR 2016-2017**

Following are achievements for each strategic theme as of April 1, 2017. A complete performance report will be presented in the 2016-2017 CDC Annual Report which will be tabled in Parliament in the fall of 2017.

*Growing Markets*

<b>5-year goals</b>	<b>2016-2017 objectives</b>	<b>Performance indicators</b>	<b>Target</b>	<b>Result as of April 1, 2017</b>
Create an environment that is conducive to market growth and innovation	Demand for Canadian dairy products has grown	Total requirements	At least 2% growth	3.8% as of February 2017
		MAG applications approved	At least 2	3 applications approved
		Number of innovative dairy products introduced through DIP or other initiatives	4 products	1 product approved
Promote the timely supply of milk to growing markets	Ample milk supply is available at the right place at the right time in the Canadian market	Quantity of butter imported	A maximum of 3,274 t	Approximately 15,000 t
		Number of unfulfilled requests for skim milk in any dairy product	0	No request received

*An Industry that Adapts*

5-year goals	2016-2017 objectives	Performance indicators	Target	Results as of April 1, 2017
Help the Canadian dairy industry adapt to changing market conditions, within the framework of supply management	The industry understands the forces that are changing the market and is taking steps to adapt	Number of proposals made by the CDC to support the industry in addressing changing market conditions	At least 2	2
Create an environment conducive to the development of new markets for solids non fat (SNF)	New investments have been committed to increase the use of SNF as ingredients in value-added products	Number of investment commitments	at least 3	2
	New investments have been made by the processing sector to improve processing efficiency and capacity	Investment commitments	2	2

*A Well-Administered Supply Management System*

5-year goals	2016-2017 objectives	Performance indicators	Target	Results as of April 1, 2017
Ensure that efficient producers receive fair returns	The increase in overall producer revenues is driven mostly by market growth and better farm efficiency	Total overall producer revenues per dairy year	A 1% increase from the previous dairy year	3.1% (total revenue compared to a year ago)
	Ensure that milk components sold under various programs are used in eligible products	Number of audits	50 audits of participants to the Special Milk Class Permit Program  100 audits of restaurants participating in Class 3(d)	On target  On target
Ensure that Canadian milk production meets demand	Increase market responsiveness of milk supply through improved market analysis and forecasts	Total quota vs. total demand	Total quota is between 99.5% and 101% of demand	98%
		Total butter inventories on July 31, 2017 (CDC +	At least 24,000 tonnes	On target

5-year goals	2016-2017 objectives	Performance indicators	Target	Results as of April 1, 2017
		private)		
Ensure the respect of federal-provincial and international agreements	The federal-provincial pooling agreements are working smoothly	Time to perform pooling calculations	Monthly, within 5 business days of data reception	Achieved
		Time to transfer funds among provinces and send quota figures	Monthly, within 4 business days of the end of calculations	Achieved
		Time to send milk movement figures	Monthly, before the 10th of each month	Achieved
	The CDC respect its obligations under the WTO Agreement on Agriculture	Quantities of exports	At least 99% of permitted exports of cheese and products containing high quantities of milk solids non fat	Skim milk powder: 99% Cheese: 70% Other dairy products: 86% Incorporated: 52%
		Quantities of butter imports	TRQ of 3,274 tonnes	Achieved
Propose and support measures that improve the administration of the supply management system	Review some of CDC's programs	Number of programs reviewed	2 programs	0

5-year goal	2016-2017 objectives	Performance indicators	Target	Results as of April 1, 2017
The CDC adapts to remain a high-performing organization	The CDC has the appropriate workforce to achieve its objectives (the right number of engaged employees with the right skill set in the right structure)	Employee satisfaction rate as measured by an annual employee satisfaction survey	Satisfaction rate of 80%	92%
		Performance management ratings	Less than 5% of employees require action plans	On track
		Rate of position filled	95% of positions are filled at any time	On track
	The CDC has the right tools to achieve its objectives	Number of tools developed or adapted	3 tools including Euclid	4
	There is a process in place to measure industry stakeholders'/partners' level of satisfaction with the CDC.	Intelligence gathered	Report received from external agency and submitted to CDC Board	Achieved

## EXTERNAL ENVIRONMENT

### Situation of the Dairy Industry

#### *Consumption*

Over the last 10 years, Canadian consumers reduced their per capita consumption of fluid milk and ice cream but increased their consumption of cream, cheeses and yogurt<sup>13</sup>. Manufacturers have responded to these trends. Canada now produces over 1,050 cheeses, most of which are made with cow milk. Innovation programs administered by the CDC have certainly been a factor in the development of some of these new products. For example, since the beginning of the Domestic Dairy Product Innovation Program<sup>14</sup> in 1989, 383 projects to create new cheeses, yogurt products and other dairy products used close to 996 million litres of milk. The Matching Investment Fund, launched in 2009, has financed 28 innovation projects that have received a total of \$782,000. Cheese, skim milk powder, and fluid milk are the main ingredients involved in these projects for the development or reformulation of dairy desserts, novelty ice cream, and cheese-based and nutraceutical<sup>15</sup> products. These achievements support the minister of Agriculture and Agri-Food's priority to "provide technical and marketing assistance to help food processors develop new value-added products that reflect changing tastes and market opportunities"<sup>16</sup>.The

<sup>13</sup> Source: [www.dairyinfo.gc.ca](http://www.dairyinfo.gc.ca)

<sup>14</sup> Replaced by the Dairy Innovation Program on August 1, 2013. Program parameters are essentially the same.

<sup>15</sup> Nutraceutical refers to foods thought to have a beneficial effect on human health. The classic example is yogurt with probiotics. Some specific milk proteins could also have benefits but more research is needed.

<sup>16</sup> Mandate letter at <http://pm.gc.ca/eng/minister-agriculture-and-agri-food-mandate-letter>



CDC expects that over the next five years, overall domestic consumption of dairy products will continue to grow at an average rate of 2% per year.

A more recent trend has been the steady increase in butterfat consumption. In the last 10 years, the consumption of 2% milk has risen relative to the consumption of skim milk. Per capita consumption of all types of cream (from 10% to 35% butterfat) has also increased. Since the fall 2013, Canadians have been rapidly increasing their retail purchases of butter and cheese. This increase was so rapid that milk production was not able to follow and it was below demand for over a year.

Another reason why production was below demand was incomplete information on imports and exports of dairy products due to factors that include, but are not limited to, use of the Duties Relief Program<sup>17</sup> (DRP) to import dairy products and possible misclassification of imports of some dairy products. It is estimated that unaccounted imports reached a peak in the spring of 2016 and diminished significantly in the fall of 2016. This has caused inaccurate forecasts of demand for at least the last two years and therefore, insufficient quota increases. The CDC estimates that the overall impact reached at least 10 million kg of butterfat (about 3% of Canadian demand). The CDC has made an adjustment to the formula it uses to evaluate demand to partly compensate for the missing data. In the last two years, repeated quota increases have boosted milk production.

To supply this increased demand, the CDC largely depleted its butter stocks, then it imported butter. In 2016-2017, the CDC first imported butter under Canada's TRQ of 3,274 tonnes but this was insufficient to meet demand. The CDC therefore asked Global Affairs Canada for a supplementary import permit for butter. This permit was granted. It allowed the CDC to import more butter without having to pay the tariff normally applied to over-access imports. During that period, the CDC imported more than 11,000 tonnes of butter. These imports were mostly directed to the further processing sector, a sector that had serious supply issues. Up until February 2017, production was still insufficient to supply demand and replenish CDC stocks and, as a result, the CDC had to import 15,000 tonnes of butter and cream so far in the 2016-2017 dairy year, including the TRQ. Production is rising and recently exceeded demand, which allowed stocks rebuilding to start. Until stocks are fully rebuilt, the CDC expects to import 5,000 tonnes of butter during the rest of the dairy year.

### *Production*

According to the International Dairy Federation, the number of dairy farms in Canada has decreased by 2.3% between 2013 and 2015. This attrition rate compares to 3.7% for the United States and 5.0% for Europe. In Canada, the overall number of farms has decreased by 10% between 2006 and 2011, the years of the last two Census of Agriculture. This trend is expected to continue over the planning period. As a result, the remaining farms produce more milk<sup>18</sup> and generate more revenues per farm. To reduce the cost of managing the supply management system, which is largely borne by producers, provincial marketing boards are trying to share resources and harmonize policies. In the coming years, the CDC's expertise will continue to be required to provide facilitation and technical expertise during interprovincial harmonization, which can be long processes because of diverging provincial interests and priorities.

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<sup>17</sup> A program of the Canadian Border Services Agency (CBSA), which allows duty-free imports of goods for processing, as long as they are re-exported.

<sup>18</sup> Canada produces 8% more milk than 5 years ago to respond to domestic demand.

Table 3. Number of farms and production of milk per province in 2015-2016

Province	Number of farms on August 1, 2016		Milk production	
		%	M kg of butterfat	%
Newfoundland and Labrador	23	0.2	1.97	0.6
Prince Edward Island	168	1.5	4.40	1.3
Nova Scotia	221	1.9	7.43	2.2
New Brunswick	199	1.8	5.82	1.7
Quebec	5,546	49.2	126.25	37.2
Ontario	3,731	33.1	111.08	32.8
Manitoba	285	2.5	13.41	4.0
Saskatchewan	159	1.4	10.07	3.0
Alberta	531	4.7	29.05	8.6
British Columbia	417	3.7	29.30	8.6
Canada	11,280	100.0	338.78	100.0

### *Processing*

In the last 12 months, the situation in the processing sector continued to evolve. Some large Canadian processors have been importing concentrated milk proteins in liquid form from the United States for use in cheese and yogurt-making. Just like Canada, the US has too much protein; however, American companies have the technology to concentrate that protein in liquid form, which is easier to use than powder. They are also willing to accept very low prices to dispose of that protein. This product is imported duty-free in unlimited quantities and displaces domestic milk proteins, adding to the surplus of solids non fat in Canada.

### *Producer/processor negotiations*

Dairy farmers and processors have been holding bilateral negotiations since summer 2015 to try to find solutions to long-standing issues such as the surplus of solids non fat. The CDC was not part of these talks. In July 2016, parties announced an agreement in principle that contained several elements of a National Ingredient Strategy (NIS), some of which have been presented and approved by the CMSMC in January 2017 as required for their implementation. The most significant of these elements include a change in the method used to price farm milk for the manufacture of dairy products; the creation of class 7 at prices that are similar to world prices, mostly for milk solids non fat products such as skim milk powder and milk protein concentrates<sup>19</sup>; and the introduction of a new billing mechanism for raw milk.

A significant impact of this agreement in principle on the CDC is that processors are now responsible for the marketing of all solids non fat purchased. As provinces implemented class 7, CDC purchases of surplus skim powder stopped completely as of February 1, 2017. At that point, CDC skim milk powder stocks were at 53,000 tonnes. These stocks will be gradually sold to animal feed manufacturers. This will give approximately two years to these manufacturers to adapt to the new market conditions.

<sup>19</sup> A product that contains very little butterfat and lactose, and a high concentration of milk protein. It can be liquid or dry. Its use in cheese-making increases plant yields.

## *Trade*

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

Canada and the European Union (EU) concluded negotiations towards a Comprehensive Economic and Trade Agreement (CETA) in August 2014. This agreement will increase the EU access to the Canadian cheese market by 17,700 tonnes and will also give Canada duty-free access to the EU dairy markets. These additional imports from the EU will be taken into account to set milk quota once CETA is implemented.

On October 5, 2015, the Canadian government announced the conclusion of the Trans-Pacific Partnership (TPP), a trade deal between 12 nations representing 40% of the world's Gross Domestic Product. The US officially pulled out of this agreement in January 2017 and its future is uncertain. The CDC will follow the situation.

Also on the international scene, the CDC monitors the effectiveness of the existing tariffs on dairy products that are imported into Canada. These tariffs protect domestic markets from large volumes of imports. World prices have been so low that paying an over-access tariff on skim milk powder may have been economical on a few occasions in the past years. These occurrences seem to have been too short-lived, however, to create an influx of skim milk powder into Canada. The threat increases when the Canadian dollar is high and the world prices for dairy products are low. Since the beginning of the 2016-2017 dairy year, market conditions have been such that it would not have been economical to import dairy products and pay the tariff. However, given the volatility of markets, these conditions could occur during the planning period. Depending on their volume and duration, such imports could disrupt milk supply management significantly.

## **Financial Trends**

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

World prices for skim milk powder have slowly been improving from their low level of 2015. However, since the beginning of 2017, demand has become very soft again. The CDC exported skim milk powder at the beginning of the dairy year to take advantage of the better prices. This will provide producers with better returns.

## **CORPORATE RESOURCES**

### **Financial Resources**

The CDC has four sources of revenues: appropriations, its commercial operations, funds from milk producers for programs administered on their behalf, and funds from the marketplace for the storage of butter. The marketplace contribution is added to the price of milk that is used to manufacture dairy

products. It is collected by provincial milk marketing boards when invoicing processors. Processors pass on this charge to consumers through the price of dairy products. The CDC collects this contribution monthly, as well as the producer contribution, when it manages the money transfers between provinces for the purpose of pooling producer revenues among the 10 provinces.

This dairy year, the CDC expects to sell approximately \$348.1 million in butter and skim milk powder on the domestic and international markets. Its most important expense is the purchase of dairy products on the domestic and international markets. The CDC also pays carrying charges for its inventories. These include storage, insurance, transportation and interest charges. Ninety-three percent of these charges are covered by dairy producers and funding from the marketplace. The rest is covered by revenues generated from the sale of imported butter.

Programs that the CDC operates on behalf of the industry are financed by producers and the marketplace. Two of these programs are the Domestic Seasonality Program and the Surplus Removal Program. In operating these programs, the CDC borrows from the Consolidated Revenue Fund and borrowing costs are covered by dairy producers and the marketplace. These loans are repaid according to their terms and conditions.

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

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

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

### **Human Resources**

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

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

Recruiting employees with specialized knowledge in the fields of agricultural economics and the dairy industry remains a challenge due to the small number of potential candidates. Employee attraction and retention are therefore important. The CDC is aware that it faces competition from the private sector, where key groups such as economists and accountants receive higher salaries than in the public service. To respond to these trends and to the risk posed by the loss of corporate knowledge due to retirements, the CDC has developed a succession plan for its key positions as well as development paths for some groups such as economists and IT specialists. Furthermore, over 200 procedures have been documented. This allows for a smoother transition when an experienced employee leaves the CDC.

The budget of this Corporate Plan Summary includes 3 additional FTEs in 2017-2018 compared to the budget of the current dairy year.

### **Material Resources**

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

The CDC leases office space from Agriculture and Agri-Food Canada and has signed a lease agreement for the period of April 1, 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. The CDC intends to renew this lease for another five years. Between September 2015 and March 2017, major repairs on the CDC building required moving part of the staff to another building. As the owner of the building, AAFC paid the related costs.

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## OBJECTIVES, STRATEGIES AND PERFORMANCE MEASURES

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### STRATEGIC PLANNING PROCESS

The CDC strategic planning process engages the Board, the Senior Management Team (SMT) and all managers. Staff members are also invited to some of the steps in the process. Strategic planning involves a review of the status of the current year's objectives, an analysis of CDC's external and internal environments, including trends in the industry and in government, and the establishment of a medium-term direction and goals, as well as performance measures and activities for the next dairy year. The plan is used to create individual performance objectives for directors, managers and employees. Each employee receives a summary of the goals, objectives and activities before the start of the new dairy year.

This Corporate Plan Summary includes the output of the strategic planning process outlining how the CDC will perform its mission and fulfill its mandate in 2017-2018 and beyond. Because of the significant changes that have happened in the industry due to the implementation of elements of the National Ingredient Strategy, the CDC reviewed its five-year objectives and made changes to reflect the new environment.

### STRATEGIC THEMES AND STRATEGIES

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

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

### OBJECTIVES AND PERFORMANCE MEASURES FOR THE PLANNING PERIOD

This section presents, for each strategic theme, the five-year goals of the CDC, the performance indicators associated with these goals and the objectives for 2017-2018. Specific targets associated with performance indicators can be found in Appendix B.

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

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

Under this strategic theme, the CDC's strategy involves both the day-to-day operation of the milk supply management system, and efforts to improve its administration. The day-to-day administration of the system includes the control of the quantity of milk produced in Canada, the operation of programs that

compensate for the seasonality of consumption, and the administration of federal-provincial and international agreements<sup>20</sup>.

Five-year goal:

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

Performance indicators:

- Number of audits
- Total producer revenues increase driven by growth
- Market supply meets demand through accurate quota calculation and improvement of market analysis and forecasts
- Time from receipt of pooling data to quota allocation and money transfers
- Registration to online training modules

STRATEGY	OBJECTIVE FOR 2017-2018
Promote a more market-responsive management of milk supply	<ul style="list-style-type: none"> <li>• The industry benefited from the CDC’s expertise in reviewing its quota management policies</li> </ul>
Ensure the respect of federal-provincial and international agreements	<ul style="list-style-type: none"> <li>• CMSMC decisions that are CDC’s responsibility are implemented</li> </ul>

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

The success of the milk supply management system rests in part on the cohesion that exists among the various players. This cohesion is constantly challenged by the conflicting interests of these players. The presence of a neutral facilitator is therefore helpful to maintain cohesion and the CDC, being national in scope and not profit oriented, has been playing this role.

Under this theme, the CDC will continue to adapt its programs and services to the new environment of the dairy industry in order to continue to be viewed as a neutral facilitator and key contributor in the sector. Specific initiatives will be inspired by results of an industry survey conducted in the winter 2016-2017 and outcomes will be measured by a similar survey that will be conducted three years from now.

Five-year goal:

- The CDC is valued as a neutral facilitator and key contributor in the dairy industry

Performance indicator:

- % CDC-led recommendations to industry committees that are accepted
- Number of invitations to speak/facilitate/train at non-CDC meetings
- Results of survey on industry satisfaction

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<sup>20</sup> This entails ensuring Canada is compliant with WTO export subsidy commitments. In addition, the CDC imports the butter tariff rate quota as approved on an annual basis by the Global Affairs Canada.

STRATEGY	OBJECTIVE FOR 2017-2018
Adapt key services and programs to the industry	<ul style="list-style-type: none"> <li>• Key services and programs are adapted</li> </ul>
Improve communications with the industry	<ul style="list-style-type: none"> <li>• Most Board decisions are communicated openly</li> <li>• Stakeholders' engagement is enhanced</li> </ul>

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

Under this strategic theme and in line with its mission of providing leadership to enhance the vitality of the Canadian dairy industry, the CDC will provide support and funding for innovation and market development based on strategies that will be designed in the coming year. The CDC will continue to encourage investments in the dairy sector. The CDC already has several programs in place that facilitate innovation and market growth<sup>21</sup>. These programs will continue.

Five-year goal:

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

Performance indicators:

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

STRATEGY	OBJECTIVE FOR 2017-2018
Provide support and funding for innovation in the processing sector	<ul style="list-style-type: none"> <li>• Innovation Strategy developed</li> </ul>
Provide support and funding for market development	<ul style="list-style-type: none"> <li>• Market Development Strategy developed</li> </ul>
Promote investment on farms	<ul style="list-style-type: none"> <li>• The CDC provided information to dairy farmers on market growth and the need to increase production to meet demand</li> </ul>

*Strategic theme: A Well-Managed CDC*

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

Five-year goal:

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

Performance indicators:

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

<sup>21</sup> Such as the Dairy Innovation Program and the Milk Access for Growth Program.



- The CDC has the appropriate workforce to achieve its objectives (the right number of engaged employees with the right skill set in the right structure)

STRATEGY	OBJECTIVE FOR 2017-2018
Adapt the workforce and IT systems to the industry's new environment	<ul style="list-style-type: none"> <li>• CDC workforce and systems have adapted to the new industry environment</li> </ul>
Implement new or updated government policies	<ul style="list-style-type: none"> <li>• A clear understanding of the changes required</li> </ul>

In compliance with the mandate letter that the minister of Agriculture and Agri-Food sent to the CDC Chairman in August 2016, the CDC will continue to operate programs that advance science and innovation and to collaborate with other government departments relative to trade agreements. The CDC will also continue to support the Governor in Council during the appointment of new board members.

Concerning the Nairobi Decision, the CDC had started, in 2016, to review its support prices with a view of reducing export subsidies. The agreement in principle between producers and processors removed the responsibility of exporting surplus SNF from the CDC, and also decoupled the farm milk prices from CDC support prices. The CDC will follow closely the outcome of the new dairy industry environment in light of the Nairobi Decision and will provide advice to the industry in that regard if needed.

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## FINANCIAL INFORMATION

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The financial statements presented in this Summary are based on the International Financial Reporting Standards (IFRS). During the period covered by this Corporate Plan Summary, the structure and standards of the financial statements, as well as the main activities and programs of the CDC, are expected to remain the same. Minor capital expenses are forecasted.

The CDC's budgeted financial tables are based on certain assumptions and projections while forecast figures are based partially on actual results up to January 31, 2017.

### ASSUMPTIONS

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

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

- The exchange rates used in these budgets are CAD\$1.32 per USD for 2016-2017, CAD\$1.33 per USD for 2017-2018 and 2018-2019 and CAD\$1.30 per USD for 2019-2020 through 2021-2022.
- The interest rates used for outstanding loans for 2016-2017 are 0.60%, 1.00% for 2017-2018, 1.25% for 2018-2019 and 1.5% for 2019-2020 through 2021-2022.
- Interest rates on loans from the member of Canadian Payments Association will remain at prime which is estimated to be 2.70% for 2016-2017, 3.00% for 2017-2018, 3.25% for 2018-2019, and 3.5% for 2019-2020 through for 2021-2022.

Accounts receivable

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

Accounts payable

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

Sensitivity of the projections to assumptions

Beyond 2017, it is difficult to quantify all the variables and forecast potential developments, due to the possible changes within the dairy industry and the international trade environment. The key factors in the budget presented are total production, domestic demand, support prices and world market conditions for the sales of dairy products. Any significant changes in the assumptions will affect the budgeted results.

CANADIAN DAIRY COMMISSION  
STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)  
for the Dairy Years ended July 31, 2016 - 2022

	(in thousands)							
	Actual Audited	Budget	Forecast	Budget				
	2015-2016	2016-2017	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
<b>Sales and Cost of Sales</b>								
Domestic sales revenue	\$ 209,376	\$ 190,496	\$ 308,575	\$ 226,786	\$ 228,573	\$ 223,487	\$ 224,336	\$ 225,354
Cost of goods sold - domestic	178,070	173,549	284,709	211,743	223,213	221,297	222,237	223,252
Transport and carrying charges	7,312	7,167	7,650	6,997	3,194	2,829	2,881	2,934
Finance costs	297	742	275	803	1,008	1,216	1,222	1,228
Gross profit on domestic sales	23,697	9,038	15,941	7,243	1,158	(1,855)	(2,004)	(2,060)
Export sales revenue	30,306	47,800	39,567	0	4,190	4,095	4,095	0
Cost of goods exported	29,479	46,889	38,182	0	4,109	4,014	4,014	0
Transport and carrying charges	553	804	1,984	0	75	76	77	0
Finance costs	5	7	20	0	0	0	0	0
Gross profit (loss) on export sales	269	100	(619)	0	6	5	4	0
Total gross profit	23,966	9,138	15,322	7,243	1,164	(1,850)	(2,000)	(2,060)
<b>Other revenues</b>								
Funding from milk pools	6,053	6,642	6,469	7,364	7,620	7,840	8,858	9,084
Funding from the Government of Canada	3,689	3,660	3,790	3,660	3,660	3,660	3,660	3,660
Audit services	196	180	180	190	190	195	195	200
	9,938	10,482	10,439	11,214	11,470	11,695	12,713	12,944
<b>Total</b>	<b>33,904</b>	<b>19,620</b>	<b>25,761</b>	<b>18,457</b>	<b>12,634</b>	<b>9,845</b>	<b>10,713</b>	<b>10,884</b>
<b>Operating Expenses</b>								
Industry initiatives	605	6,296	1,241	9,146	10,146	4,146	1,896	1,896
Cost of Production study	817	827	839	863	880	897	915	934
Other charges / (recoveries)	246	47	59	63	78	80	90	86
	1,668	7,170	2,139	10,072	11,104	5,123	2,901	2,916
<b>Administrative Expenses</b>								
Salaries and employee benefits	5,923	6,343	6,191	6,655	6,738	6,822	6,907	6,994
Other administrative expenses	1,862	1,812	2,053	1,916	1,916	1,916	1,916	1,916
	7,785	8,155	8,244	8,571	8,654	8,738	8,823	8,910
<b>Total</b>	<b>9,453</b>	<b>15,325</b>	<b>10,383</b>	<b>18,643</b>	<b>19,758</b>	<b>13,861</b>	<b>11,724</b>	<b>11,826</b>
<b>Profit before distribution to provincial milk boards and agencies</b>	<b>24,451</b>	<b>4,295</b>	<b>15,378</b>	<b>(186)</b>	<b>(7,124)</b>	<b>(4,016)</b>	<b>(1,011)</b>	<b>(942)</b>
Distribution to provincial milk boards and agencies	5,944	10,354	8,176	8,718	3,215	465	466	464
<b>Results of operations and comprehensive income (loss)</b>	<b>\$ 18,507</b>	<b>\$ (6,059)</b>	<b>\$ 7,202</b>	<b>\$ (8,904)</b>	<b>\$ (10,339)</b>	<b>\$ (4,481)</b>	<b>\$ (1,477)</b>	<b>\$ (1,406)</b>

CANADIAN DAIRY COMMISSION  
BORROWING PLAN  
for the Dairy Years ended July 31, 2016 - 2022

(in thousands)

**Consolidated Revenue Fund**

Loan transactions	Actual	Forecast	Projected				
	Audited 2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Balance at beginning of year	\$ 35,413	\$ 94,192	\$ 87,588	\$ 104,515	\$ 118,684	\$ 126,459	\$ 128,586
Drawings	207,136	150,000	160,000	160,000	160,000	160,000	160,000
Repayments	(148,357)	(156,604)	(143,074)	(145,831)	(152,225)	(157,874)	(157,945)
Balance at end of year	<u>\$ 94,192</u>	<u>87,588</u>	<u>104,515</u>	<u>118,684</u>	<u>126,459</u>	<u>128,586</u>	<u>130,641</u>
Average level during year:	\$56,000	\$75,000	\$95,000	\$90,000	\$75,000	\$75,000	\$75,000
Highest level during year:							
Month	August	July	July	July	July	July	July
Amount	\$ 73,000	\$ 90,000	\$ 130,000	\$ 135,000	\$ 125,000	\$ 125,000	\$ 125,000

**Member of Canadian Payments Association**

Loan transactions	Actual	Forecast	Projected				
	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Balance at beginning of year	\$ 2,225	\$ 4,030	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
Drawings	31,900	28,000	28,000	28,000	28,000	28,000	28,000
Repayments	(30,095)	(30,030)	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)
Balance at end of year	<u>\$ 4,030</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  
STATEMENT OF COSTS FINANCED BY THE GOVERNMENT OF CANADA  
for the Fiscal Years ending March 31, 2016 - 2022

(in thousands of dollars)

	Actual 2015-2016	Forecast 2016-2017	Budget					
			2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	
Administrative expenses								
CDC appropriation Vote 1	\$ 3,597	3,590	3,585	3,585	3,585	3,585	3,585	
Eligible payroll expenditures	126	202	75	75	75	75	75	
Total costs financed by the Government of Canada	\$ <u>3,723</u>	\$ <u>3,792</u>	\$ <u>3,660</u>	\$ <u>3,660</u>	\$ <u>3,660</u>	\$ <u>3,660</u>	\$ <u>3,660</u>	

CAPITAL BUDGET  
for the Dairy Years ended July 31, 2016 - 2022

(in thousands)

	Actual	Forecast	Budget				
	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>	<u>2020-2021</u>	<u>2021-2022</u>
Capital	\$ 0	\$ 20	\$ 0	\$ 20	\$ 0	\$ 20	\$ 0
Total capital budget	<u>\$ 0</u>	<u>\$ 20</u>	<u>\$ 0</u>	<u>\$ 20</u>	<u>\$ 0</u>	<u>\$ 20</u>	<u>\$ 0</u>

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

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

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**APPENDIX A**  
**GLOSSARY OF DAIRY TERMS**

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

The CMSMC serves as the key national body for policy development and discussions respecting dairy production and processing sectors, and oversees the application of the National Milk Marketing Plan. The Canadian Dairy Commission (CDC) chairs and supports the CMSMC and its Secretariat, a technical committee which provides economic analysis and advice to the members of the CMSMC. The CMSMC has representation from producers and governments of all provinces. Representatives of national consumer, processor and producer organizations also participate as non-voting members. The CMSMC meets four times per year to review and consider the major economic and marketing factors affecting the dairy sector. It also reviews and monitors the CDC's marketing operations; the pooling systems established for market returns from certain milk sales; and provincial quota allocations and utilization. The CMSMC determines the national production target for industrial milk.

**Dairy Producers**

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

**Further Processors**

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

**Industrial Milk**

Milk sold for processing into such dairy products as butter, cheese, ice cream or yogurt. This is opposed to fluid milk, which is processed into table milk and cream.

**National Milk Marketing Plan**

The National Milk Marketing Plan is the federal-provincial agreement that provides the framework for the operation of the milk supply management system and is administered by the CMSMC. All Canadian provinces are signatories to the national Plan.

**Processors**

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

**Skim milk powder (SMP)**

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

**Solids non fat (SNF)**

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

**Supply Management**

Supply management is a system by which the production of milk is controlled by marketing quotas at the farm level. The size of the quota depends on the demand for milk and other dairy products.

**Support 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 no longer act as reference prices in establishing the farm gate price of milk.

**Tariff Rate Quota (TRQ)**

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



**APPENDIX B  
DELIVERY AND EXPECTED RESULTS**

<b>Outcome</b>	<b>Performance indicator</b>	<b>2017-2018 Target</b>	<b>2021-2022 Target</b>	<b>Data Strategy</b>
A well administered, responsive and well-understood supply management system	Number of audits <sup>22</sup>	100 audits of Class 3d <sup>23</sup> 40 audits of Special Milk Class Permit Program <sup>24</sup> participants	100 audits of Class 3d 40 audits of Special Milk Class Permit Program participants	Audit & Evaluation data
	Total producer revenue evolves with market growth	1% annual increase	1% annual increase	Pooling data
	Market demand meets supply through accurate quota calculation and improvement of market analysis and forecasts	Quota is between 99% and 101% of demand	Quota is between 99% and 101% of demand	Data from Policy and Economics
	Quota allocation and money transfers are performed within the service standards established by the Canadian Milk Supply Management Committee	100% of the time	100% of the time	Data from Finance and Administration
	Registration to online training modules <sup>25</sup>	10 per year	15 per year	Compilation by Communications
The CDC is valued as a neutral facilitator and	% CDC-led recommendations to industry committees that are accepted	70%	85%	Compilation by Policy and Economics

<sup>22</sup> These audits serve to ensure that milk sold by producers at a lower price is used according to specific program parameters. The CDC will endeavour to strengthen this performance indicator during the coming year.

<sup>23</sup> Provides fresh pizza restaurants access to mozzarella cheese at discounted prices.

<sup>24</sup> Gives further processors access to dairy products at competitive prices for use in further processing.

<sup>25</sup> As part of its engagement with the dairy industry, the CDC also explains the supply management system through in-person training and the provision of advice, analyses, reports and presentations to the industry.

Outcome	Performance indicator	2017-2018 Target	2021-2022 Target	Data Strategy
key contributor in the dairy industry	Number of invitations to speak/facilitate/train at non-CDC meetings (excluding reports to provincial boards' annual general meetings)	10 per year	20 per year	Compilation by Chief Executive Officer office
	Results of survey on industry satisfaction	None <sup>26</sup>	Ratings improved by 20%	Satisfaction rates from survey
Investments and innovation have led to continuous market growth in the dairy sector	Number of litres used in the Milk Access for Growth program (MAG) <sup>27</sup>	21 million litres	160 million litres	Annual pull of data from MAG program
	Market growth rate correlated to CDC activities	0.2%	4% (cumulative)	Annual growth in milk requirements
	Number of innovative dairy products <sup>28</sup> introduced through the Dairy Innovation Program (DIP)	2	10 (cumulative)	Annual pull from DIP files
The CDC is organized and resourced to support the dairy industry into the future	Level of staff satisfaction as measured by an annual survey	80 % or more	90% or more	Data from annual employee satisfaction survey
	Number of tools or policies developed internally <sup>29</sup> and adapted to better support the industry	4 per year	4 per year	Data from Information Technology team and the Senior Management Team

<sup>26</sup>A survey was performed in 2016-2017. The final report has been received but no analysis has been done yet. The baseline remains to be established. The survey will be repeated in 2019-2020.

<sup>27</sup> Ensures a supply of milk for investors who build new plants or expand existing plants and thus increase demand for Canadian milk.

<sup>28</sup> A product that is not currently available in Canada and that will increase demand for Canadian milk. New technologies such as new processes are considered innovative.

<sup>29</sup> Such as an updated Staffing Policy, a management dashboard, and a Classification Monitoring Program.