
CANADIAN DAIRY COMMISSION
CORPORATE PLAN SUMMARY
FOR 2008-2009 TO 2012-2013

OPERATING AND CAPITAL BUDGETS
FOR THE DAIRY YEAR ENDING JULY 31, 2009

Corporate Plan dated April 1, 2008
Summary dated September 1, 2008

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EXECUTIVE SUMMARY

In the next five years, the activities of the Canadian Dairy Commission (CDC) will likely be influenced by the outcome of the World Trade Organization (WTO) negotiations on agriculture. A new WTO Agreement on Agriculture would likely have major effects on the Canadian dairy industry and because the CDC's activities are so closely linked to the situation of this industry, some impacts are expected on the Commission. However, the exact nature and magnitude of these impacts are unknown at this time. A WTO ministerial meeting is planned for June or July 2008 to finalize the modalities and more information may be available thereafter.¹

Discussions with the industry on some of those impacts and on other issues are made more difficult by diverging interests between milk producers and milk processors. Although the two groups can have strongly diverging goals, they share an interest in the health of their industry. The CDC plans to build on this shared interest to facilitate a much needed discussion on pricing between the two groups in the near future.

To prepare the dairy industry to the new environment that is likely to exist under a new WTO Agreement in Agriculture, the CDC will work in collaboration with the various stakeholders of the industry to make it more adaptable.

There is a healthy demand for dairy products in Canada at this time. To produce the necessary butterfat to satisfy this demand, the industry needs to produce the associated solids non fat (SNF) for which there is a limited domestic market. The recent increase in this structural surplus of SNF is a concern. It is the mandate of the CDC to buy these surpluses. To be able to achieve this, the Corporation will need to increase its borrowing limit for dairy year 2008-2009. Furthermore, an industry-wide strategy will have to be discussed, adopted and implemented in the longer term to deal with this issue. In the meantime, the CDC will continue to look for new markets for these milk components.

Finally, accountability requirements are more present than ever. New initiatives are being implemented by the government in the areas of finance, human resources and general accountability. Enhancing the adaptability of the CDC, partly through the continued development of its human resources, is seen as an adequate strategy in this changing environment.

The goals of the CDC for 2008-2009 to 2012-2013 are as follows:

1. The Canadian dairy industry adapts successfully to change.
2. The Canadian dairy industry takes a strategic approach to market development.
3. The CDC is a dynamic, learning organization that lives its values.

These goals will be reviewed annually.

The CDC is not planning any major capital projects in the coming years, as can be seen in the attached capital budget. From the positive balance of its commercial operations, it will continue to finance specific projects that benefit globally to the Canadian dairy industry. Such projects include scholarships for graduate students, the Dairy Marketing Program, and support of the Canadian Quality Milk Program, a HACCP-based program that is designed to increase the quality of the milk delivered by Canadian dairy farms. The possibility to fund research programs related to dairy will be considered in the coming year.

¹ This meeting failed to result in a new agreement and as of the date of this summary, the process to resume negotiations is unclear.

I PROFILE OF THE CANADIAN DAIRY COMMISSION

CDC at a glance

Created in 1966

61 employees (as of April 1, 2008)

Location: Ottawa

Web site: www.cdc-ccl.gc.ca

Budget 2008-2009 (fiscal year): \$ 7.67 million

Year of operation: August 1st to July 31st

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

Mandate

The Canadian Dairy Commission (CDC), a federal Crown corporation, plays a central facilitating role for the multi-billion dollar Canadian dairy industry (see Appendix A for an overview of milk production in Canada). Created in 1966 through the *Canadian Dairy Commission Act*, the CDC reports to Parliament through the Minister of Agriculture and Agri-Food Canada. Its legislated objectives are twofold: 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.

Funded by the federal government, dairy producers and the marketplace, the CDC strives to balance and serve the interests of all dairy stakeholders — producers, processors, further processors, exporters, consumers and governments.

Listed in Part I of Schedule III of the *Financial Administration Act*, the CDC has the authority to purchase, import, store, process and sell dairy products; to investigate matters relating to the production, processing or marketing of any dairy product; and to help promote the use of dairy products.

Summary of activities

To achieve its mandate, the CDC works with provincial governments and industry stakeholders such as dairy producers², processors, further processors and consumers. The CDC, on the federal government's behalf, facilitates and supports the dairy industry in the development and implementation of major policies and programs.

The CDC oversees, on the industry's behalf, the core features of the current orderly marketing approach in the dairy sector. This is done by:

- operating domestic seasonality and surplus removal programs;
- administering the Special Milk Class Permit Program, the Domestic Dairy Product Innovation Program, and the Dairy Marketing Program;
- calculating and recommending to the industry the level of the national Market Sharing Quota for industrial milk in Canada;
- setting support prices for butter and skim milk powder;

² Underlined words or phrases are further described in Appendix A.

- administering the industry's pooling systems; and,
- administering Canada's imports of butter to respect the minimum access requirements established by the World Trade Organization.

The CDC chairs the Canadian Milk Supply Management Committee (CMSMC) and in this capacity, appraises the committee on matters of interest or concern that require resolution and, when necessary, proposes various solutions or alternatives which could contribute to more orderly and efficient marketing.

Organization and structure

As of April 1, 2008, the governing board was composed of the following three members:

Randy Williamson, Chairman (mandate ends August 2010)

Gilles Martin, Commissioner (mandate ends August 2010)

John Core, CEO (mandate ends October 2008)

All positions are part-time appointments. The process to renew or replace the CEO is underway³.

The Commission is accountable to Parliament through the Minister of Agriculture and Agri-Food.

³ John Core's reappointment as CEO for a three-year term ending October 2011 was announced early August.

II STRATEGIC ISSUES FOR THE PLANNING PERIOD

A) Assessment of results for 2007-2008

The goals set by the CDC for the last period, along with a brief summary of the status of achievement of each goal, are described below.

STRATEGIC GOALS

Goal 1: The Canadian dairy industry is in a position to successfully adapt to change.

Objective	Performance indicators for 2007-2008	Status as of April 1, 2008
An active negotiation on harmonization issues in preparation for a national pool negotiation (revenue and market sharing).	<ul style="list-style-type: none"> • A milk allocation agreement between Quebec and Ontario • An agreement on Class 1 pricing and other policies in the West • Negotiations for Newfoundland and Labrador to join the Eastern Milk Pool have resumed • A motion from CMSMC to develop a national pool model 	<ul style="list-style-type: none"> • The CDC continues to facilitate these negotiations. • Good progress. The Alberta milk board is in the process of obtaining pricing authority from its provincial government. • Exploratory meetings have occurred and will continue. • Some provinces are resisting the idea of a national milk pool and therefore no motion has been put forth.
An active and ongoing industry discussion on the future of pricing is underway.	<ul style="list-style-type: none"> • Stakeholders have agreed to participate in a taskforce on pricing 	<ul style="list-style-type: none"> • Stakeholders have been invited to take part in an exploratory meeting which is planned for June 2008.
The CDC is prepared to deal with a completed Doha Round.	<ul style="list-style-type: none"> • Trade reports to the Commission are timely • Regular meetings are held with AAFC's Chief Trade Negotiator • Impacts of new trade rules have been evaluated as needed. 	<ul style="list-style-type: none"> • Reports were timely • Meetings were held • New WTO rules have not been developed
Knowledge of the Canadian dairy industry is enhanced.	<ul style="list-style-type: none"> • Two orientation sessions were offered to decision makers and two workshops were offered to technical advisors 	<ul style="list-style-type: none"> • Two sessions given to decision makers • Sessions for technical advisors under development and a pilot session is planned for June.

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

Objective	Performance indicators for 2007-2008	Status as of April 1, 2008
A renewed strategy to encourage the use of Canadian dairy ingredients has been agreed at CMSMC.	<ul style="list-style-type: none"> Revised Market Committee terms of reference have been approved by the CMSMC A renewed strategy has been approved by the CMSMC An increased utilization of Canadian milk protein concentrates and milk protein isolates 	<ul style="list-style-type: none"> New terms of reference have been approved by the CMSMC Elements of the new strategy include a new pricing mechanism for Class 5(c) and discussions on setting the price of skim milk powder at competitive levels for domestic markets. The growth in use of milk protein concentrates in nutraceuticals is expected to continue as long as the component prices remain competitive.
New marketing initiatives for the restaurant and food services sectors.	<ul style="list-style-type: none"> A report containing recommendations was presented to CMSMC 	<ul style="list-style-type: none"> No report was presented but needs continue to be evaluated.
An adequate supply of cream across Canada.	<ul style="list-style-type: none"> Supply of cream is properly matched to demand throughout the year 	<ul style="list-style-type: none"> Cream supply was closely monitored and shortages were solved on a timely basis.

Goal 3: The CDC as an organization adapts successfully to change.

Objective	Performance indicators for 2007-2008	Status as of April 1, 2008
Tools are in place to support a continuous learning environment.	<ul style="list-style-type: none"> More resources are spent on professional development Positive feedback from employees 	<ul style="list-style-type: none"> Expenses in training and development have increased by 7% over the previous year. A computer-based system has been developed for performance management and it includes an individual development plan that allows for employee feedback.
The new governance structure is functioning effectively.	<ul style="list-style-type: none"> Regular Commission meetings are held and decisions are made promptly Monthly Senior Management Team meetings Regular CEO reports on management and operations are presented to the 	<ul style="list-style-type: none"> Achieved. Achieved. A CEO report was presented to the Commission every month.

Objective	Performance indicators for 2007-2008	Status as of April 1, 2008
	Commission <ul style="list-style-type: none"> • A new delegation of authority has been adopted • Healthy working atmosphere 	<ul style="list-style-type: none"> • The revised delegation of authority was adopted. • The Commissioners feel that there is a good sense of cooperation among the Board members.
CDC practices and procedures are completely documented and regularly updated.	<ul style="list-style-type: none"> • Procedures are 100% documented and current 	<ul style="list-style-type: none"> • Procedures are 90%⁴ complete and a process is in place to ensure that they are reviewed at least once a year.
Succession planning is complete.	<ul style="list-style-type: none"> • Competency profiles are written • Potential candidates are identified • Professional development plans are in place 	<ul style="list-style-type: none"> • About 92% of profiles have been written for key positions. We hope to reach 100% by the end of the dairy year. • Potential candidates have yet to be identified. • Development plans will be put in place after candidates have been identified.
A CDC that is more attractive to potential employees.	<ul style="list-style-type: none"> • Hire on first competition • Candidates accept offers 	<ul style="list-style-type: none"> • Since August 1st, we hired on first competition in 100% of cases (7 competitions).
The human resources of the CDC are used efficiently.	<ul style="list-style-type: none"> • Reviews of documents and attendance have been conducted and proposals presented to relevant committees 	<ul style="list-style-type: none"> • As intended by the performance indicator, the review of meeting attendance has been conducted and when possible, less CDC employees travel to industry meetings.

In addition to the above goals, the CDC continued to operate its usual activities. In December 2007, the CDC announced a small increase of 6 cents per kg in the support price of skim milk powder and the same increase in the support price of butter. The two increases combined were equivalent to an increase of 83 cents per hectolitre of milk, with 70 cents going to producers.

As demand for dairy products remained strong throughout the year, the CDC continued to adjust quota every two months. As a result, the national market sharing quota (MSQ) started the 2007-2008 dairy year at 181.58 million kg of butterfat⁵ and stands at 184.09 kg of butterfat as of April 1, 2008, a 1.4% increase. Demand for dairy products is expected to continue to increase slowly (0.5-1%) during the rest of the dairy year.

⁴ As of the date of the summary, procedures were 100% complete.

⁵ Including a growth allowance of 1.5%.

Overall, the CDC accomplished most of its goals. Some had to be put on hold in order to wait for the conclusions of the current round of WTO negotiations, for others, the dairy industry was just not ready to move forward (in the case of the national all milk pool, for example). Other activities are ongoing. Most of these involve discussions and negotiations with members of the industry and will be continued into the next dairy year. Others refer to management initiatives at the CDC (succession plan, continuous learning environment) and will also be continued into the next dairy year.

The completion of many of our goals in 2007-2008 has allowed the dairy industry to increase its level of harmonization and its awareness of the current environment. As for internal goals, their completion made the CDC more efficient in fulfilling its role and better prepared for change. These are advantages that will be useful as the CDC continues to play its facilitating role in the Canadian dairy industry in 2008-2009.

B) Analysis of the external environment

a) World Trade Organization Negotiations

For several years now, the Canadian dairy industry has been waiting to see what would be the impacts of a new agreement on agriculture at the World Trade Organization (WTO). Since all Canadian exports of dairy products made from in-quota milk are considered subsidized, a new WTO agreement may impact Canadian exports and the CDC. In 2006-2007, the CDC exported 10.1 million kg of skim milk powder (SMP) as part of the Surplus Removal Program.⁶

The role of the CDC has been, traditionally, to buy surplus products and dispose of them on markets such as the export market or on low return markets such as animal feed. Dairy producers receive the lower returns associated with this Surplus Removal Program. For that reason, it is necessary to continue to seek other markets for solids non fat and pursue policies to decrease the ratio of solids non fat to butterfat in milk at the farm level.

Whatever the content of a new WTO agreement and the timing of its implementation, the CDC will need to work closely with the industry to adapt the supply management system to the new environment. The pricing system, among others, might need to be entirely reviewed and new markets will have to be found for the structural surplus. The CDC's facilitating role will be essential to help the industry to find acceptable solutions.

In the meantime, the CDC is working on trying to harmonize dairy policies across the country to create a national all milk pool. This would result in a more level playing field for both producers and processors and a more adaptable industry.

Furthermore, the CDC believes that, in order to prepare for the changes ahead, it is important that the current players of the industry understand better how it works.

b) Demand for Dairy Products

Since the beginning of the 2007-2008 dairy year, demand for dairy products has increased slowly but steadily. The CDC has recommended to the industry that a growth allowance of 1.5% be added to the national quota for industrial milk. The CMSMC agreed to implement this allowance at the beginning of the dairy year (August 1). Now that production is catching up with demand, the CMSMC has agreed to reduce it to 0.5% effective May 1, 2008.

⁶ 16.4 million kg in 2007-2008

c) Divergence between producers and processors

As international market pressures increase on the Canadian dairy industry, there are still disagreements between producers and processors. This has consequences on the industry because these two sectors need to work together constantly on sensitive issues. This underpins the need for an increased leadership role for the CDC as it is generally perceived to be a neutral and knowledgeable facilitator.

d) Accountability

Inside government, the trend towards more rigorous accountability continues. Measures put in place by the CDC, such as risk management and learning policies, mean that our workforce will better adapt to the new challenges of working in the public service. These initiatives must continue.

C) Assessment of CDC resources

a) Financial resources

The CDC is fortunate to have stable funding. Approximately half of its administrative budget comes from government appropriations whereas the other half comes from the industry. Revenues from commercial operations allow the CDC to engage in certain activities that benefit the entire dairy industry.

b) Human resources

The CDC staff is knowledgeable and experienced and the CDC's learning policy, combined with the budgets that are allocated to training, ensure that employees have an opportunity to learn new skills. A number of employees will be eligible for retirement in the next five years and because of this, the CDC is committed to succession planning, knowledge transfer and documentation of procedures.

In the last three years, hiring has started to be a problem in certain areas of work. The general employment market is healthy and the CDC increasingly competes with other government departments and the private sector. Some measures have been taken in the last year to make the CDC more attractive for potential employees but work remains to be done in this area. To obtain guidance related to priorities touching employee attraction and retention, the CDC will participate in the national "Best Small and Medium Employers Study". Results are expected in January 2009.

The workforce of the CDC is fairly lean. This makes it vulnerable to staff leaving or being absent for long periods and puts a strain on staff during work surges. The problem is compounded by the fact that these surges are mostly imposed by external factors (increased reporting requirements within government, increased need for analysis from the industry). To better respond to these work surges, the CDC will continue to automate and streamline processes as much as possible.

c) Material resources

The CDC does not own real estate, vehicles, or specialized equipment. The material resources of the CDC include computers, software, databases, and office furniture. These are used to conduct the policy and operation activities of the CDC. Computers and the necessary software are updated on a regular basis and therefore material resources are deemed to be adequate.

The CDC leases office space from Agriculture and Agri-Food Canada under a five-year lease which is due to expire at the end of March 2012.

III STRATEGIES, GOALS AND PERFORMANCE MEASURES

A) Description of strategies

To adequately respond to the upcoming changes and given its current resources, the CDC has identified three strategic areas of intervention.

a) A more adaptable dairy industry

The CDC intends to exercise leadership on several fronts:

- harmonizing dairy policies to make market conditions more uniform across the country for both producers and processors in preparation for the creation of a national all milk pool;
- initiating discussions on a revised pricing methodology that would be adapted to the results of the current environment and possibly, to the results of the World Trade Organization (WTO) round of negotiations;
- prepare for the conclusions of the WTO round of negotiations;
- improve the general knowledge that decision makers and technical advisors have of their industry so that they can make better decisions, faster.

b) Strategic market development

To increase the demand for Canadian dairy products, the CDC will further develop a more strategic approach to the development and supply of markets for dairy products. Specific segments of the market will be explored.

c) A more adaptable CDC

In the area of human resources management, the general strategy of the CDC will be to prepare its workforce and its systems for the future. To achieve this, the CDC will concentrate on planning, policies, learning, and the efficient use of its human resources.

B) Goals, objectives and performance measures

Over the next five years, the CDC hopes to continue to work in close collaboration with the major stakeholders of the Canadian dairy industry, as well as with provincial governments, to move the industry forward and help this very important segment of the Canadian economy to adapt to a changing environment.

The CDC has identified the following goals for the planning period, which are in line with the analysis of the environment discussed in Section II and with the strategies outlined in Section IIIA. The goals are for the next five years, but will be reviewed every year and are subject to change based on the policy decisions made at the CMSMC, the conclusions of the current round of WTO negotiations, and the general orientations of the federal government. Given this changing environment, it would be very difficult to pinpoint where the CDC will be on the longer term. In any case, the CDC will continue to play its facilitating role in the Canadian dairy industry, working closely with the stakeholders to move the industry forward.

The objectives listed for each goal could be attained over a shorter period and are likely to change after one year.

GOAL 1: The Canadian dairy industry successfully adapts to change.

OBJECTIVES	PERFORMANCE INDICATORS
The dairy industry has acted on a recommendation from a working group of key stakeholders on future pricing and its related issues.	An exploratory meeting was held between the CDC, the Dairy Processors Association of Canada (DPAC) and Dairy Farmers of Canada (DFC) An agreed to process was identified to address the pricing issues, as well as the key steps of the process The process has been completed
Important events and trends affecting the dairy industry, including the WTO negotiations, are monitored and their impacts are evaluated.	Models or impact analyses are prepared which measure the impact of identified changes 12 trade reports are prepared for the Commission 4 meetings are held with Agriculture and Agri-Food Canada's (AAFC) Chief Negotiator Impacts of new trade rules have been evaluated as needed
An active negotiation on harmonization issues in preparation for a national pool negotiation (revenue and market sharing).	A milk allocation agreement between Quebec and Ontario is prepared An agreement on Class 1 pricing in the 4 Western Provinces is signed
The level of harmonization of plant milk utilization audits has improved.	Harmonization opportunities have been identified and solutions proposed to CMSMC Ontario, Québec, Alberta and British Columbia have been invited to discuss the continuity of their audit function with the CDC Impact of expanding CDC's plant audit activities on the CDC's resources has been evaluated
The stakeholders of the dairy industry have a better understanding of the mechanisms of their industry.	Two training sessions have been offered to technical advisors of the industry A minimum of 5 sessions have been offered to decision makers of the industry in various regions of Canada
The CDC works in partnership with AAFC, DPAC, and DFC to develop a strategy for dairy-related research.	The Commission has made a decision regarding its staff and financial involvement as part of the agreed dairy research strategy

GOAL 2: The Canadian dairy industry takes a strategic approach to market development.

OBJECTIVES	PERFORMANCE INDICATORS
The strategy to encourage the use of Canadian dairy ingredients has been further developed.	The Dairy Marketing Program has been evaluated A survey of ingredient users has been completed The market for dairy ingredients has been analyzed, a report prepared and proposals presented to CMSMC
New uses for surplus solids non fat (SNF) have been identified and recommendations have been presented to the Market Committee.	The use of milk protein concentrates in nutraceutical products under Class 4(a)1 has been reviewed The impact of Class 5(a), (b) and (c) pricing on use of skim milk powder has been evaluated Potential new markets for SNF have been evaluated
Recover lost markets and prevent future market losses.	The major causes of market loss have been identified Impact analyses are completed Recommendations were presented to the Market Committee
The CDC works in partnership with the industry stakeholders to grow the market.	The performance of the 3-year fluid promotion program has been evaluated to determine its impact on market growth and a report has been presented to the Commission The CDC made a decision on its involvement in market growth activities beyond 2008 Analysis and expertise to evaluate proposals brought forth by the industry have been provided

GOAL 3: The CDC is a dynamic, learning organization that lives its values.

OBJECTIVES	PERFORMANCE INDICATORS
The impact of the requirement to adopt the new international accounting standards has been identified.	An impact review was completed Financial Statements were prepared using International Financial Reporting Standards The Office of the Auditor General (OAG) gave a clean audit report
The OAG has approved CDC's implementation of the new accounting standards for financial instruments.	Financial Statements were prepared using new standards OAG gave a clean audit report A process/procedure to be followed by all sections when entering into contractual agreements has been developed All Sections are following the new procedure for contracts
The succession plan has been completed and implemented.	Key position profiles have been completed Feeder groups (internal and external) are identified Career paths for potential internal successors to key positions are established
The new performance management program was fully implemented.	Managers and staff are using the new performance review and feedback form and complying with the requirements of the program
The training budget is based on individual development plans.	The yearly training budget is established according to the new method All staff have an Individual Development Plan with costs included in the administrative budget
The CDC developed new initiatives for the purpose of employee retention and attraction.	Survey results from the "Best Small and Medium Employers" were communicated to all staff An action plan was prepared based on survey results The Recognition and rewards Program has been evaluated Exit interviews were conducted
The mandate and role of the CDC is better understood by Portfolio organizations	A communication strategy was written and approved by the Commission Activities of the communications strategy were carried out at an opportune time

IV FINANCIAL INFORMATION

for the dairy years ending July 31, 2006 to 2012

Major assumptions used in the preparation of the budget and forecast

Figures for 2006-2007 are actual figures. Figures for 2007-2008 are forecasted and figures for subsequent years are projected.

During the dairy year 2006-2007, Canadian requirements increased, finishing the year at 50.1 million hectolitres. They continued to increase slowly during the current dairy year and, as of April 1, 2008, stand at 50.4 million hl. Given the recent trends in demand at the retail level, it is reasonable to assume that the Canadian requirements will increase slightly in 2008-2009.

Beyond 2009, 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.

Sensitivity of the projections to assumptions

The key factors in the budget presented are total production of industrial milk, Canadian requirements, support prices and world market conditions for the sales of dairy products. Any significant change in the assumptions will affect the budgeted results.

CANADIAN DAIRY COMMISSION
MARKETING OPERATIONS STATEMENT and BUDGET
for the DAIRY YEARS ending JULY 31, 2007 - 2013

(in thousands of dollars)

	Budget	Actual	Budget	Forecast	Budget				
	2006-07	Audited	2007-08		2008-09	2009-10	2010-11	2011-12	2012-13
Sales	\$ 235 570	\$ 280 306	\$ 234 806	\$ 273 160	\$ 264 034	\$ 266 069	\$ 235 457	\$ 235 362	\$ 238 058
Cost of sales	229 313	266 886	229 251	268 172	257 762	257 609	229 300	229 459	232 149
Margin (loss) on sales	6 257	13 420	5 555	4 988	6 272	8 460	6 157	5 903	5 909
Operating expenses									
Dairy product assistance - Domestic	450	64	300	211	200	200	200	200	200
Carrying charges	7 564	5 674	4 506	6 918	5 021	5 081	4 763	4 806	4 907
Cost of production - Pool share	644	707	881	807	717	731	746	761	776
Promotional programs and activities	7 581	5 116	4 714	3 714	5 260	1 260	1 260	60	60
Administrative expenses - marketing activities	3 350	3 026	4 023	3 254	3 995	4 107	4 219	4 334	4 451
Total operating expenses	19 589	14 587	14 424	14 904	15 193	11 379	11 188	10 161	10 394
Net loss (gain) before funding	13 332	1 167	8 869	9 916	8 921	2 919	5 031	4 258	4 485
Pool funding	8 434	6 600	8 203	8 986	8 178	7 318	7 482	7 629	7 793
Provision for refund of the operational surplus (1)	9 220	8 370	1 931	1 186	2 922	5 149	3 276	3 024	3 020
Net results of operations	(14 118)	(2 937)	(2 597)	(2 116)	(3 665)	(750)	(825)	347	288
Surplus beginning of year	35 137	25 963	23 628	23 026	20 910	17 245	16 495	15 670	16 017
Surplus end of year (2)	\$ 21 019	23 026	21 031	20 910	17 245	16 495	15 670	16 017	16 305

NOTE: The Marketing Operations presented herein excludes all Government appropriated operating expenses.

Forward Exchange Contracts: As part of its foreign exchange risk management, the Canadian Dairy Commission enters into forward exchange contracts with regard to a portion of its export sales contracts. These contracts manage the risk due to fluctuations in exchange rates for sales negotiated in foreign currencies.

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

(2) Surpluses not directly payable to provincial milk boards and agencies at year end are carried forward and applied against future funding of their respective operations.

CANADIAN DAIRY COMMISSION
 STATEMENT OF COSTS FINANCED BY THE GOVERNMENT OF CANADA
 for the DAIRY YEARS ending JULY 31, 2007 - 2013

(in thousands of dollars)

	Actual Audited 2006-07	Forecast 2007-08	Budget				
			2008-09	2009-10	2010-11	2011-12	2012-13
Administrative expenses	\$ 3 522	\$ 3 789	\$ 3 672	\$ 3 672	\$ 3 672	\$ 3 672	\$ 3 672
Dairy studies	225	-	-	-	-	-	-
Total costs financed by the Government of Canada	\$ <u>3 747</u>	\$ <u>3 789</u>	\$ <u>3 672</u>	\$ <u>3 672</u>	\$ <u>3 672</u>	\$ <u>3 672</u>	\$ <u>3 672</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, 2007 - 2013

(in thousands of dollars)

	Actual	Actual	Budget				
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Administrative expenses	\$ 3 660	\$ 3 848	\$ 3 672	\$ 3 672	\$ 3 672	\$ 3 672	\$ 3 672
Dairy studies	225	-	-	-	-	-	-
Total costs financed by the Government of Canada	<u>\$ 3 885</u>	<u>\$ 3 848</u>	<u>\$ 3 672</u>	<u>\$ 3 672</u>	<u>\$ 3 672</u>	<u>\$ 3 672</u>	<u>\$ 3 672</u>

Notes:

In the foreseeable future the Commission will maintain its current level of staffing including the CDC's governing board which consists of a chairperson, a chief executive officer and a commissioner.

CANADIAN DAIRY COMMISSION
BORROWING PLAN
for the DAIRY YEARS ending JULY 31, 2007 - 2013

(in thousands of dollars)

Consolidated Revenue Fund

Loan transactions	Actual Audited 2006-07	Forecast 2007-08	Projected				
			2008-09	2009-10	2010-11	2011-12	2012-13
Balance at beginning of year	\$ 116 739	\$ 70 178	\$ 120 000	\$ 125 971	\$ 103 785	\$ 105 455	\$ 106 766
Drawings	124 278	227 323	160 000	160 000	160 000	160 000	160 000
Repayments	(170 839)	(177 501)	(154 029)	(182 186)	(158 330)	(158 689)	(158 757)
Balance at end of year	<u>\$ 70 178</u>	<u>\$ 120 000</u>	<u>\$ 125 971</u>	<u>\$ 103 785</u>	<u>\$ 105 455</u>	<u>\$ 106 766</u>	<u>\$ 108 009</u>
Average level during year:	\$50 763	\$82 152	\$85 000	\$82 000	\$83 000	\$83 000	\$83 000
Highest level during year:							
Month	August	July	June	June	June	June	June
Amount	\$97M	\$120M	\$132M	\$110M	\$111M	\$113M	\$114M

Note: Maximum available for 2007-2008 is \$120M

Member of Canadian Payments Association

Loan transactions	Actual 2006-07	Forecast 2007-08	Projected				
			2008-09	2009-10	2010-11	2011-12	2012-13
Balance at beginning of year	\$ 1 549	\$ 959	\$ 31 118	\$ 1 200	\$ 1 200	\$ 1 200	\$ 1 200
Drawings	14 634	39 984	14 500	14 500	14 500	14 500	14 500
Repayments	(15 224)	(9 825)	(44 418)	(14 500)	(14 500)	(14 500)	(14 500)
Balance at end of year	<u>\$ 959</u>	<u>\$ 31 118</u>	<u>\$ 1 200</u>	<u>\$ 1 200</u>	<u>\$ 1 200</u>	<u>\$ 1 200</u>	<u>\$ 1 200</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 \$120 million at any time.

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

Reason for borrowing:

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

CANADIAN DAIRY COMMISSION
CAPITAL BUDGET
for the DAIRY YEARS ending JULY 31, 2007 - 2013

(in thousands of dollars)

	Actual	Forecast	Budget				
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Major capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Minor capital	<u>115</u>	<u>156</u>	<u>135</u>	<u>135</u>	<u>135</u>	<u>135</u>	<u>135</u>
Total capital budget	<u>\$ 115</u>	<u>\$ 156</u>	<u>\$ 135</u>	<u>\$ 135</u>	<u>\$ 135</u>	<u>\$ 135</u>	<u>\$ 135</u>

Minor Capital expenditures for the years 2007-2008 through to 2012-2013 are for the planned replacement of servers, desktop computers, laptops and peripherals. These amounts also include software licence fees purchases and renewals.

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

APPENDIX A

GLOSSARY OF DAIRY TERMS

Canadian Milk Supply Management Committee (CMSMC)

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

Canadian Requirements

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

Dairy Producers

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

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.

Processors

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

Support Prices

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