Canadian Dairy Commision
Commision canadienne du lait

Canadian Dairy Commission

Annual Report

12-13

Canada

Mandate of the Canadian Dairy Commission

Under the *Canadian Dairy Commission Act*, the CDC's legislated objectives are:

- to provide efficient producers of milk and cream with the opportunity to obtain 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.

Mission statement

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

Values

Integrity, leadership, respect and dignity, professionalism.

Commission staff is available to serve you, in either official language, from 8 a.m. to 4:30 p.m. Eastern time, Monday to Friday (statutory holidays excluded).

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Letter From the Chairman

Mister Minister,

I am pleased to submit the Canadian Dairy Commission's Annual Report for the 2012-2013 dairy year. As we conclude the year, the Canadian Dairy Commission (CDC) is in a sound financial position and has achieved most of the objectives it had set for itself. Some of these objectives were not reached either because the industry was not ready to move forward on some issues or because circumstances required a change in direction. Throughout the year, the CDC continued to help the Canadian dairy industry and its stakeholders respond positively to the many challenges that arose.

In the fall of 2012, the CDC started to execute a three-year strategy for the dairy industry to grow markets, create a more flexible milk allocation system for processors, and work towards the elimination of the structural surplus of solids non fat. Its main components are already in place. Class 3(d) was created to stimulate the restaurant market for Mozzarella cheese in Canada. A voluntary and flexible skim milk movement program for yogurt was in place on August 1, 2012. A 1% permanent growth allowance was added to the industrial milk quota on October 1, 2012. It has been implemented in the Western Milk Pool and is under discussion in the P5 provinces.[1] Milk is being allocated for the production of yogurt and fine cheeses. The manufacturing of those two products is currently supplied on demand in the Western Milk Pool and a mechanism is under discussion in the P5 pool to achieve the same result.

In November 2012, I appeared before the Standing Committee on Public Accounts to report on the measures put in place by the CDC following a special examination by the Office of the Auditor General in 2011. In June 2013, the Standing Committee on Public Accounts presented its report. The CDC worked with Agriculture and Agri-Food Canada (AAFC) to carefully review the recommendations in the Committee's report, and on October 16, 2013, the Minister of Agriculture and Agri-Food Canada responded to the report on behalf of the Government of Canada.

I was honoured to learn in May 2013 that my term as Chairman of the CDC was extended for two years effective August 1, 2013 and I remain committed to working with industry stakeholders to find innovative ways to build a strong, sustainable Canadian dairy industry for years to come. On August 1, 2013, Gilles Martin's term as CDC Commissioner came to an end. Although Mr. Martin will remain with the CDC until his successor is in place, I wish to take this opportunity to thank him for the insight and knowledge he brought to the CDC board. He will be missed.

As we undertake a new year, I would also like to express my appreciation for the co-operation we receive from industry stakeholders, provincial governments, the Minister's Office and our colleagues at AAFC and the other Agriculture and Agri-Food Portfolio organizations. We are also indebted to the CDC employees who run our operations with efficiency and fairness.

On behalf of the board, I would like to thank you, Mr. Minister, for supporting the work of the CDC.

Randy Williamson

1 Ontario, Quebec, Nova Scotia, New Brunswick, and Prince Edward Island.

Message From the CEO

The Canadian Dairy Commission (CDC) is proud to partner with the Canadian dairy industry, an industry characterized by a spirit of collaboration. In 2012, Canada's dairy processing sector alone contributed $14.7 billion and 24,500 jobs to Canada's economy[2].

[2] Manufacturing of dairy products and Employment in Dairy Processing, 2012. Canadian Dairy Information Centre.

Over the course of the 2012-2013 dairy year, Canadian requirements increased by 1.74% from the previous year to reach 191.13 million kg of butterfat due to an increase in domestic demand. During the same period, industrial milk production increased to 198.85 million kg of butterfat compared to 196.18 million kg of butterfat a year earlier.

Circumstances were such that milk production was exceptionally strong this year, and for the first time in several years, the CDC exported 2,438 tonnes of butter. Strong world prices throughout the year also allowed the CDC to sell important quantities of skim milk powder on export markets while respecting its World Trade Organization (WTO) commitments.

Despite the fact that more solids non fat (SNF) were removed from the Canadian market this year, the CDC managed to lower its inventories of skim milk powder (SMP) purchased in Class 4(m)[3]. The CDC's year end stocks of Class 4(m) skim milk powder were 20,660 t compared to 22,619 t a year ago. In the coming year, the CDC will maintain its sales of this product to the animal feed industry in order to further reduce its inventories.

On April 1 2013, the CDC announced a modest increase of 1.5% in the support prices of skim milk powder and butter. This change reflects the increase in the cost of inputs, especially the cost of feed, but remains considerably lower than the rate of inflation for food which is 2.4%.

In 2013, the Canadian Milk Supply Management Committee (CMSMC) introduced new milk Class 3(d) for Mozzarella cheese to allow restaurants to access cheese at a reduced price for use in pizzas prepared and cooked on site. The CDC was mandated by the CMSMC to administer the milk class which was introduced on June 1, 2013, and as of July 31, 2013, 3,625 restaurant operators, 79 distributors and 14 dairy processors were registered or had signed an agreement to participate in Class 3(d).

In the same spirit, the CDC worked hard to implement changes that will ensure that milk is available for growing markets. Effective August 1, 2012, the CMSMC approved the creation of a permanent 1% growth allowance to be added to the industrial milk quota and allocated to the pools that put in place a mechanism allowing this additional milk to be directed first to the production of yogurt and cheese by new or existing processors. Since then, the P5 provinces have been working to develop a new pool allocation policy to ensure that growing markets such as the markets for yogurt and fine cheese, are adequately supplied.

As the industry was unable to come to an agreement on modalities for the renewal of the Domestic Dairy Product Innovation Program, the CDC announced the creation of the Dairy Innovation Program as of August 1, 2013. Thanks to this program, milk will continue to be available to processors across the country who wish to develop and market new dairy products.

From a financial point of view, the CDC had another successful year in managing its commercial operations. As a result of conservative and prudent purchasing practices, the CDC was able to generate a surplus of $14.5 million which will be refunded to producers through the provincial milk marketing boards and agencies. Overall, retained earnings at year-end were only slightly lower than those of the previous year.

[3] Mostly destined for animal feed.

Dairy Industry Trends

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

In the P5 pool, a new working group was created to negotiate improvements in milk allocation to processing plants and to develop proposals for supplying growth and harmonizing provincial allocation rules. The P5 has agreed on common rules for declaring cream transfers between processors and to establish a mechanism to stabilize fluctuations in producer prices. In the Western Milk Pool (WMP) provinces have adopted and implemented a harmonized milk receiving policy and are pursuing consultations on milk transportation. The WMP has implemented the national 1% permanent growth allowance and its own growth allowance management program. In both pools, the trend towards the harmonization of policies and integration of activities is continuing. The two pools are working together to close the gap in milk prices at the farm and have agreed to adopt a common reference basis for price changes.

The trend towards harmonization of milk utilization audit standards among provinces is still strong. The result of greater harmonization is a more level playing field for both producers and processors. In order to formalize the creation of the National Milk Audit Advisory Committee (NMAAC) and to promote uniform best milk utilization audit practices at the plant level across the country, dairy stakeholders and provincial auditors met in spring 2013 to discuss a certain number of revisions required to the Milk Utilization Audit Standards, more specifically on the auditing of Class 4(a)1, Class 4(m) and the new Class 3(d). All new classes and programs require a strong audit element to ensure proper accountability. The CDC acts as a facilitator and a technical advisor in these discussions and negotiations.

On the international front, negotiations are still ongoing at the World Trade Organization without any significant breakthrough in agriculture. On the other hand, Canada has been formally admitted into the Trans-Pacific Partnership and negotiations continue between Canada and the European Union. The CDC continues to monitor trade negotiations very closely.

Dairy product prices have regained strength on the international market. Nevertheless, current trade rules do pose a risk to the domestic dairy market. World dairy prices and exchange rates are volatile. Though the Canadian dollar has weakened since the beginning of 2013, the risk of a breach in the tariff wall is present at any time. Depending on volumes, such imports could disrupt milk supply management significantly. The CDC therefore keeps a close eye on market fluctuations.

Financial Trends

Interest rates rose slightly in 2012-2013 and this trend is expected to continue. Since the CDC borrows money from the Consolidated Revenue Fund and from a line of credit to administer programs on behalf of the dairy industry, higher interest rates would increase its transaction costs. However, increases in interest costs would not have an impact on the financial results of the CDC because these costs are paid for either by the dairy producers or by the marketplace.

As part of the 2012 federal Budget, the appropriations that the CDC receives are being reduced by 10% over the course of three fiscal years. The CDC made plans to accommodate this budget reduction by April 1, 2014.

Workplace Trends

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 skilled candidates. Employee attraction and retention are therefore important. The CDC is aware that it faces strong competition from other government departments and the private sector to replace people who move on or retire. In order to deal with a lean workforce and increased stakeholder demands, the CDC will continue to manage its succession plan and to automate and streamline its processes to increase efficiency. In 2012-2013, the CDC also undertook a reorganization of its work force which aims to improve efficiency. These parameters, as well as the workforce adjustment contained in the 2012 federal Budget, will guide the CDC's management and planning of human resources, and its activities and objectives for the 2013-2014 dairy year.

Jacques Laforge

The Canadian Dairy Commission

The Canadian Dairy Commission (CDC) is a Crown corporation created in 1966 by the *Canadian Dairy Commission Act*. The CDC reports to Parliament through the Minister of Agriculture and Agri-Food to whom it serves as an advisor on matters related to the dairy industry. The CDC is part of the Agriculture and Agri-Food Portfolio along with Agriculture and Agri-Food Canada, the Canadian Food Inspection Agency, the Canadian Grain Commission, Farm Credit Canada, the Farm Products Council of Canada, and the Canada Agricultural Review Tribunal.

The federal government funds about half of the CDC's administrative costs. Other costs, including marketing activities, are funded by dairy producers and the marketplace. The CDC also borrows money from the Consolidated Revenue Fund and from a line of credit to finance the programs it administers on behalf of the dairy industry.

Since supply management was first applied to the dairy sector, the CDC has been in charge of two of the three pillars of the system: support prices[4] and industrial milk quota. Once a year, the CDC sets the support price of butter and skim milk powder following consultations with industry stakeholders. These prices are used as references by the provincial milk marketing boards to establish the price of industrial milk in each province. Through its many roles and central facilitating function in the dairy industry, the CDC ensures that Canadian dairy farmers receive sufficient revenues from the marketplace to achieve decent living standards and invest in their businesses.

The CDC also monitors national production and demand and recommends the necessary adjustments to the national production target for industrial milk. It ensures that milk production in Canada matches demand from Canadian consumers. It is important to avoid any shortage of dairy products and just as important to avoid production surpluses that are costly to handle, store and market.

To achieve its mandate, the CDC works with provincial governments and dairy industry stakeholders such as dairy producers, processors, further processors and consumers. It supports the dairy industry in the development and implementation of major programs. On the industry's behalf, the CDC administers the Special Milk Class Permit Program[5], the Domestic Dairy Product Innovation Program, the Dairy Marketing Program as well as the pooling agreements.

The CDC chairs the Canadian Milk Supply Management Committee (CMSMC)[6] and in this capacity, apprises the committee on matters of interest or concern that require resolution and, when necessary, proposes various solutions, alternatives or recommendations to enhance orderly and efficient marketing with an eye to avoiding deficit or surplus milk production. The CDC performs a similar role for the Eastern Canadian Milk Pool (P5) and the Western Milk Pool (WMP)[7].

Mission

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

CDC at a glance

Created in 1966

60 employees (as of July 31, 2013)

Location: Ottawa

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

Budget 2012-2013 (dairy year): $7.99 million

Dairy year: August 1 to July 31

The Canadian Dairy Commission achieves its mission by administering the dairy supply management system and by providing leadership and guidance to dairy industry stakeholders.

Values

Integrity, leadership, respect and dignity, and professionalism

[4] Support prices are the prices at which the CDC buys and sells Canadian butter and skim milk powder under its Domestic Seasonality Programs.

[5] A description of CDC's programs is presented in the section of this report entitled *Activities and Programs*.

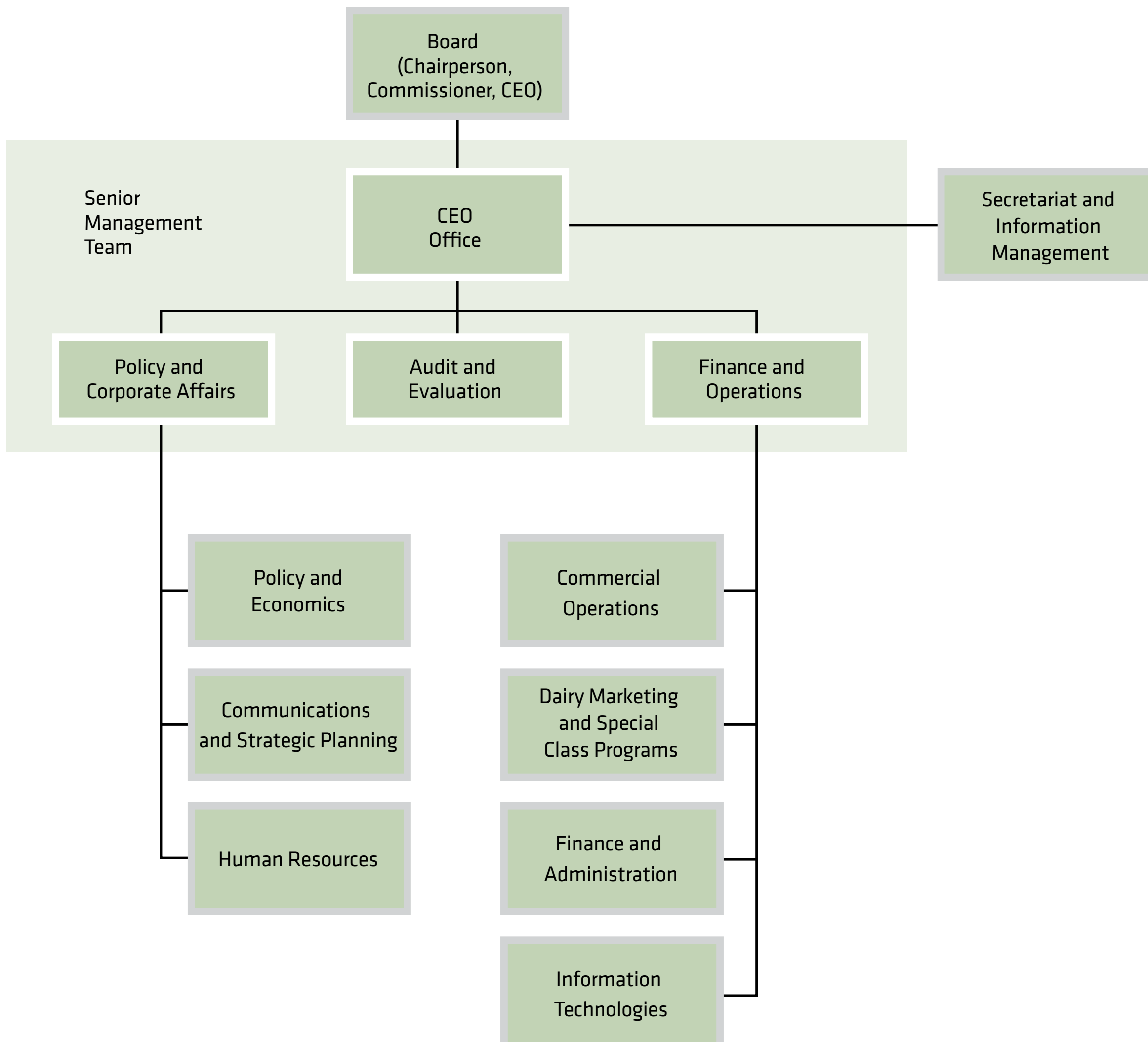
[6] The CMSMC is the main national decision-making body of the dairy industry.

[7] See p. 21-22 for more information on these pools.

Structure

The employees of the CDC belong to one of three sections, as illustrated in the following figure. Each section is under the responsibility of a senior director or director. Every two to three weeks, the CEO meets with the section heads (Senior Management Team) to discuss the day-to-day operations of the CDC and make the required decisions.

Structure of the Canadian Dairy Commission



The Canadian Dairy Industry

Farm cash receipts

As a key contributor to the Canadian economy in 2012, the dairy industry ranked second, behind meat and ahead of oilseeds, in terms of the value of its manufactured shipments, and it generated $5.92 billion in total net farm receipts.

Number of farms and production per farm

In 2013, 12,529 dairy farms were shipping milk in Canada. Although there has been a decline in the number of dairy farms in Canada, individual farming units have grown in size and have increased their efficiency. On January 1, 2013, the average dairy farm had 77 cows and during the 2012-2013 dairy year, production per farm reached 25,182 kg of butterfat, a 2.2% increase from the previous year. Based on official records for 2012, the average annual production of a dairy cow in Canada is 9,780 kg of milk.

At the beginning of the 2012-2013 dairy year, Quebec and Ontario had the greatest percentage of dairy farms at 82%, followed by 13% in the Western provinces, and 5% in the Atlantic provinces.

Milk processing

In the 2012 calendar year, the dairy processing industry generated $14.7 billion worth of products shipped from approximately 480 processing plants (280 of which are federally registered) accounting for 15.1% of all processing sales in the food and beverage industry. The dairy processing sector employed approximately 24,500 workers.

Milk markets

Canadian dairy producers supply two main markets:

- fluid milk, including creams and flavoured milks
- industrial milk used to make products such as butter, cheese, yogurt, ice cream and milk powders.

In the 2012-2013 dairy year, the fluid milk market accounted for approximately 37% of total producer shipments, or 116.66 million kg of butterfat[8]. The industrial milk market accounted for the remaining 63% of total producer shipments or 198.85 million kg of butterfat.

Provincial marketing boards and agencies purchase milk from producers and sell it to processors for the manufacture of dairy products. The milk sold to processors in Canada is classified according to its end use based on the Harmonized Milk Classification System[9]. The price paid for milk by processors varies according to the milk class. The following table shows how Canadian milk production was used in 2012-2013.

Milk Utilization per Class

Class	Million kg of butterfat	%
1	92.86*	29.51
2	25.23	8.02
3	110.53	35.13
4(a) and 4(a)1	50.71	16.11
4(b), 4(c), 4(d), 4(m)	3.92	1.25
5(a), 5(b), 5(c)	27.47	8.73
5(d)	3.92	1.25
TOTAL	**314.64****	**100.0**

* This figure is not equivalent to producer shipments because of skim-off.

** This figure cannot be compared to the data on page 67 (in Tables and Data) because it excludes milk supplied to food banks, milk sold at fairs and losses.

8 Milk quotas and milk production in Canada are expressed in kg of butterfat.

9 Harmonized Milk Classification System (http://www.cdc-ccl.gc.ca/CDC/index-eng.php?id=3811)

Governance

The CDC is governed by the *Canadian Dairy Commission Act*, the *Financial Administration Act*, and the *Public Service Labour Relations Act*. It is also governed by the following regulations:

- the Dairy Products Marketing Regulations
- the EEC Aged Cheddar Cheese Export Regulations

It reports to Parliament through the Minister of Agriculture and Agri-Food.

Governing Board

The governing board of the CDC is composed of the chairperson, the commissioner, and the chief executive officer (CEO). The CDC board members are appointed by the Governor in Council and all three positions are part-time appointments. The board meets every four to six weeks.

The members of the board have many years of dairy industry experience and together they bring a balanced approach to satisfying the objectives of the stakeholders.

Commissioners

Chairman (reappointed August 1, 2013 for a two-year term)

Randy Williamson

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

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

Commissioner (Mr. Martin's term ended on August 1, 2013, but he will continue to fulfill his functions until a successor is designated.)

Gilles Martin

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

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

Gilles Martin, Commissioner; **Randy Williamson**, Chairman; **Jacques Laforge**, Chief Executive Officer

Chief Executive Officer (appointed February 7, 2012 for a three-year term)

Jacques Laforge

Mr. Laforge is well known for his leadership in agriculture both nationally and in his home province of New Brunswick, where he and his wife operate a successful 1,000-acre mixed farming operation. Throughout his farming career, Mr. Laforge has shown a strong dedication to serving his fellow farmers. He served as an executive on the Dairy Farmers of New Brunswick board of directors for 10 years before taking on the role of chairman from 1995 to 2000. From 1997 to 2000, he also served as chairman of the Atlantic Dairy and Forage Institute, an organization which provides a venue for on-farm research trials to producers and manufacturers. Having served on the board of directors of the Dairy Farmers of Canada since the 1980s, he joined the executive committee in 1999. In 2004, he took on the role of president, a title he held until 2011.

Directors

Director, Audit an Evaluation

Robert Hansis, CGA, MBA, CFE

Mr. Hansis holds a Bachelor of Science in Business Administration from Northeastern University, a Certified General Accountant designation and a Master in Business Administration from Concordia University. He is also a Certified Fraud Examiner. He has been the Director of Audit at the Canadian Dairy Commission since 1991 and assumed responsibility for program evaluations in 2009. He is responsible for updating the *Milk Utilization Audit Standards* which is the national audit manual used by all milk plant auditors. He was previously audit manager of an international $2 billion sales organization involved in forest products and packaging, leading the day to day audit operations.

Senior Director, Finance and Operations

Gaëtan Paquette

Mr. Paquette holds a Bachelor of Science in Dairy Science from the University of Guelph and an M. Sc. in Food Science from the University of British Columbia. He started his career as an agrologist with the Ontario Ministry of Agriculture, Food, and Rural affairs and subsequently worked for Agriculture and Agri-Food Canada in research and inspection before joining the CDC in 1987 as Assistant Director of Commercial Operations.

Gilles Froment, Senior Director, Policy and Corporate Affairs; **Robert Hansis**, Director, Audit and Evaluation; **Gaëtan Paquette**, Senior Director, Finance and Operations

Mr. Paquette has been Senior Director of Finance and Operations at the CDC since 2002. He has helped the Canadian dairy industry adapt to changes such as the 1994 WTO Agreement on Agriculture, the new export rules, and the constant challenge of disposing of the structural surplus. Mr. Paquette is responsible for key programs such as the Special Milk Class Permit Program, the Dairy Marketing Program, the Domestic Seasonality Programs, the Surplus Removal Program and the Domestic Dairy Product Innovation Program. He is also responsible for the finance, administration and IT functions of the CDC. For the past 20 years, Mr. Paquette has chaired and been a member of various committees of the International Dairy Federation (IDF).

Senior Director, Policy and Corporate Affairs

Gilles Froment

Mr. Froment is an economist and professional agrologist with a B.Sc. in Economics from the University of Montreal as well as a M.Sc. in Agricultural Economics from McGill University. After gaining some experience with AAFC in Montreal and as market analyst with the Canadian Turkey Marketing Agency, Mr. Froment joined the Canadian Dairy Commission in 1997 as a policy and program analyst.

Since 2002, he is Senior Director of Policy and Corporate Affairs, a division that oversees Policy and Economics, Communications and Strategic Planning, and Human Resources. Among his other duties, he is secretary to the Canadian Milk Supply Management Committee and advisor to the P5 Supervisory Body and Western Milk Pool Coordinating Committee. He also chairs various technical committees. For the last seven years, Mr. Froment has been the Canadian representative on the IDF Standing Committee on Dairy Policies and Economics and in March 2012, he was appointed deputy chair of that committee. He is currently vice-president of the Canadian FIL-IDF National Committee after serving four years as president.

Board Committee

Audit Committee

The Audit Committee is responsible for ensuring proper accountability over CDC operations consistently with the *Financial Administration Act* (FAA), by reviewing and approving the audit plan and by actively soliciting the external auditor's judgements regarding the corporation's accounting principles and financial reporting. The committee met quarterly to review the financial statements and receive internal audit and program evaluation reports.

Members

- Commissioner (chair)
- Chairperson
- Chief Executive Officer

As part of its overall stewardship in 2012-2013, the governing board approved the CDC's Corporate Plan for the period starting in 2013-2014 and ending in 2017-2018. The Corporate Plan contains all the major directions of the corporation as well as its forecasted budgets and borrowing plan. It was approved by Treasury Board on May 30, 2013. In the fall of 2012, the board also approved the Annual Report and Financial Statements of the CDC for the 2011-2012 dairy year.

The CDC updated its Corporate Risk Profile in February 2013. The plan defines each risk, describes the existing measures for managing the risk, and the group responsible for implementing these strategies, and it is taken into consideration when performing the environmental analysis during the strategic planning session.

As outlined in the CDC's Audit and Evaluation annual plan, the CDC has completed an evaluation of class 4(a)1. A series of recommendations were made to senior management. Following its internal audit plan, the CDC also completed audits of legal services provided as per a Memorandum of Understanding with Agriculture and Agri-Food Canada, and of the Dairy Research Cluster Project. The recommendations issued for each of these audit projects were approved by the Audit Committee in 2012-2013.

In addition, the CDC took the following measures to ensure good governance practices. It held the CDC's sixth annual public meeting in January in Ottawa. This meeting is open to the public but is generally attended by about 50 representatives of the dairy industry. It gives the CDC the opportunity to report on its financial statements and strategic objectives for the past and current dairy years and to answer any questions from participants.

As a follow up to the introduction of its new values and ethics code last year, the CDC also called on all its employees to file conflict of interest forms. Possible conflicts of interest were reviewed by the CEO.

Also, CDC Chairman, Randy Williamson, attended the Standing Committee on Public Accounts on November 29, 2012 on behalf of the CDC and responded to questions on how the CDC has responded to recommendations issued by the Office of the Auditor General in its 2011 Special Examination.

Management Committees

Senior Management Team

The Senior Management Team meets every three weeks to discuss and manage the day-to-day operations of the Canadian Dairy Commission. It addresses urgent issues and discusses responses to government initiatives, formulates items for the board's attention, forms internal *ad hoc* and permanent committees to address specific issues, and designates the champions which support various initiatives at the CDC.

Members

Chief Executive Officer (chair)

Director, Audit and Evaluation

Senior Director, Finance and Operations

Senior Director, Policy and Corporate Affairs

Internal Audit and Program Evaluation Advisory Committee

The mandate of the Internal Audit and Program Evaluation Advisory Committee is to develop internal audit and program evaluation plans for the review of the CDC's systems, programs, policies and practices. It is also responsible for monitoring the progress of internal audits and program evaluations as per the approved plans and of the resulting management action plans. It meets at least three times per year and at the request of the committee chair (CEO).

Members

Chief Executive Officer (chair)

Senior Director, Policy and Corporate Affairs

Senior Director, Finance and Operations

Director, Audit and Evaluation

Manager, Financial Reports, Accounting and Treasury

Human Resources Advisory Committee

The Human Resources Advisory Committee's mandate is to maintain an advisory role with the Senior Management Team on human resources priorities and initiatives which are determined by the HR team. It meets three times a year and at the request of the chair.

Members

Senior Director, Policy and Corporate Affairs (chair)

Human Resources Advisor (secretary)

A representative of each section

Information Technology Advisory Committee

This committee was created this dairy year to help prioritize the various information technology projects of the CDC. It has prepared an evaluation grid that will be used as a tool to rank projects. Once the first ranking of projects will be achieved, the committee will meet twice a year or as needed to review the priorities.

Members

Chief, Communications and Strategic Planning (chair)

Senior Director, Policy and Corporate Affairs

Chief, Information Technology

Chief, Marketing Programs

Chief, Policy and Economics

Manager, Pooling and Administration

Manager, Program Audits

Safety Committee

The Safety Committee has two mandates. The first is to oversee all occupational and health obligations of the CDC as mandated by the Canada Labour Code and its associated regulations. The second is to assist the Senior Management Team and the CDC's Security Officer in meeting the security requirements of the Government of Canada as they relate to its employees, information and assets. It meets every five weeks.

Members

A management representative and an employee representative who is the CDC Security Officer (co-chairs)

Three management representatives appointed by the CEO

Three employee representatives

Organizational Changes

Under the leadership of its new CEO, the CDC is undergoing organizational changes aimed at improving governance and efficiency. In December 2012, the Senior Director, Policy and Corporate Affairs, Gilles Froment, assumed broader functions. As of August 1, 2013, the Finance and Operations section will be renamed Commercial Operations and Marketing and headed by Gaëtan Paquette. The current manager of Pooling and Administration, Chantal Laframboise, will assume the newly created position of Director of Finance and Administration, reporting directly to the CEO. The Information Technology team will join the Policy and Corporate Affairs division. Also, as of August 2013, the Corporate Secretary and the Manager of Human Resources will also report directly to the CEO. On July 2, 2013, Robert Hansis, Director, Audit and Evaluation announced his retirement. After a competition process, Hossein Behzadi has been selected as new Director as of August 1, 2013, and Mr. Hansis will remain available until November 2013 to facilitate the succession process.

Activities and Programs

The Canadian Dairy Commission (CDC) monitors demand and adjusts the supply of milk, ensures a fair return to producers, and encourages market development. Its activities include the administration of several key programs related to market supply and growth on behalf of the industry.

Milk Supplies

Chairing of the Canadian Milk Supply Management Committee (CMSMC)

The CMSMC is a national body for policy development and discussions in the sectors of dairy production and processing. It includes representatives of producers and governments from all provinces and non-voting representatives of national consumer, processor and producer organizations. As chair of the CMSMC, the CDC provides ongoing leadership, advice, and analysis to the Canadian dairy industry in close co-operation with national and provincial stakeholders and governments.

In 2012-2013, the CMSMC continued to implement changes aimed at increasing the flexibility of milk supplies, stimulating demand, and reducing structural surplus. As a result of a recommendation of the P10 Negotiating Committee, it implemented a 1% permanent growth allowance, ensuring that the growing markets for yogurt and cheese would be supplied by making this allowance conditional on the implementation by the pools of a mechanism to supply milk classes 2(a) and 3(a) on demand. The growth allowance was implemented in the Western Milk Pool on August 1, 2012, and P5 provinces have been working to develop a new pool allocation policy to ensure that growing markets such as the markets for yogurt and fine cheese, are supplied adequately.

The CMSMC also approved a new program which, since August 1, 2012, allows the redirection of liquid skim milk from the production of skim milk powder to the production of yogurt and in 2013, it agreed to pool the revenues and costs of this initiative.

The CMSMC encouraged the use of skim milk powder (SMP) by further processors by making SMP eligible in special class 5(b) as of August 1, 2012. In October 2012, the CMSMC extended the eligibility of ice cream novelty products under Class 5(c) for a two-year period beginning January 1, 2013. In January 2013, it amended Class 4(m) milk protein concentrate (MPC) product eligibility to include feta cheese.

Following a joint announcement by the Minister of Agriculture and Agri-Food, Dairy Farmers of Canada and the Canadian Restaurant and Food Services Association, the CDC launched the new Class 3(d) on June 1, 2013. This new milk class aims to stimulate demand by making milk available at a reduced price for the manufacture of Mozzarella cheese destined for sale to restaurants that will use the cheese on pizzas prepared and cooked on site. As of July 31, 2013, 3,625 restaurant operators, 79 distributors and 14 dairy processors were benefitting from new milk Class 3(d).

Determining and Adjusting Quota

The CDC monitors trends in Canadian requirements[10] (demand) and industrial milk production (supply) on a monthly basis. This allows it to adjust the market sharing quota (MSQ) every two months to reflect changes in the domestic demand for industrial milk products, as well as changes in planned exports. The objective when establishing the MSQ is to minimize the possibility of shortages or surpluses in the domestic market. Any surplus that occurs is managed by adjusting the MSQ, by temporarily storing surpluses at the expense of producers or by exporting within Canada's trade commitments.

Over the course of the 2012-2013 dairy year, Canadian requirements increased by 1.74% from the previous year to reach 191.13 million kg of butterfat due to an increase in domestic demand. During the same period, industrial milk production increased to 198.85 million kg of butterfat compared to 196.18 million kg of butterfat a year earlier. In the Western provinces, industrial milk production decreased by 2.4% during the year, whereas industrial milk production in the Eastern provinces increased by 2.3%. This difference is mostly due to the timing of production peaks. The Western provinces saw an earlier peak in production that is now starting to slow down, whereas the Eastern provinces experienced a later peak in production.

[10] The quantity of butterfat required to fulfill domestic demand and planned exports for industrial dairy products.

Domestic Seasonality Programs

Domestic Seasonality Programs allow the industry to cope with the seasonal demand for dairy products. The industry has mandated the Canadian Dairy Commission to operate these programs in cooperation with the private sector. Generally, the CDC buys and stores products when consumption is low and sells to processors when consumption rises. Except for imported butter and butter oil, these transactions take place at support prices.

Imports

Under the terms of the 1994 WTO Agreement on Agriculture, Canada has established tariff rate quotas (TRQ) for a number of dairy products. TRQs are the quantities of products that can enter Canada with little or no tariff. With the support of the industry, the CDC has acted as the receiver of butter imports under federal permit since 1995 and has directed this product to the food sector through butter manufacturers. The tariff rate quota for butter is set at 3,274 tonnes. Of this, approximately two thirds (2,000 tonnes) is specifically allocated to New Zealand.

Summary of transactions under the Domestic Seasonality Programs

	Opening inventory	Purchases	Sales	Closing inventory
	Tonnes (000)			
Butter	16.8	27.6	27.4	17.0
Skim milk powder	1.4	1.9	2.0	1.3

Data include imported butter and butter oil.

Surplus Removal Program

The CDC administers a surplus removal program on the industry's behalf. The CMSMC directs the CDC in operating the program. The program ensures that milk surplus to the domestic market is removed in the appropriate region and in a timely fashion. Under this program, the CDC buys surplus butter or skim milk solids. In the rare instances where excess butterfat occurs, the CDC may sell it on the export market. The CDC buys surplus of skim milk solids and sells it either on the export market or in marginal domestic markets such as the animal feed market. All exports must fall within Canada's export subsidy commitments. These markets yield lower returns to producers than the regular domestic classes. Revenues from these markets are shared among all Canadian producers through the Comprehensive Agreement on Pooling of Milk Revenues.

In 2012-2013, 85,300 tonnes of skim milk powder equivalent were removed from the market. This quantity is broken down as follows.

Product	Market	Tonnes (000)
CDC purchases of skim milk powder	Export	15.2
CDC purchases of skim milk powder	Animal feed	20.2
Processor sales of skim milk powder	Animal feed	22.2
Other skim milk powder and milk protein concentrate	Domestic use	7.3
Dairy blends	Export	9.2
Milk protein concentrate	Export	6.5
Other products	Export	4.7
TOTAL		**85.3**

Producer Revenues

Pricing

Each year, the CDC reviews and establishes support prices for butter and skim milk powder. These prices are used by the CDC when purchasing or selling these dairy products. Support prices also serve as a reference for provincial milk marketing boards and agencies when they establish the prices paid by processors for industrial milk.

Two elements of the CDC's mandate are taken into account in the pricing decision: providing efficient producers with an adequate return on their labour and investment, and providing Canadian consumers with an adequate supply of high quality dairy products. Each year, the CDC holds pricing consultations and the views of dairy industry stakeholders are carefully considered before making this decision. Commissioners also examine the results of an annual study on the cost of producing one hectolitre of milk in Canada which is conducted by the CDC and its partners.

On February 14, 2013, the CDC announced that as of April 1, 2013, the support price of butter would increase from $7.2810 to $7.3379 per kg whereas the support price of skim milk powder would increase from $6.3673 to $6.4170 per kg. CDC Chairman, Randy Williamson, explained that this increase reflects the increase in the cost of inputs at the farm, especially feed, and that it remains considerably lower than the overall rate of inflation for food which stands at 2.4%. This year, the CDC delayed its decision on support prices to pursue consultations with stakeholders as many changes were occurring in the industry.

The price paid by processors for fluid milk is established by the provinces. From February 2010 to August 1, 2011, all provinces used the same fluid milk pricing formula. This formula was modified in 2011-2012 and will remain in place until February 1, 2015. It triggered an increase in the price of fluid milk of 0.892% as of February 1, 2013 when compared to February 1, 2012.

Pooling of Markets and Producer Returns

For dairy producers, pooling agreements are a good tool to mitigate the financial risks associated with the evolution of the domestic market. In its role as a national industry facilitator, the Canadian Dairy Commission administers the three federal-provincial agreements that frame the sharing of revenues and markets among Canadian milk producers on behalf of the dairy industry.

Comprehensive Agreement on Pooling of Milk Revenues

Under the Special Milk Class Permit Program implemented in 1995, competitively priced industrial milk is made available for use in dairy products and products containing dairy ingredients. The Comprehensive Agreement on Pooling of Milk Revenues provides a means for the market returns from the sale of milk to processors for special class purposes to be shared among the dairy producers of all ten provinces.

Agreement on the Eastern Canadian Milk Pooling

This agreement provides a means for revenues from all milk sales (fluid and industrial), transportation costs, markets, and the responsibility for skim-off[11] to be pooled among dairy producers in Ontario, Quebec, New Brunswick, Nova Scotia and Prince Edward Island (the P5). The CDC chairs the Supervisory Body of the pool, administers the pooling agreement, does the pooling calculations and provides technical expertise and secretariat services to the pool.

The CDC also assists P5 marketing boards and the various P5 working groups to harmonize policies. Following the CMSMC decision to create a permanent growth allowance, the P5 Milk Allocation Working Group was created to negotiate improvements to how the P5 allocates milk to processing plants. This working group created a mechanism to allocate milk from the 1% growth allowance and is continuing to develop proposals on allocating the new growth allowance, supplying milk on demand for growth in the yogurt and fine cheeses markets, and harmonizing provincial allocation rules. Milk allocation is an important and ongoing priority within the P5.

[11] Excess butterfat from the fluid milk market

The P5 continues to work with the WMP to reduce the farm milk price gap between the two pools. In addition to renewing the current fluid milk pricing formula for three years, the P5 also agreed to reduce the price gap on components and to adopt a common reference with the WMP on which price changes would be applied.

The P5 agreed on common rules for declaring transfers of cream between processors, both within and between provinces. In addition, new rules were adopted to further simplify the process for pooling expenses for harmonization initiatives. The provinces of Ontario, Quebec and New Brunswick also agreed to a mechanism to stabilize fluctuations in producer prices and revenues, with the option for other P5 provinces to join in the future.

Western Milk Pooling Agreement

In 1997, the four Western provinces (Manitoba, Saskatchewan, Alberta and British Columbia) implemented an all milk pooling system where revenues and markets for all milk classes are shared. The CDC chairs the Western Milk Pool (WMP) Coordinating Committee, administers the pooling agreement, does the pooling calculations and provides technical expertise and secretariat services to the pool.

Pools in Numbers 2012-2013

	Fluid milk produced (million kg butterfat)	Industrial milk produced (million kg butterfat)	Blend price to producer* ($/hl)
P5	79.54	160.81	75.44
WMP	35.71	37.66	78.74

* Prices are calculated at 3.6 kg of butterfat per hl, using the latest compositional standards.

The trend towards the harmonization of policies and the integration of activities among Western provinces, which began four years ago, continues. In the past year, the WMP provinces have adopted and implemented a harmonized milk receiving policy. The next area targeted for harmonization is milk transportation, which is currently in the consultation phase.

The WMP implemented the national 1% permanent growth allowance, and its own growth allowance management program. Also, it reviewed and updated its 1(c)/4(c) initiatives to provide WMP processors with opportunities similar to those available in the P5. Finally, as of August 1, 2013, milk shakes for retail will be classified as a Class 2 product, which completes the harmonization of the Milk Classification System throughout Canada.

The WMP remains committed to reducing the gap in farm milk prices between the two pools. In the spring of 2013, it applied the second of three price adjustment, and the remaining adjustment is to be implemented by spring 2014.

The WMP is also pursuing its efforts to promote innovation and the development of niche markets within the pool. Its innovation champion continues to study niche markets with an eye to developing an innovation strategy for the pool.

External Audits

Most external audits are performed on companies participating in the Special Milk Class Permit Program. Risk assessment is used to identify high risk companies among program participants. The CDC audits the same companies for the Import for Re-export Program if they also participate in this program, which is administered by Foreign Affairs, Trade and Development Canada. During the 2012-2013 dairy year, 74 companies, including 4(m) permit holders, were audited compared to 63 the previous year. This resulted in claims of $415,376 from these companies. The increased number of audits the past few years was made possible by performing desk audits in cases that presented a lower level of risk.

The CDC also performs the milk plant utilization audits in Manitoba, Newfoundland and Labrador, Nova Scotia, Prince Edward Island, New Brunswick, and Saskatchewan on a cost-recovery basis. The contracts with Nova Scotia, PEI, and Saskatchewan have been renewed for a period of two years. However, the contracts with Newfoundland and Labrador and New Brunswick, expire once the audit work of the 2012- 2013 dairy year is complete and will need to be renegotiated.

National Milk Utilization Audit Standards and Harmonization of Practices

As part of its role in reporting on the progress of harmonization of all provincial audit practices as per a CMSMC decision of 2006, the CDC held a meeting on April 25, 2013 in Ottawa to formalize the creation of the National Milk Audit Advisory Committee. This committee brings together CDC auditors, provincial auditors, representatives of dairy producer boards and representatives of the dairy processing industry. It discussed the interpretation and application of the Milk Utilization Audit Standards, reviewed audit practices in all provinces, and discussed new programs or initiatives that have audit implications. A follow-up meeting/webinar of this committee was held on June 11, and a total of 35 participants attended the two meetings.

Market Development

In 2012-2013, the CDC participated in the annual Canadian Institute of Food Technologists Suppliers Night in Toronto, in the Canadian Restaurant and Foodservice Association Show in Toronto, and in the Bakery Congress of the Baking Association of Canada in Vancouver and met with 38 companies who could benefit from CDC programs. Also, the CDC's Innovation Champion took part in a two-day Dairy Research and Collaboration Summit in Charlottetown, Prince Edward Island, hosted by Maritime Quality Milk to outline research and funding opportunities available through the CDC.

The CDC also conducted 12 on-site visits across Canada with targeted dairy and food processing companies and investment groups to provide business advice and information on new opportunities that help grow the market for Canadian milk and dairy products.

The CDC is working closely with two companies who expect to complete the construction of their new plant facilities in Canada in 2014. These new plants will create a significant increase in the use of milk and milk ingredients in frozen prepared foods and infant formula. The CDC is also providing guidance and advice to a group of Canadian and foreign investors in the area of infant food and meal replacement products to be manufactured in Canada.

Matching Investment Fund

The Matching Investment Fund (MIF) is designed to help eligible companies and Food Technology Centres with product development initiatives that help stimulate demand for Canadian dairy products and ingredients. During the 2012-2013 dairy year, the MIF received 33 applications, and as of July 31, 2013, nine projects received funding approval amounting to approximately $408,500. Approved projects include consultation services, recipe formulation and technology transfer activities. Cheese, skim milk powder, and fluid milk are the main ingredients involved in these projects.

Domestic Dairy Product Innovation Program

The Domestic Dairy Product Innovation Program (DDPIP) encourages the manufacture of new and innovative products on the domestic market. It allows for the addition of specific volumes of milk to provincial quotas to ensure that the milk supply needed to produce innovative products is available to successful applicants.

During the 2012-2013 dairy year, firms in Quebec, Ontario, Manitoba, Alberta and British Columbia used 111.5 million litres of milk under the DDPIP compared to 107.0 million litres in 2011-2012. This volume of milk used is the highest level achieved to date under the program.

This year, the selection committee met in November 2012 and in May and July, 2013. It received 56 applications, most of which were for specialty cheeses. Of these 56 applications, 20 met the program criteria and were accepted, and 36 were rejected.

The DDPIP was not renewed by the CMSMC in July 2013 which led the CDC to create the new Dairy Innovation Program that took effect August 1, 2013 and operates on a similar basis.

Special Milk Class Permit Program

The Special Milk Class Permit Program was implemented in 1995 to allow further processors to remain competitive. Through this system, milk components are made available at competitive prices to manufacture dairy ingredients destined for use in further processed products. Further processors are able to access these dairy ingredients by means of a Special Class permit issued by the Canadian Dairy Commission.

Further processors used the equivalent of 27.47 million kg of butterfat in the 2012-2013 dairy year, an increase of 5.65% over the previous year. The average revenues obtained by producers from these three classes amounted to $39.08/hl compared to $38.24/hl for the previous year. A total of 2,006 permits were issued this dairy year for classes 5(a), (b) and (c), most of which were class 5(b) permits. The number of active further processors registered in the program on July 31, 2013 amounted to 1,619. Of particular note, the use of skim milk powder in classes 5(b) and 5(c) increased by 13% to reach 11,843 tonnes and the use of cream increased by 7% to reach 15,400 tonnes.

CDC Scholarship Program

The CDC helps introduce new products, technologies and markets to the dairy industry through its support of the CDC Scholarship Program. Launched in the fall of 2006, this program promotes graduate studies in agricultural economics and policy, and food, dairy

Volume of Milk Sold (million kg butterfat) and Average Producer Prices ($/hl)*

Class		2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
5(a) (cheese)	Volume	7.54	7.62	7.85	7.46	7.35
	Price	$36.19	$29.76	$35.20	$40.73	$40.95
5(b) (other ingredients)	Volume	10.70	11.91	12.96	13.59	14.97
	Price	$31.67	$28.92	$38.87	$39.26	$38.59
5(c) (confectionery)	Volume	4.63	4.64	4.81	4.95	5.15
	Price	$29.32	$29.73	$37.58	$33.74	$36.87
Total	**Volume**	**22.87**	**24.17**	**25.62**	**26.00**	**27.47**
	Price	**$33.24**	**$29.36**	**$36.74**	**$38.24**	**$39.08**

*Prices are calculated at 3.6 kg of butterfat per hl, using the latest compositional standards for all dairy years.

or animal science as these fields relate to the dairy industry. It provides $20,000 per year for up to two years to full time M. Sc. students and $30,000 per year for up to three years to full time Ph. D. students. Between 2006 and 2013, the CDC funded 70 masters' projects and 25 doctorates. For the 5-year period going from 2011 to 2016, the program has an envelope of three million dollars to be distributed to institutions across Canada as follows.

Nova Scotia Agricultural College	$200,000
Université Laval	$400,000
Novalait	$600,000
University of Guelph	$1,000,000
University of Manitoba	$200,000
University of Saskatchewan	$200,000
University of Alberta	$200,000
University of British Columbia	$200,000
Total	**$3,000,000**

Exports

During the 2012-2013 dairy year, the majority of dairy product exports were performed by the private sector under permits from the CDC. The main role of the CDC was to dispose of the structural surplus of solids non fat mainly in the form of skim milk powder or blends containing skim milk solids. During the 2012-2013 dairy year, Canada exported 10,340 tonnes of skim milk powder.

In regard to cheese exports, the CDC's major responsibility is to deliver certificates to Canadian exporters that give them access to the aged cheddar market in the European Union. In 1980, Canada negotiated a special access quota with the European Union which amounts to 4,000 tonnes. For the fifth year in a row, Canada was not able to take advantage of part of that access. This was partly compensated by issuing export permits for other markets. In total, Canada has exported 5,470 tonnes of cheese within the limits of Canada's export subsidy commitments under its WTO obligations. Concerning butter, Canada exported 2,375 tonnes in 2012-2013 compared to no exports in the previous dairy year.

Export Limits and Products Exported

Category	Export limit (million $)	Product exported (million $)
Butter	11.025	10.364
Cheese	16.228	16.143
Skim milk powder	31.149	31.149
Others	22.505	22.502
Incorporated products	20.276	20.276

Industry Support

The CDC regularly supports a number of initiatives that benefit the entire dairy industry. One of these is the Canadian Quality Milk (CQM) Program which is administered by Dairy Farmers of Canada (DFC). This quality assurance programme is HACCP-based. In 2012-2013, the CDC contributed $200 for each Canadian dairy farm validation for a total of $650,903. This reduced the costs of the program for farmers and created an incentive for them to participate. CDC's contribution to the CQM program will be reduced to $100 per farm in 2013-2014, and is set to expire on July 31, 2014.

In 2012-2013, the CDC continued its partnership with Agriculture and Agri-Food Canada, the Natural Sciences and Engineering Research Council of Canada and DFC to fund a dairy research cluster. Forty-eight projects on the role of dairy products as key components on cardiovascular health, their impact on healthy weight and body composition, and their role in optimal nutrition, development and maintenance were completed as well as studies on the environmental footprint of the dairy sector in Canada. The CDC contributed $1,435,915 to the dairy research cluster between January 2010 and March 2013, supporting the work of over 100 scientists and 143 students and professionals in universities and institutions across Canada. This program ended in July 2013.

Performance and Goals

Achievements for 2012-2013

A) BUSINESS SEGMENT: PRODUCER REVENUE

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

Pricing of industrial and fluid milk

Expected result	Performance indicator	Achievements	% complete
Efficient producers of milk receive fair revenues.	Revenues from milk sales cover the cost of a reasonable percentage of the milk produced in Canada.	In 2012-2013, revenues from milk sales covered the cost of a reasonable percentage of the milk produced in Canada.	100%

The CDC plays two roles when it comes to the pricing of milk at the farm level. One role is to establish support prices for butter and skim milk powder (SMP). Every year, the CDC coordinates a nationwide study on the cost of producing one hectolitre of milk (COP study). This cost is one of the main drivers of support prices. The CDC also calculates the result of the pricing formula for fluid milk once a year. In 2012, the existing formula was renewed for 3 years.

Specific activities for 2012-2013	Performance indicator	Achievements	% complete
Review the calculations of the labour component of the COP study.	• Analysis of labour calculations • Allocation of appropriate rates to producer management time	The analysis was completed and recommendations were presented to the CDC board in July. The CDC board decided not to change the COP labour rates for the time being.	100%
Update and harmonize the procedures for the COP study.	A COP Technical Committee[12] is in place and makes recommendations to the CDC regarding the harmonization of COP data collection and reconciliation with a focus on reducing the cost of this annual study.	In collaboration with the COP Technical Committee, the CDC updated the COP manual, which was adopted by the CDC board. Discussions are in progress with data collection agencies concerning the cost of the study.	80%

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

Market development

Expected result	Performance indicator	Achievements	% complete
Canadian demand for dairy products and components is sustained or increased.	Programs that the CDC administers and that promote innovation are used by their intended audience.	• 56 new applications received under the Domestic Dairy Product Innovation Program (DDPIP) of which 20 were approved • 33 new applications received under the Matching Investment Fund (MIF) of which 5 were approved • The number of applications received is consistent with the good level of interest shown in both programs over the past 2 years.	100%

The CDC administers several programs aimed at expanding the market for dairy products and ingredients. Some of these programs encourage innovation and education while others involve public policy.

The CDC administers the Domestic Dairy Products Innovation Program (DDPIP) on behalf of the dairy industry. This program gives access to a certain quantity of milk to dairy processors who want to launch a new dairy product. The DDPIP was not renewed by the CMSMC in July 2013 which led the CDC to create the new Dairy Innovation Program that took effect August 1, 2013 and operates on a similar basis.

Specific activities for 2012-2013	Performance indicator	Achievements	% complete
Implement the new guidelines of the DDPIP and monitor compliance by program participants with the new guidelines.	• Communication of new guidelines to participants • Participants comply with the new guidelines • Reception of 40 applications	• The new guidelines were communicated to participants in September 2012 and used by the Selection Committee • The CDC received 56 applications in 2012-2013, of which 20 were approved.	100%

The Dairy Marketing Program (DMP) provides expertise and easy access to programs and services that encourage the manufacture and use of dairy ingredients. The Matching Investment Fund (MIF) is part of the DMP and it has been renewed until 2013-2014.

Specific activities for 2012-2013	Performance indicator	Achievements	% complete
Implement the new format of the MIF program.	• Reception of 5 applications under the new program	• 33 applications have been received for the new program of which 5 were approved. Three applications are awaiting review by the evaluation committee.	100%
Increase the level of activity under the Dairy Marketing Program.	• 55 visits to targeted dairy ingredient users • 5 trade shows • 5 outreach activities	• Meetings/exchanges with over 50 dairy processors/further processors took place while participating in four major industry trade show/conference events.	77%

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

Specific activities for 2012-2013	Performance indicator	Achievements	% complete
Implement the agreed to recommendations of the business process analysis report.	• Undertake the creation of the new Special Class Web-based, interactive computer application under the supervision of an internal steering committee.	• The new computer application is being developed and set to be launched on October 1, 2013.	100%

Pool administration

Expected results	Performance indicators	Achievements	% complete
Markets and revenues are shared between pool partners in accordance with federal-provincial agreements.	• Pooling calculation is done within 3 working days of reception of all provincial data • Funds are transferred no later than 5 working days after calculations • No requests for recalculation of pooling transfers received from provincial marketing boards	• Pooling calculations have been done within 3 working days of reception of all provincial data • Funds were transferred no later than 5 working days after calculations • No request for recalculation of pooling transfers received	100%

For part of this year, the CDC co-chaired the P10 Negotiating Committee, a group that was mandated to negotiate the establishment of a national pool for all milk. The committee presented its final recommendations in September 2012 and has ceased its activities until further notice.

Specific activities for 2012-2013	Performance indicators	Achievements	% complete
Continue working with the P10 Negotiating Committee to arrive at an agreement on revenue sharing, market sharing and milk allocation. Provide relevant and required technical analyses.	• Circulate of a draft agreement to all provinces and reception of comments	• The P10 Negotiating Committee was unable to reach a consensus that would allow the drafting of a new pooling agreement. • It did, however, make several recommendations to the CMSMC and some of these were approved while others are still under discussion. • Further work on an agreement for national revenue and market sharing is suspended until the industry decides to resume discussions.	0% (on hold)

External audits

Expected results	Performance indicators	Achievements	% complete
Milk components are paid for in accordance with their end use and dairy products are used for their intended eligible use. Any audited company that does not comply with Import for Re-export Program (IREP) requirements is reported to the Department of Foreign affairs, Trade and Development (DFATD).	• 45 audits of special class participants • Milk plant utilization audits in 6 provinces • Milk plant utilization audits are monitored and reported on twice a year in the other 4 provinces • Audit assurance is obtained through specified procedures performed in all 10 provinces and data are accurately reported • 6 audits of IREP participants	• 74 special class audits have been completed or are in progress. • Utilization audit work is complete in all six provinces. • Done twice. • Reports were received for 9 of 10 provinces. • 8 IREP audits have been completed or are in progress.	100%

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

Specific activities for 2012-2013	Performance indicators	Achievements	% complete
Hold a meeting of provincial auditors at the national level to promote the use of harmonized best audit practices	Hold meeting	• A meeting of provincial auditors was held on April 25, 2013 followed by a webinar held on June 11, 2013. Results will be reflected in the National Milk Utilization Audit Standards in 2013-2014. • Audit and administration procedures are being discussed and developed for the new Class 3(d)	100%

Specific activities for 2012-2013	Performance indicators	Achievements	% complete
Participate in harmonization efforts at the regional levels (East and West).	More harmonized audit practices in the East and the West	• With the view to promote harmonization, the audit team participates in discussions at the regional level (East and West) when necessary and identifies improvements required to the National Milk Utilization Audit Standards.	100%
Report on progress of audit activities in the four provinces where the CDC is not the auditor and promote continuity of services and the use of a common milk utilization audit software.	Presentation of reports to the CMSMC	• Progress reports for all provinces on audit activities were presented to CMSMC. • Promotion of continuity of services and the use of a common milk utilization audit software is done at the National Milk Audit Advisory Committee and CMSMC meetings on an on-going basis.	100%
Continue to encourage the reception of audited electronic data from Ontario and Quebec for the purpose of administering the program and auditing participants of the Special Milk Class Permit Program.	Regular reception of audited data from Ontario and Quebec	• Detailed modalities for proposed reporting of data directly from utilization audit software were drafted and presented to Quebec and Ontario auditors, marketing boards, and processor representatives requesting feedback. As of July 31, 2013, some stakeholders had responded while others were in consultations about these modalities. This is an ongoing objective for the CDC.	50%

B) BUSINESS SEGMENT: SUPPLY OF DAIRY PRODUCTS

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

Manage the national industrial milk supply

Expected results	Performance indicators	Achievements	% complete
• The Canadian milk production matches demand.	• Milk production is between 99.5 and 100.5% of total quota	• In 2012-2013, milk production was at 101.2% of total quota	75%
• Exports of solids non fat are maximized.	• Subsidized export categories of skim milk powder (SMP) and incorporated products are filled at least at 95%	• In 2012-2013, both exports categories were filled at 100%	100%

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

Specific activities for 2012-2013	Performance indicators	Achievements	% complete
Review the calculation of total demand and the level of stocks needed to ensure sufficient supplies of dairy products year round.	• Presentation of recommendations to the CMSMC Secretariat.	• A detailed presentation on milk demand, supplies and inventories is made to each Secretariat and CMSMC meetings	100%
Examine the need for a permanent growth reserve to be added to the quota for industrial milk. This reserve would ensure that enough milk is available during periods of significant market growth.	• Close monitoring and periodical assessment of the need for a growth allowance. In addition, develop a recommendation for a permanent growth reserve to ensure that enough milk is available during periods of significant market growth.	• A permanent 1% growth allowance was approved by the CMSMC in July 2012. It has been implemented in the WMP and discussions are underway to implement it in the P5.	100%

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

Specific activities for 2012-2013	Performance indicators	Achievements	% complete
Initiate discussions and consultations with the industry to develop a long term ingredient strategy that would build on past initiatives and increase utilization of surplus solids non fat.	• Presentation of a draft strategy to the CMSMC • Agreement on a final strategy by the CMSMC	• A three-year strategy was presented to stakeholders individually. This strategy includes measures related to the surplus of skim milk solids. • Some of the elements of this strategy have been presented to the CMSMC and approved such as milk Class 3(d). Others will be presented in 2013-2014.	100%

Seasonality programs

Expected results	Performance indicators	Achievements	% complete
Dairy products are available to Canadians all year.	• Provincial milk marketing boards report no seasonal shortages of dairy products • CDC butter stocks never fall below 90% of normal level	• No shortages have been reported by provincial milk marketing boards. • Butter stocks have not been below 90% of their normal level this dairy year.	100%

Specific activities for 2012-2013	Performance indicators	Achievements	% complete
Monitor the effects of the changes to Seasonality Program policies for the 2012 calendar year to ensure that they meet their objectives and adjust policies for 2013 if required.	• Submission of reports to the board on the effects of the 2012 changes • Presentation to the board of adjustments to the policies	• The level of stocks during the year was such that there was no need to make policy changes. Since there was no change to the policy, no reports were presented to the Board.	100%

C) BUSINESS SEGMENT: IMPROVE THE CDC

Internal Services

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

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

Adopt a dairy year basis for all activities

Specific activities for 2012-2013	Achievements	% complete
Harmonize all CDC activities and operations to be based on the dairy year (August 1 to July 31).	All activities have been harmonized with the dairy year as of August 1, 2012.	100%

Program evaluations

Specific activities for 2012-2013	Achievements	% complete
Conduct a program evaluation of milk Class 4(a)1, a class put in place in 2005 to encourage the use of solids non fat in the manufacture of non-standardized products in the processed cheese category.	The program evaluation of Class 4(a)1 is completed.	100%

Internal audits

Specific activities for 2012-2013	Achievements	% complete
Perform internal audits of the following activities: funding of the Dairy Research Cluster by the CDC, conformity of the Annual Report to TBS guidelines, the memorandum of understanding (MOU) between the CDC and Justice Canada for legal services, the MOU between the CDC and Agriculture and Agri-Food Canada (AAFC) for IT services, the management of butter resale, and data collection for the annual cost of production study.	Internal audits of the funding of the Dairy Research Cluster by the CDC and the MOU between the CDC and Justice Canada for legal services have been completed. In May 2013, the Senior Management Team suspended the four remaining projects for the dairy year due to new and changing priorities at the CDC.	50%
Internal auditors will also monitor and provide advice for the design of the new computer application for the Special Milk Class Permit Program.	An audit manager continued to provide advice to the project management team.	100%

Implement new code of values and ethics

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

Specific activities for 2012-2013	Achievements	% complete
Communicate its new Code of Ethics to its staff. This code includes employee obligations related to conflicts of interest and post-employment.	Presentations on the new Code of Ethics were made to staff members in May 2012 and since then, it is part of the orientation of new employees.	100%

Increase the efficiency of the CDC's operations

Specific activities for 2012-2013	Achievements	% complete
Create an IT Advisory Committee to prioritize the needs of the CDC, so that the IT section is able to respond first to the most important requests.	The IT Advisory Committee was created on March 19, 2013 and held 2 meetings.	100%
Implement the agreed upon recommendations made by a small internal task force that was mandated in 2011-2012 to study how to make some administrative functions more efficient.	The task force report was received and approved by SMT in May 2012. Most of the recommendations have been implemented.	100%

Maintain employee engagement in a cost-reduction environment

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

Specific activities for 2012-2013	Achievements	% complete
Assess current and future HR requirements and work load to mitigate the impact of the budgetary constraints on the CDC workforce and on the delivery of programs and services.	HR requirements and workload are currently under review and will be completed by March 31, 2014.	90%
Implement mechanisms that encourage co-operation, exchange of ideas and sharing of resources within the CDC to produce efficiency gains and reduce costs.	The CDC held three brainstorming sessions with selected staff members on the current issues facing the dairy industry and potential solutions. Furthermore, several inter-team meetings were held to coordinate the implementation of new milk classes.	75%
Ensure continuous communication with its staff members about the actual budget constraints and how they will be managed.	Senior managers have been communicating with their respective teams. The CEO presented regular updates on budget constraints and other topics.	100%

Goals for the Period 2013-2014 to 2017-2018

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

Pricing of industrial and fluid milk

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

Specific activity for 2013-2014	Performance indicator
Review and implement the procedures contained in the updated manual for the COP study	The COP data collection in the summer of 2013 follows the guidelines of the updated COP manual, ensuring uniform calculations across Canada.
Implement measures to reduce the overall cost of the COP study	The cost of the COP study is reduced from $882,000 in calendar year 2013 to $780,000 in 2014.
Evaluate the need to perform a new study on the processor margin and yields for butter and skim milk powder	A recommendation is presented to the CDC board as to the need to perform a new study and if the board agrees, a mandate for the study is given to a private firm.
Continue discussions with the industry on the possibility of implementing a pricing formula for classes 2 (yogurt) and 3 (cheese)	A recommendation on a formula is brought to the CMSMC if the industry representatives can reach a consensus. Upon approval, the formula is implemented by the CDC.

Market development

Expected result	Performance indicator
Programs that the CDC administers and that promote innovation are used by their intended audience	• 5 new projects accepted under the Matching Investment Fund • Renewal of the Matching Investment Fund before the end of the dairy year[13] • Participation in 3 major dairy/food trade shows across Canada and in the Atlantic Dairy Research Collaboration Summit in PEI
The structural surplus of milk solids non fat is reduced	Structural surplus of milk solids non fat is reduced to 70,000 tonnes[14].

[13] 2013-2014 is the last year of the current edition of the Matching Investment Fund.
[14] From a forecast of 80,000 tonnes in 2012-2013.

Specific activities for 2013-2014	Performance indicator
Implement the decision of the CMSMC concerning the DDPIP (renewal or not, new criteria, etc.)	If the program is renewed, the CDC updates the guidelines as instructed by the CMSMC, publishes them and applies them in its administration of the program.
Encourage dairy producers and processors to develop profitable international markets for cheese	A strategy to develop exports of cheese made entirely from Canadian components is developed and implemented in collaboration with the industry. The remaining cheese export category subsidy room available over and above the cheese contracts signed in 2013-2014 is utilized to export solids non-fat in order to fill 90% of this category.
Implement the administration and audit requirements of the new class 3(d) for mozzarella cheese on fresh pizzas	The administrative requirements are written, approved by the CMSMC and communicated to the target audience (restaurants). The audit requirements are adopted by the CMSMC and added to the National Milk Utilization Audit Standards.
Put in place incentives to increase the use of solids non fat in higher-value milk classes that are showing growth, such as yogurt and cheese.	50 million litres of liquid skim milk is redirected from skim milk powder production to yogurt and/or cheese production.
Create a medium-term plan to develop the manufacturing of infant formula in Canada. This sector has the potential to use significant quantities of solids non fat, thereby reducing the structural surplus.	A plan is drafted and approved by the CDC board. Implementation follows the next year.

Pool administration

Expected results	Performance indicators
Market and revenues are shared between pool partners in accordance with federal-provincial agreements	Pooling calculation is done within 3 working days of reception of all provincial data. Funds are transferred no later than 5 working days after calculations. No requests for recalculation of pooling transfers are received from provincial marketing boards.

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

External audits

Expected results	Performance indicators
Milk components are paid for in accordance with their end use and dairy products are used for their intended eligible use. Any audited company that does not comply with Import for Re-export Program requirements is reported to the Department of Foreign Affairs, Trade and Development.	50 audits of special class and Class 4(m) participants Milk plant utilization audits in 6 provinces Milk plant utilization audits are monitored and reported on twice a year in the other 4 provinces. Audit assurance is obtained through specified procedures that are performed in all 10 provinces and data are accurately reported. Risk-based audit approach and methodology for Class 3(d) is underway. 6 audits of IREP participants

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

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

Manage the national industrial milk supply

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

Specific activities for 2013-2014	Performance indicators
Improve market information provided to the dairy industry	Simplified calculations are proposed for total quota, MSQ and skim-off to simplify and improve decisions related to the milk supply.
Improve the tools used to forecast milk production	An improved model to forecast national milk production is developed. Comparative reports on quota issuance and policies are distributed quarterly.
In consultation with milk producers, develop a mechanism aimed at maintaining the predictability and stability in the milk production system and the dairy industry.	The mechanism is developed and implemented.
Hold discussions and consultations with the industry on the possibility of setting the price of the milk used to make skim milk powder at world price.	Scenarios are developed and presented to the CMSMC and if one is adopted, it is implemented.

Seasonality programs

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

Internal Services

The CDC plans to undertake the following strategic initiatives during dairy year 2013-2014.

Internal audits and Program evaluations

Strategic activity for 2013-2014	Performance indicator
Conduct internal audits and program evaluations based on the CDC internal audit and program evaluation plan	Internal audit and program evaluation reports are submitted to the Internal Audit and Program Evaluation Advisory Committee, including a management response and action plan. Corrective measures are taken where necessary. An internal audit manual and an improved audit plan will be developed in consultation with senior management in the coming year.

Governance

Strategic activity for 2013-2014	Performance indicator
Fully brief its new board members and provide them with the training opportunities that they need to fully participate in the orientation of the corporation[15].	Briefing books are prepared and submitted to new board members within one week of their appointment.
Recruit a person for the new position of director of finance and administration and ensure a smooth transition from the current structure to this new structure.	The position is created and staffed.
Implement the required budget restrictions throughout the year to respect its 10% reduction in appropriations.	The 2013-2014 administrative budget is reduced by $243,000. Further cuts are planned the following year to complete our 10% reduction.
Implement its succession plan, especially in view of the impending retirement of employees holding key positions.	In case of retirements, a smooth transition without service interruption and minimal loss of knowledge

[15] If new people are appointed.

Increase the efficiency of the CDC's operations

Strategic activity for 2013-2014	Performance indicator
Automate and streamline the processes identified by the IT Advisory Committee as being priorities	Two processes are automated.
Implement a new computer system for the administration of the SMCPP, as recommended in the 2011-2012 business process analysis.	All SMCPP participants use the new system to file their reports to the CDC.
Develop an information management strategy in response to Library and Archives Canada's recently announced limitations on their acceptance of records.	The strategy is developed, adopted by the Senior Management Team and communicated to the staff. Implementation will follow.

Maintain employee engagement in a cost-reduction environment

Strategic activity for 2013-2014	Performance indicator
Foster co-operation, exchange of ideas and sharing of resources within the CDC to produce efficiency gains and reduce costs.	Representatives from all sections participate in the IT Advisory Committee and the HR Advisory Committee. Four Managers' Forums are held during the year. Some staff members are invited to quarterly brainstorming sessions to exchange ideas.
Continue to ensure good communication with its staff members about the potential changes in the workplace.	The CEO makes quarterly presentations to the staff on both the potential changes in the workplace and the state of the dairy industry.

Financial Report

Management Discussion and Analysis

The following discussion and analysis of the operating results and financial position of the Canadian Dairy Commission (CDC) for the year ending July 31, 2013 should be read in conjunction with the financial statements of the CDC enclosed herein and the annual report.

Selected Key Results of Operations

Domestic activities

In the 2012-2013 dairy year, total revenues from domestic sales increased by $41.4 million or 16% compared to the previous year. This is mainly due to higher sales volumes of domestic butter and 4(m) skim milk powder (SMP) to Canadian animal feed manufacturers. Although revenues increased, the gross profit on domestic sales decreased by $4.3 million compared the previous year's result largely due to an increase in the cost of goods sold for the 4(m) SMP as the CDC purchased the product at prices that were more in line with expected sales revenues.

SMP sold to the animal feed sector under Class 4(m) amounted to 23,915 t in 2012-2013, an increase of 1,910 t compared to the previous year resulting in additional domestic revenues of $3.1 million. Over 65% of the domestic gross profit before transport, carrying charges and financing costs is due to activities in the animal feed market.

The CDC purchases Plan A bulk butter to be resold to processors when seasonal deficiencies occur in the domestic market. A quantity of 2,247 t was sold this year compared to 1,399 t in the previous year which increased revenues by $3.7 million. Plan A butter revenues are normally equal to the cost of goods sold because the CDC purchases and sells this product at the prevailing support price. This year, the cost of goods sold was lower than the revenues because a portion of the butter originally destined for the export market was purchased at world prices, and subsequently sold on the domestic market at the Canadian support price.

The CDC also purchases Plan B butter and skim milk powder (SMP) from processors with the requirement that processors repurchase their product within a predetermined period. A quantity of 22,728 t of butter was sold this year compared to 17,230 t last year. This generated $41.5 million in additional revenues. As for Plan B skim milk powder, sales decreased by 314 t, which reduced revenues by $1.8 million. The cost of butter and skim milk powder sold under Plan B was almost equal to the selling prices obtained during the year as these products were purchased and sold at prevailing support prices.

The CDC continues to import butter as part of Canada's obligations under the World Trade Organization Agreement (WTO). Imported butter sales decreased by 24%, which reduced revenues by $5.1 million compared to the previous year. This butter is purchased at prevailing world prices and is directed to the further processing industry through butter manufacturers.

Domestic activities

(in thousands)	2012-2013	2011-2012	$ variance
Domestic sales revenues	$ 252,686	$ 211,280	$ 41,406
Cost of goods sold	$ 234,423	$ 189,808	$ 44,615
Transport and carrying charges	$ 5,330	$ 4,790	$ 540
Finance costs	$ 1,126	$ 579	$ 547
Gross profit on domestic sales	**$ 11,807**	**$ 16,103**	**$ (4,296)**

Export activities

Export sales revenue increased compared to the previous year mainly due to the CDC exporting greater volumes of SMP at higher prices. The CDC also exported butter in 2012-2013 while this was not the case in the previous year.

The quantity of skim milk powder sold in 2012-2013 amounted to 12,574 t compared to 9,259 t for the previous dairy year. This increased revenues by $15.6 million.

Butter sales for export amounted to 2,438 t, which generated revenues of $8.5 million. There were no export sales of butter in the previous dairy year.

The CDC purchases surplus dairy products destined for export at prices that reflect the prevailing world market conditions with the intent of breaking even

Export activities

	(in thousands)		
	2012-2013	2011-2012	$ variance
Export sales revenues	$ 51,131	$ 27,076	$ 24,055
Cost of goods sold	$ 49,266	$ 26,111	$ 23,155
Transport and carrying charges	$ 1,336	$ 978	$ 358
Finance costs	$ 21	$ 1	$ 20
Gross profit (loss) on export sales	**$ 508**	**$ (14)**	**$ 522**

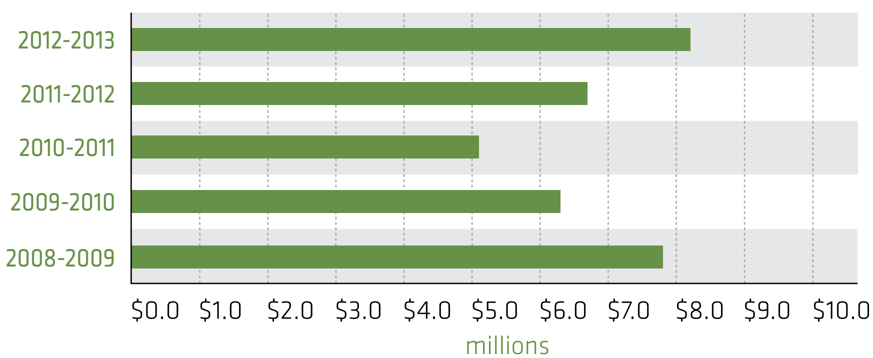
over the course of each dairy year. As these markets are very difficult to predict, the CDC may sometimes finish the dairy year with minimal gains or losses that reflect this price volatility.

Transport, carrying, and finance costs

"Transport, carrying, and finance costs" are mostly comprised of transportation expenses, interest expenses on loans, handling and storage charges, and insurance. Transport and carrying costs for domestic and export activities combined increased by $0.9 million compared to those of 2011-2012. This increase is the direct result of higher average inventory levels and higher sales volumes.

Similarly, finance costs were $1.1 million compared to $0.6 million. This increase is due to higher average inventory and a slight rise in borrowing rates. Finance costs are projected to continue to increase in 2013-2014 following anticipated increases in interest rates.

Transport, carrying, and finance cost



Other income

Funding from milk pools represents the revenues obtained from producers and the marketplace to finance a portion of the CDC's administrative expenses, the cost of production study as well as the carrying charges associated with the CDC butter stocks. The 2012-2013 funding is marginally higher due to an increase in the butter carrying costs charged to the pool resulting from greater average butter inventory levels compared to the previous year.

Parliamentary appropriations are used to partially fund the CDC's administrative expenses. The remainder of the CDC's administrative expenses are funded by dairy producers, commercial operations, and the market place. Funding from the Government of Canada is recognized in the Statement of Operations and Comprehensive Loss and is based on eligible government-funded administrative expenses. The Government announced funding reductions in its 2012 federal Budget. The Canadian Dairy Commission's share of this reduction will be $0.393 million by 2014-2015.

Other income

	(in thousands)		
	2012-2013	2011-2012	$ variance
Funding from milk pools	$6,418	$5,676	$742
Funding from the Government of Canada	$4,496	$4,668	$(172)
Audit Services	$178	$237	$(59)
Total other income	**$11,092**	**$10,581**	**$511**

Revenues obtained for audit services relate to the milk plant utilization audits performed by the CDC in 6 provinces on a cost-recovery basis.

Operating and administrative expenses

Operating expenses:

"Industry initiatives" includes expenses relating to various CDC programs such as the Matching Investment Fund, the Scholarship Program, the Canadian Quality Milk Program, and the Dairy Research Cluster. In 2012-2013, funding for these programs decreased by $0.9 million. The first installment (50%) of the Scholarship Program was paid to most institutions in 2011-2012, except two that were paid in 2012-2013. This represents most of the year over year variance.

The cost of production study is an annual survey. The CDC uses the results of this survey when its sets support prices. The cost of this study has not changed much over the last year. More information on the implication of the CDC in this study can be found on page 27.

"Other charges / (recoveries)" includes amounts representing unrealized gains or losses on outstanding foreign exchange contracts as of the Statement of Financial Position date. Other amounts in this category are comprised of credits from CDC's contribution to the cost of production study, charges incurred by the CDC on behalf of the milk pools, and bank charges for the milk pool accounts. The most volatile amount in "other charges / (recoveries)" would be the gain or loss on outstanding foreign exchange contracts.

Operating and administrative expenses

	(in thousands)		
	2012-2013	2011-2012	$ variance
Operating Expenses			
Industry initiatives	$ 1,597	$ 2,524	$ (927)
Cost of production study	$ 862	$ 840	$ 22
Other charges / (recoveries)	$ (406)	$ (301)	$ (105)
Total operating expenses	**$ 2,053**	**$ 3,063**	**$ (1,010)**
Administrative Expenses			
Salaries and employee benefits	$ 5,912	$ 5,842	$ 70
Other administrative expenses	$ 1,766	$ 2,025	$ (259)
Total administrative expenses	**$ 7,678**	**$ 7,867**	**$ (189)**
Total	**$ 9,731**	**$ 10,930**	**$ (1,199)**

These gains or losses are determined using the difference between the contracted rates and exchange rates as of the Statement of Financial Position date applied to the contract amount. They vary with the movement of exchange rates as well as with the value of outstanding foreign exchange contracts at the end of the year.

Administrative expenses:

The 2012-2013 administrative budget was $7.9 million. Actual administrative expenses for the year totalled $7.7 million. Salaries and employee benefits of $5.9 million make up the bulk of these expenses. The remaining significant expense groupings are for rent, travel and administrative support.

The government has undertaken a Deficit Reduction Action Plan (DRAP) with the goal of reducing expenditures on an ongoing basis until fiscal year 2014-2015. According to the 2012 federal Budget, the funding that the CDC receives from the government will be reduced by 10% or $393,000 by April 1, 2014. The CDC had taken cost reduction measures to reduce its overall 2012-2013 administrative budget by $96,000 compared to 2011-2012. After an in-depth review of its operations, the CDC was able to further reduce the 2013-2014 administrative budget by $243,000. Additional budgetary reductions are planned for dairy year 2014-2015 to achieve the net savings required by government, including the elimination of two positions.

Distribution to provincial boards and agencies

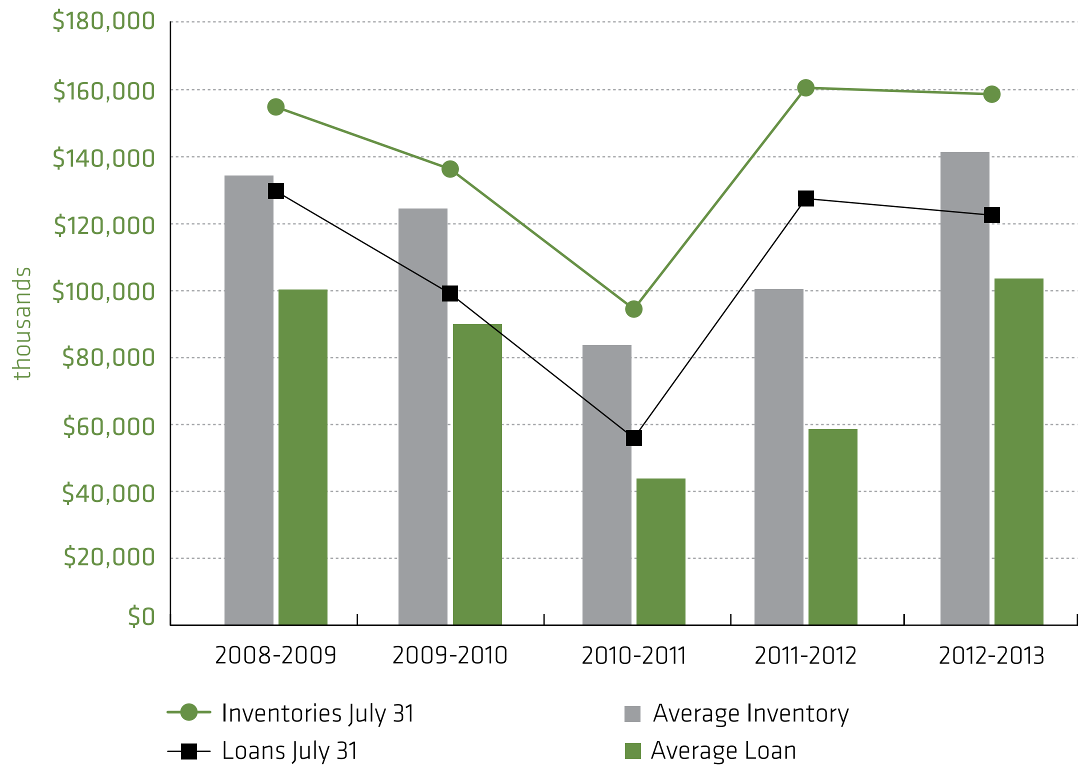
The distribution to provincial boards and agencies represents a refund of surplus generated from the Domestic Seasonality and Surplus Removal Programs. As milk producers are responsible to finance these programs, any surpluses are reimbursed to provincial milk marketing boards and agencies. The 2012-2013 refund for these programs amounted to $14.5 million. This represents a decrease of $4.2 million compared to the previous year which was the consequence of buying Class 4(m) skim milk powder at prices that were more in line with expected revenues.

Inventories and loans

Average inventory values for 2012-2013 were up 40% compared to the previous year, resulting in an increase of 76% in our average loan requirements. Butter stocks over the entire year were consistently higher than last year, resulting in higher-than-average loan values. Butter stocks returned to normal levels in 2012-2013 after being below the norm in the 2011-2012 dairy year. Inventory of SMP for the animal feed market was 1.3 million kg lower than at the end of the previous year.

The CDC, in consultation with the Minister of Finance, has retained its loan limit for 2013-2014 of $165 million. The CDC determined that this limit would be sufficient to maintain its capacity to respond to unforeseen circumstances brought on by changing market conditions.

Inventories and loans



Risk management

All business enterprises are subject to risks in their ongoing operations. The CDC has identified the major risk factors and has established policies and procedures to manage these risks.

The CDC has prepared a Corporate Risk Profile which is reviewed and updated at least once per year (latest review was February 2013) by management. It outlines the risks identified by managers and directors as posing a threat to the core mandate of the CDC and/or to the achievement of its goals. The Profile defines each risk, describes the existing measures for managing the risk, as well as incremental risk management strategies, and identifies the group responsible for implementing these strategies. The Profile is taken into consideration when doing the environmental analysis during the CDC's annual strategic planning session.

Credit risk is the exposure to financial loss due to a customer failing to meet his financial obligations to the CDC. The CDC manages this risk by selling product on a "payment first" basis, securing bank guarantees and obtaining letters of credit. Other strategies include carrying out business only with credit-worthy customers.

Foreign currency risk is the potential for financial loss due to unfavourable changes in foreign currency exchange rates. The CDC has a policy of zero tolerance for foreign currency risk and therefore uses derivatives to hedge its sales and purchases in foreign currencies. No derivatives are entered into for speculative reasons and the CDC only deals with Canadian chartered banks in this regard.

Market risk is the most difficult to manage due to its unpredictability. The operations of the CDC are affected by many external factors such as world market conditions, developments in the World Trade Organization negotiations on agriculture, domestic market trends and fluctuations of supply and demand. The CDC addresses these risks by instituting sound management practices, hiring and maintaining competent staff and staying abreast of any market or political development that may affect its operations. Because the CDC deals with supply-managed products such as SMP and butter, the export activity is a relatively small percentage of its overall revenues. Nonetheless, the CDC manages the volatility of world markets by strategically selling its products mostly by tenders to reliable exporters who seek value-added products, ensuring best returns for its commercial operations.

Future accounting changes

The International Accounting Standards Board has several projects underway, some of which may affect IFRS standards relative to the CDC. Management will continue to monitor all proposed and continuing projects, giving consideration to any changes expected to impact the CDC. A more detailed discussion of the future accounting changes can be found in Note 3 of the financial statements.

Challenges for the future

As in the past, the main factor that could affect the financial results of the CDC in the coming year is the fluctuations in world prices for dairy products. Dairy product prices have regained strength in the international market and the Canadian dollar has weakened since the beginning of 2013. If this continues, it will have a beneficial effect on CDC revenues. However, world dairy prices and exchange rates are volatile and the trend may rapidly reverse itself. The CDC will continue to monitor world prices closely, to choose niche markets and to strategically take advantage of periods in which prices allow the CDC to maximize its revenues from these markets.

As part of its three-year strategy, the CDC plans on gradually eliminating the structural surplus of solids non fat. If successful, this would significantly reduce the negative impact this has on producer revenues. However, this is a slow process and more than one initiative will be required to achieve this objective. For example, last year the Canadian Milk Supply Management Committee created a new program for the redirection of liquid skim milk to yogurt manufacturers who experience growth and require more milk. To date, this program has not been active because the growth allowance added to the quota has generated more milk to supply those markets. Nonetheless, since the market growth in low fat yogurt requires mainly skim milk, when milk production becomes more in line with requirements on a butterfat basis, supply of milk to yogurt manufacturers may become insufficient and the Skim Milk Redirection Program will be activated. This will reduce the volumes of skim milk being offered to the CDC in the form of surplus SMP. Meanwhile, the CDC is looking at other initiatives that the industry may consider to increase the utilization of skim milk solids in value-added products. This would also reduce the structural surplus of SMP.

On the international front, negotiations are still ongoing at the World Trade Organization albeit without any significant breakthrough in agriculture. Canada was formally admitted into the Trans-Pacific Partnership in late 2012, and negotiations between Canada and the European Union are progressing. The CDC will continue to closely monitor those trade negotiations and provide advice to trade negotiators in regards to potential impact on the dairy industry.

Management Responsibility for Financial Statements

The financial statements of the Canadian Dairy Commission and all information in this Annual Report are the responsibility of management. Those statements have been prepared in accordance with International Financial Reporting Standards, using management's best estimates and judgments where appropriate. Financial information presented elsewhere in the Annual Report is consistent with the statements provided.

In discharging its responsibility for financial reporting, management maintains and relies on financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. These controls and practices ensure the orderly conduct of business, the accuracy of accounting records, the timely preparation of reliable financial information and the adherence to CDC policies and statutory requirements. This process includes the communication and ongoing practice of the CDC's Code of Ethics.

The Audit Committee of the Canadian Dairy Commission, made up of the commissioners, oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting. The CDC's internal and external auditors have free access to the Audit Committee to discuss the results of their work and to express their concerns and opinions.

The financial statements of the CDC have been audited by the Auditor General of Canada, the independent auditor for the Government of Canada.

Jacques Laforge, CEO

Gaëtan Paquette, Senior Director,
Finance and Operations

Ottawa, Canada
September 25, 2013

Auditor General of Canada
Vérificateur général du Canada

Independent Auditor's Report

To the Minister of Agriculture and Agri-Food

Report on the Financial Statements

I have audited the accompanying financial statements of the Canadian Dairy Commission, which comprise the statement of financial position as at July 31, 2013, and the statement of operations and comprehensive loss, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Dairy Commission as at July 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Canadian Dairy Commission that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Dairy Commission Act* and regulations and the by-laws of the Canadian Dairy Commission.

Lissa Lamarche, CPA, CA
Principal
for the Auditor General of Canada

September 25, 2013
Ottawa, Canada

Canadian Dairy Commission

Statement of Financial Position

(in thousands of Canadian dollars)

	As of July 31, 2013	As of July 31, 2012
Assets		
Current		
Cash	$ 1,266	$ 134
Trade and other receivables		
Trade receivables	4,167	2,907
Advance to provincial milk boards and agencies	71	1,794
Milk pools	1,121	993
Derivative asset – foreign exchange contracts	361	54
Inventory (Note 4)	157,691	159,888
	164,677	165,770
Non-Current		
Equipment (Note 5)	48	2
Intangible asset (Note 6)	183	–
	$ 164,908	$ 165,772
Liabilities		
Current		
Bank overdraft (Note 7)	$ 71	$ 1,794
Trade and other payables		
Trade payables	14,459	14,321
Distribution to provincial milk boards and agencies	14,531	8,672
Other liabilities	2,399	1,211
Derivative liability – foreign exchange contracts	–	61
Loans from the Government of Canada (Note 8)	122,323	127,277
	153,783	153,336
Non-Current		
Post-employment benefits (Note 13)	140	596
Equity		
Retained earnings	10,985	11,840
	$ 164,908	$ 165,772

Commitments (Note 15)

The accompanying notes are an integral part of these financial statements.

These financial statements were approved and authorized for issue on September 25, 2013

Jacques Laforge
Chief Executive Officer

Randy Williamson
Chairman

Gaëtan Paquette
Senior Director, Finance and Operations

Canadian Dairy Commission

Statement of Operations and Comprehensive Loss

(in thousands of Canadian dollars)

	For the year ended July 31, 2013	For the year ended July 31, 2012
Sales and cost of sales		
Domestic sales revenue	$ 252,686	$ 211,280
Cost of goods sold – domestic	234,423	189,808
Transport and carrying charges	5,330	4,790
Finance costs	1,126	579
Gross profit on domestic sales	11,807	16,103
Export sales revenue	51,131	27,076
Cost of goods sold – exports	49,266	26,111
Transport and carrying charges	1,336	978
Finance costs	21	1
Gross profit (loss) on export sales	508	(14)
Total gross profit	12,315	16,089
Other income		
Funding from milk pools (Note 11)	6,418	5,676
Funding from the Government of Canada (Note 12)	4,496	4,668
Audit services	178	237
	11,092	10,581
Total gross profit and other income	23,407	26,670
Operating expenses		
Industry initiatives	1,597	2,524
Cost of Production study	862	840
Other charges (recoveries)	(406)	(301)
	2,053	3,063
Administrative expenses		
Salaries and employee benefits (Note 13)	5,912	5,842
Other administrative expenses	1,766	2,025
	7,678	7,867
Total operating and administrative expenses	9,731	10,930
Profit before distribution to provincial milk boards and agencies	13,676	15,740
Distribution to provincial milk boards and agencies	14,531	18,672
Total comprehensive loss	$ (855)	$ (2,932)

The accompanying notes are an integral part of these financial statements.

Canadian Dairy Commission

Statement of Changes in Equity

(in thousands of Canadian dollars)

	For the year ended July 31, 2013	For the year ended July 31, 2012
Retained earnings, beginning of the year	$ 11,840	$ $14,772
Total comprehensive loss for the year	(855)	(2,932)
Retained earnings, end of the year	$ 10,985	$ $11,840

The accompanying notes are an integral part of these financial statements.

Canadian Dairy Commission

Statement of Cash Flows

(in thousands of Canadian dollars)

	For the year ended July 31, 2013	For the year ended July 31, 2012
Cash flows from (used in) operating activities		
Cash receipts from sales of goods	$ 302,701	$ 242,055
Cash paid to suppliers and others	(297,662)	(298,965)
Cash receipts from provincial milk boards and agencies (pooling)	8,013	5,115
Cash paid to provincial milk boards and agencies (operating surplus)	(8,672)	(24,573)
Cash receipts from the Government of Canada	4,496	4,668
Interest paid on loans	(1,067)	(382)
Net cash flows from (used in) operating activities	7,809	(72,082)
Cash flows (used in) from financing activities		
New loans from the Government of Canada	243,825	235,186
Loan repayments to the Government of Canada	(248,779)	(163,756)
Net cash flows (used in) from financing activities	(4,954)	71,430
Net increase in cash (bank overdraft)	2,855	(652)
Net bank overdraft at beginning of year	(1,660)	(1,008)
Net cash (bank overdraft) at end of year	$ 1,195	$ (1,660)
Components:		
Cash	$ 1,266	$ 134
Bank overdraft	(71)	(1,794)
Net cash (bank overdraft)	$ 1,195	$ (1,660)

The accompanying notes are an integral part of these financial statements.

(In thousands of Canadian dollars unless otherwise indicated)

1. Authority and objectives

The Canadian Dairy Commission (CDC) was established in 1966 through the *Canadian Dairy Commission Act*. It is a federal Crown corporation named in Part I, Schedule III and Schedule IV to the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*. It is an agent of Her Majesty the Queen in right of Canada and reports to Parliament through the Minister of Agriculture and Agri-Food.

The objectives of the CDC are to provide efficient producers of milk 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. To achieve its objectives, the CDC works closely with the Canadian Milk Supply Management Committee (CMSMC), which it chairs, as well as with provincial governments and provincial milk marketing boards. This collaboration is framed by federal-provincial agreements.

The CDC is partly funded by parliamentary appropriations. This is supplemented by funding from milk producers and the market, as well as by the CDC's own commercial operations.

2. Basis of preparation

Statement of compliance

The CDC prepared these financial statements in accordance with International Financial Reporting Standards (IFRS).

The financial statements were approved and authorized for issue by the CDC Board of Directors on September 25, 2013.

Basis of presentation

The financial statements have been prepared on a historical cost basis, as set out in the accounting policies below, except as permitted by IFRS and otherwise indicated within these notes.

Reporting period

The CDC reports on a dairy year basis which starts August 1 and ends July 31.

Key sources of estimation uncertainty

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Valuation of inventories, pension and post-employment benefits, and derivatives are the most significant items where estimates are used. Actual amounts could differ significantly from the current estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements of the period in which they become known.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional and presentation currency of the CDC.

3. Significant accounting policies

Cash

Cash includes funds on deposit at financial institutions.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value. Their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the CDC's designation of such instruments.

Classifications:

Trade and other receivables	Loans and receivables
Bank overdraft	Financial liabilities measured at amortized cost
Trade and other payables	Financial liabilities measured at amortized cost
Loans from the Government of Canada	Financial liabilities measured at amortized cost
Derivative assets and liabilities	Financial assets or liabilities measured at fair value through profit or loss (FVTPL)

Loans and receivables

Loans and receivables are recorded at amortized cost using the effective interest method.

Financial liabilities measured at amortized cost
Financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method.

Financial assets or liabilities measured at FVTPL
Financial assets or liabilities classified as FVTPL are measured at fair value at the Statement of Financial Position date with changes in fair value recorded in profit or loss on the Statement of Operations and Comprehensive Loss.

Transaction costs
All transaction costs in respect of financial instruments classified as loans and receivables or financial liabilities measured at amortized cost are capitalized in the period in which they are incurred. All transaction costs in respect of financial instruments classified as financial assets or liabilities measured at FVTPL are expensed in the period in which they are incurred.

Derivative financial instruments
The CDC uses derivative financial instruments such as forward contracts to counter the adverse movements in foreign exchange related to purchases and sales denominated in foreign currencies, including anticipated transactions, as well as to manage its cash balances and requirements. The CDC's policy is not to utilize freestanding derivative financial instruments for trading or speculative purposes.

The CDC does not designate its foreign exchange forward contracts as hedges of underlying assets, liabilities, firm commitments or anticipated transactions and accordingly does not apply hedge accounting. As a result, foreign exchange forward contracts are recorded on the Statement of Financial Position at fair value as an asset when the contracts are in a gain position and as a liability when the contracts are in a loss position. Changes in fair value of these contracts are recognized as gains or losses within "Other charges (recoveries)" on the Statement of Operations and Comprehensive Loss.

Inventory
Inventory is recorded at the lower of cost, which is purchase cost, or estimated net realizable value. Cost is determined on a first-in, first-out basis except for Plan B inventories where cost is determined based on specific identification. Write-downs to net realizable value are reversed when there is a subsequent increase in the value of inventory up to a maximum of the purchase cost. The reversal is recognized as a reduction to cost of sales and an increase to the net value of inventory in the year in which it occurs.

Equipment
Equipment is recorded at cost less accumulated depreciation. Cost includes all measurable expenditures directly attributable to the acquisition and installation of the equipment.

Depreciation is charged to "Other charges (recoveries)" on the Statement of Operations and Comprehensive Loss and begins when the equipment is available for use by the CDC. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset less estimated residual value as follows:

Generator	10 years
Computer equipment	3-5 years

Equipment is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such impairment or change exists, the carrying value would be adjusted accordingly.

Intangible asset
Software
Internally developed application software is stated at cost less accumulated amortization. Cost includes all measurable expenditures directly attributable to the development of the software including employees' salaries, consultant fees and other identifiable costs specific to the project.

Amortization begins when the software is available for use by the CDC. Amortization of the intangible asset is charged to "Other charges (recoveries)" on the Statement of Operations and Comprehensive Loss on a straight-line basis over its estimated useful life of ten years.

Software is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such impairment or change exists, the carrying value would be adjusted accordingly.

Distributions to (recoveries from) provincial milk boards and agencies

Distributions to (recoveries from) provincial milk boards and agencies represent gross profit (loss) on sales excluding imported butter. Distributions to (recoveries from) provincial boards and agencies are recorded as expense (revenue) in the year that they are determined.

Revenues

Sales revenues

Domestic and export sales revenues are recognized when product is shipped.

Funding from milk pools

Funding from milk pools is recognized as revenue in the period the services are rendered.

Funding from the Government of Canada

Funding from the Government of Canada is recognized as revenue in the period the expenses are incurred.

Audit services

Revenues from audit services are recognized in the period the services are rendered.

Cost of sales

The CDC purchases all butter and skim milk powder tendered to it at either the Canadian support price or at other prices established by the CDC, depending on the intended resale markets, except for a portion of butter imported by the CDC at international market price. These costs are charged to cost of sales when the goods are shipped to customers.

Foreign currency translation

All foreign currency transactions are translated into Canadian dollars at the exchange rate in effect on the transaction date.

Trade receivables and payables in foreign currencies are adjusted to reflect the exchange rate in effect at the Statement of Financial Position date. Any corresponding gains or losses are recognized in "Export sales revenue" for receivables and "Cost of goods sold – domestic" for payables on the Statement of Operations and Comprehensive Loss.

Most sales and purchases in foreign currencies have corresponding foreign exchange forward contracts (see "Derivative financial instruments" above and Note 14. *Financial Instruments – Currency risk*).

Employee benefits

Pension benefits

Substantially all of the employees of the CDC are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the CDC to cover current service cost. Pursuant to legislation currently in place, the CDC has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the CDC.

Post-employment benefits

Eligible employees are entitled to post-employment benefits as provided for under labour contracts and conditions of employment. The cost of these benefits is accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated by management.

Scholarship program

Scholarship program monies are expensed in the year in which educational institutions meet specified eligibility criteria and the agreements are approved.

Future accounting standards (accounting standards issued but not yet applied)

Certain new accounting standards and amendments have been published which are not required to be adopted for the current reporting period. As of the date of these financial statements, the following applicable standards and amendments, assessed as having a possible impact on CDC, were issued but are not yet effective:

- IFRS 13 – *Fair Value Measurement* defines 'fair value' and sets out in a single standard a framework for measuring fair value and requires disclosures about fair value measurements. The new standard reduces complexity and improves consistency by clarifying the definition of fair value and provides measurement and disclosure requirements for all fair value measurements. The amended standard is effective for annual periods beginning on or after January 1, 2013.

(In thousands of Canadian dollars unless otherwise indicated)

The CDC does not expect an impact on its fair value bases upon adoption of IFRS 13, but does anticipate enhanced and expanded fair value disclosures;

- IAS 19 – *Employee Benefits* was amended with one of the most significant changes being the elimination of the option to defer the recognition of gains and losses, known as the "corridor method". Furthermore, the amended IAS 19 will require that remeasurements be presented in other comprehensive loss. The amendments also require enhanced disclosure surrounding defined benefit plans and related risks. The amended version of IAS 19 is effective for annual periods beginning on or after January 1, 2013. The CDC does not expect any significant impacts on its financial statements resulting from the adoption of the amendments to IAS 19;
- IFRS 7 – *Financial Instruments: Disclosures* was amended to include specific disclosure requirements related to the offsetting of financial assets and financial liabilities presented on a net basis on the Statement of Financial Position. The new disclosures under IFRS 7 are effective for annual periods beginning on or after January 1, 2013. The adoption of IFRS 7 will likely result in additional disclosures to be made in CDC's financial statements;
- IAS 32 - *Financial Instruments: Presentation* was amended to provide additional guidance related to the offsetting of financial assets and financial liabilities presented on a net basis on the Statement of Financial Position. The clarifying amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. The CDC does not expect any significant impacts on its financial statements resulting from the adoption of the amendments to IAS 32; and
- IFRS 9 – *Financial Instruments* provides requirements for classifying and measuring financial assets and liabilities. This standard is the first in a three-phase project in progress by the IASB to replace IAS 39 – *Financial Instruments: Recognition and Measurement* in its entirety. The new standard is effective for annual periods beginning on or after January 1, 2015. The CDC has not yet determined the impact of the adoption of IFRS 9.

4. Inventory

Under section 9(1) of the *Canadian Dairy Commission Act*, the CDC operates domestic seasonality programs, which include the purchase and sale of Plan B inventory (butter and skim milk powder). Under Plan B, as set out in agreements with manufacturers, the CDC purchases products from manufacturers. While manufacturers are contractually obligated to repurchase Plan B inventory within the course of the next dairy year at the prevailing support prices, the CDC is not contractually bound to sell to the manufacturers. However, the CDC has customarily honoured all manufacturers' requests.

Inventory in dollars:

	July 31, 2013	July 31, 2012
Plan B:		
Butter	$ 96,645	$ 107,143
Skim milk powder	8,158	8,785
Other butter	23,950	15,004
Other skim milk powder	29,662	29,396
	158,415	160,328
Less: allowance for inventory write-down	(724)	(439)
Total net realizable value	$ 157,691	$ 159,888

Inventory in tonnes:

	July 31, 2013	July 31, 2012
Plan B:		
Butter	13,207	14,706
Skim milk powder	1,278	1,387
Other butter	4,098	2,110
Other skim milk powder	22,139	22,641

Inventory expensed in the current year was $283.69 million (July 31, 2012: $215.92 million) and is presented on the Statement of Operations and Comprehensive Loss in cost of goods sold (domestic and exports).

(In thousands of Canadian dollars unless otherwise indicated)

5. Equipment

The carrying value of equipment is determined as follows:

	Balance July 31, 2012	Additions	Disposals	Balance July 31, 2013
Cost	$ 19	48	–	$ 67
Accumulated depreciation	$ 17	2	–	$ 19
Carrying amount	$ 2			$ 48

6. Intangible asset

The carrying value of the intangible asset is determined as follows:

	Balance July 31, 2012	Additions	Disposals	Balance July 31, 2013
Cost	$ –	183	–	$ 183
Accumulated amortization	$ –	–	–	–
Carrying amount	$ –			$ 183

Intangible asset represents software being developed in-house to meet specific operational needs unique to the CDC. Management estimates the new software program will be operational early in the July 31, 2014 dairy year at which time amortization charges to profit and loss will begin.

7. Bank overdraft

The CDC has established a line of credit with a member of the Canadian Payments Association. The CDC has been granted the authority to establish this line of credit by the Minister of Finance up to a maximum of $50 million for advancing funds to the provincial milk marketing boards and agencies. On July 31, 2013 the available line of credit was $5 million (July 31, 2012: $5 million).

The bank overdraft incurred under the CDC's line of credit is due on demand and bears interest at prime, which as at July 31, 2013 was 3.00% per annum (July 31, 2012: 3.00%).

8. Loans from the Government of Canada (Consolidated Revenue Fund)

Loans from the Government of Canada's Consolidated Revenue Fund, to a maximum of $165 million (July 31, 2012: $165 million), are available to finance operations. Individual loans are repayable within one year from the date the loan is advanced. Principal and accrued interest is repaid regularly during the year when funds are available.

(In thousands of Canadian dollars unless otherwise indicated)

Interest on the loans is at the normal rates established for Crown corporations by the government and based on the latest available yields of comparable Treasury bills plus one-eighth of one percent at simple interest. Interest rates and interest expense were as follows:

	July 31, 2013	July 31, 2012
Interest rates		
Low	1.05%	0.95%
High	1.25%	1.17%
Interest expense	$ 1,147	$ 580

9. Capital disclosures

The CDC's capital consists of its loans from the Government of Canada (see Note 8) and retained earnings. As of July 31, 2013 these accounts totaled $122.32 million (July 31, 2012: $127.28 million) and $10.99 million (July 31, 2012: $11.84 million) respectively. The CDC is not subject to any externally imposed capital requirements.

The CDC's primary objective in managing capital is to ensure that it has sufficient liquidity in order to settle its financial obligations as they become due and to fund programs for the benefit of the dairy industry. The CDC adjusts its capital management approach on an ongoing basis as the amounts fluctuate during the course of the year. The CDC does not utilize any quantitative measures to monitor its capital. There were no changes in the CDC's approach to capital management or the definition thereof as compared to the previous year.

10. Foreign exchange gains and losses

Export sales include amounts representing realized net gains or net losses arising from currency translation relating to transactions incurred in foreign currencies.

As well, domestic cost of sales include amounts representing realized net gains or net losses arising from currency translation relating to import purchase transactions incurred in foreign currencies.

	July 31, 2013	July 31, 2012
Net gain (loss) on:		
Export sales	$ (782)	$ 57
Domestic cost of sales	$ 61	$ 475

11. Funding from milk pools

As acting agent in carrying out administrative functions of the Comprehensive Agreement on Pooling of Milk Revenues (a federal-provincial agreement), the CDC collects and redistributes producer market returns. For these services, the CDC receives from producers an annual fixed fee which offsets its cost for the administration of the agreement as well as the estimated carrying charges for normal levels of butter inventory. Furthermore, the CDC is reimbursed for other direct costs as set out in the agreement including carrying charges for surplus butter inventories.

12. Funding from the Government of Canada

Funding of the CDC's administrative expenses is shared among the federal government, dairy producers, commercial operations and the market place.

Government of Canada funding of total administrative expenses is as follows:

	July 31, 2013	July 31, 2012
Funded by Government of Canada	$ 4,496	$ 4,668
Total administrative expenses	$ 7,678	$ 7,867

13. Salaries and employee benefits

Salaries and employee benefits includes:

	July 31, 2013	July 31, 2012
Salaries expense	$ 4,846	$ 4,702
Pension contributions	682	757
Medical insurance expense	225	229
Others	159	154
Total	$ 5,912	$ 5,842

Pension plan

Substantially all of the employees of the CDC are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the CDC. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate effective for the year ended July 31, 2013 was 1.68 times the employee's rate (1.74 times for the prior year).

(In thousands of Canadian dollars unless otherwise indicated)

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2% of pensionable service multiplied by the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

Post-employment benefits

The CDC provides post-employment benefits to its eligible employees based on years of service and final salary. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Benefits are paid from future appropriations and other sources of revenue.

Information about this benefit plan, measured as of the Statement of Financial Position date, is as follows:

	July 31, 2013	July 31, 2012
Accrued benefit obligation, beginning of year	$ 596	$ 1,083
Benefits paid during the year	(142)	(487)
Increase (decrease) of obligation for the year	(14)	–
Accrued benefit obligation, end of year	$ 440	$ 596

Of the total year end obligation, $0.30 million (July 31, 2012: Nil) is estimated by the CDC to be payable within the next year and has been presented as a current liability on the Statement of Financial Position under "Other liabilities".

14. Financial instruments

In the course of carrying out its ongoing operations, the CDC faces risks to its financial assets and financial liabilities. The CDC's exposure to risk from its use of financial instruments is presented below along with the CDC's objectives, policies and processes for managing risk.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the CDC's income or the value of its holding of financial instruments.

Currency risk

The CDC operates internationally, exposing itself to market risks from changes in foreign exchange rates. The CDC partially manages these exposures by contracting only in U.S. dollars or Canadian dollars. The CDC's foreign exchange risk management includes the use of foreign currency forward contracts to fix the exchange rates on certain foreign currency exposures. The CDC periodically enters into foreign exchange forward contracts to manage exposure to exchange rate fluctuations between Canadian and U.S. dollars.

As of the Statement of Financial Position date, the notional value of the CDC's outstanding forward exchange contracts totaled $20.33 million Canadian equivalent (July 31, 2012: $6.57 million Canadian equivalent). These contracts will mature over the period ending October 9, 2013. The maturity dates of the forward exchange contracts correspond to the estimated dates when the CDC expects to receive the foreign currency proceeds arising from export sales contracts or when payment for purchases in foreign currencies are due.

The fair value of the CDC's derivative financial instruments is determined using the Bank of Canada's published foreign exchange rates as of the Statement of Financial Position date. The CDC's foreign exchange forward contracts as of the Statement of Financial Position date were as follows:

(In thousands of Canadian dollars unless otherwise indicated)

Currency sold	Currency purchased	July 31, 2013 In USD	July 31, 2013 In CAD	July 31, 2012 In USD	July 31, 2012 In CAD
USD	CAD	$ 16,730	$ 17,185	$ 1,930	$ 1,990
CAD	USD	$ 2,973	$ 3,144	$ 4,505	$ 4,579

"Other charges (recoveries)" under operating expenses on the Statement of Operations and Comprehensive Loss include $0.37 million representing net gains incurred during the current year (July 31, 2012: net gains of $0.22 million) arising from the determination of unrealized fair value remeasurements of the CDC's derivative financial instruments.

The CDC's exposure to foreign currency risk was as follows, based on Canadian dollar equivalent amounts:

In CAD	July 31, 2013	July 31, 2012
Trade receivable	$ 2,688	$ 2,574
Trade payable	(343)	–
Net derivative asset (liability)	361	(7)
Net exposure	$ 2,706	$ 2,567

Based on the net exposure as of July 31, 2013, and assuming that all other variables remained constant, had the Canadian dollar appreciated 10% against the US dollar, net income for the year ended July 31, 2013 would have decreased by $1.17 million (July 31, 2012: increased by $0.52 million). Conversely, a 10% weakening in the Canadian dollar against the US dollar would have had the equal but opposite effect for the same period.

Interest rate risk

Interest rate risk is the risk that a financial asset containing a fixed interest rate component decreases in fair value with a rise in interest rates or that a financial liability with a floating interest rate component results in increased cash outflow requirements as a result of an increase in interest rates. Other than the line of credit, for which interest expense varies as a function of prime, and loans from the Government of Canada, which vary as a function of the yield on comparable Treasury bills, the CDC does not have any other such financial assets or liabilities exposed to this risk. The CDC's exposure to interest rate risk is not significant given its low interest bearing loans.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk. The CDC is not significantly exposed to this type of risk.

Liquidity risk

Liquidity risk is the risk that the CDC will not be able to meet its financial obligations as they fall due. As of the Statement of Financial Position date, virtually all of the CDC's assets and liabilities were current and the CDC had a current ratio equal to 1.07 (July 31, 2012: 1.08). In managing liquidity risk, the CDC has access to additional borrowings for commercial operations from the Government of Canada in the amount of $42.68 million as of July 31, 2013 (July 31, 2012: $37.72 million) as well as $4.93 million (July 31, 2012: $3.21 million) on its line of credit for the pooling of market returns.

Credit risk

Credit risk is the risk of loss due to a customer failing to meet its financial obligations to the CDC. Maximum credit exposure is the carrying amount of the pooling and trade receivable balances, net of any allowance for losses. The CDC manages this risk using several strategies which include selling product on a "payment first" basis, securing of bank guarantees and obtaining letters of credit. As of July 31, 2013 and July 31, 2012 the CDC did not have an allowance for doubtful accounts and all trade receivables were current.

The CDC is exposed to credit risk when entering into foreign exchange contracts wherein the counterparty fails to perform an obligation as agreed upon, causing a financial loss. Maximum credit exposure is the notional amount of the derivative asset. The CDC manages this exposure to credit risk by entering into foreign exchange contracts only with major Canadian financial institutions. To date, no such counterparty has failed to meet its financial obligation to the CDC.

Fair values

The carrying value of cash, trade and other receivables, bank overdraft, and trade and other payables approximates their fair values due to the immediate or short-term maturity of these financial instruments. As of the Statement of Financial Position date, no amounts representing changes in fair value of these financial instruments have been recorded in the Statement of Operations and Comprehensive Loss.

(In thousands of Canadian dollars unless otherwise indicated)

Fair value hierarchy

Financial instruments recorded at fair value on the Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy, which for the CDC is only relevant in the context of derivative financial instruments, has the following levels:

Level 1: valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value measurement of the CDC's derivative financial instruments is classified as level 2 (July 31, 2012: level 2) in the fair value hierarchy. Changes in valuation methods may result in transfers into or out of levels 1, 2, and 3. For the reporting periods ended July 31, 2013 and July 31, 2012, there were no transfers between levels.

15. Commitments

a) *Industry Initiatives*

Summary:	July 31, 2013
Canadian Quality Milk	$ 250
Matching Investment Fund	283
Scholarship Program	1,500
Total industry initiatives commitments	$ 2,033

Canadian Quality Milk (CQM)

This program is a quality assurance program for raw milk on farms. The CDC has agreed to partially fund this program under an agreement that commenced August 1, 2007 and was extended to July 31, 2014. Under the terms of the agreement, the CDC will contribute one hundred dollars per eligible farm until July 31, 2014.

Matching Investment Fund

The CDC funds and administers the Matching Investment Fund which provides non-repayable contributions to Canadian-registered companies or food technology centres for product development, on a matching investment basis. The program expires on July 31, 2014. As of July 31, 2013, the CDC has outstanding commitments of $0.28 million that remains to be paid prior to the program expiry.

Scholarship Program

As of August 1, 2011, the CDC funds a graduate Scholarship Program. The CDC grants $3 million in scholarships over five years to participating institutions across Canada. As of July 31, 2013, the CDC has agreements totalling $3 million with participating institutions, of which $1.5 million remains to be paid by July 31, 2016.

b) *Purchase Commitments*

As of July 31, 2013, the CDC was committed to purchase certain quantities of butter and skim milk powder. These commitments amounted to approximately $0.77 million (July 31, 2012: $2.01 million) and were fulfilled in August 2013.

c) *WTO Tariff Rate Quotas for Butter*

Under the terms of the 1994 WTO Agreement, Canada has established tariff rate quotas (TRQ) for a number of dairy products. TRQs are the quantities of products that can enter Canada with little or no tariff. With the support of the industry, the CDC has acted as the receiver of imports of butter under federal permit since 1995 and has directed this product through butter manufacturers to the food sector. The 2014 TRQ for butter remains at 3,274 tonnes. World prices at the time of purchase will determine the total financial commitment.

Total cost to purchase imported butter under the WTO requirements for the year ended July 31, 2013 was $10.93 million (July 31, 2012: $15.49 million).

d) *Operating Lease*

The CDC is committed under a long term lease with Agriculture and Agri-Food Canada for office accommodation ending in March 31, 2017. The lease contains escalation clauses regarding maintenance costs and taxes. This lease may be automatically renewed at the CDC's option for another period of five years with rates possibly revised in order to reflect the rental market value pursuant to Treasury Board's Policy on Real Property.

(In thousands of Canadian dollars unless otherwise indicated)

The minimum lease payments are as follows:

	July 31, 2013	July 31, 2012
Less than one year	$ 351	$ 351
Greater than one year and less than five years	$ 938	$ 1,289

16. Related party transactions

Government of Canada entities

The CDC, as per the *Canadian Dairy Commission Act*, is an agent of Her Majesty the Queen in right of Canada. This effectively makes the Government of Canada owner of the CDC, having significant influence over its activities.

The CDC is related in terms of common ownership to all other Government of Canada departments, agencies and Crown corporations. The CDC enters into transactions with these entities in the normal course of business and at normal trade terms. These related party transactions are recorded at their exchange amounts.

In accordance with the disclosure exemption regarding "government related entities", the CDC is exempt from certain disclosure requirements of IAS 24 – *Related Party Disclosures*, relating to its transactions and outstanding balances with:

- a government that has control, joint control or significant influence over the reporting entity; and
- another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Based on this exemption, the CDC has not disclosed any further details of its transactions with the Government of Canada and departments thereof, and all federal Crown corporations not considered to be individually or collectively significant, entered into in the normal course of operations.

Loans from the Government of Canada at terms available to Crown corporations (Note 8), which are recorded at carrying value due to the absence of an observable market rate, represent the CDC's largest related party transaction.

Significant transactions, excluding loans, were with the following related parties:

Key management personnel

The CDC's key management personnel are the CEO, the Chairman, the Commissioner and the three directors.

No loans or other such transactions with key management personnel were outstanding as of July 31, 2013 or July 31, 2012, or occurred at any time during either year.

The post-employment benefit liability for key management personnel as of July 31, 2013 was $0.21 million (July 31, 2012: $0.21 million) and is divided between "Post-employment benefits" and "Other liabilities" on the Statement of Financial Position.

Compensation of key management personnel for the year ended July 31, 2013 was $0.79 million (July 31, 2012: $0.76 million).

The CEO has created a new director position effective August 1, 2013. The new Director of Finance and Administration will be part of CDC's key management personnel and therefore will accordingly increase the amounts for compensation and post-employment benefit liability next year.

Government entity	July 31, 2013	July 31, 2012
Public Works and Government Services Canada (mainly employee benefits – Note 13)	$ 1,068	$ 1,123
Agriculture and Agri-Food Canada (mainly operating lease – Note 15)	436	543
Other related Government entities	369	115
Total	$ 1,873	$ 1,781

Tables and Data (unaudited)

Industrial Milk Production, Canadian Requirements and MSQ (million kg butterfat)

	Production	MSQ*	Canadian requirements
2008-2009	179.66	182.08	180.14
2009-2010	183.39	181.80	183.82
2010-2011	186.87	188.73	189.49
2011-2012	196.18	193.78	187.86
2012-2013	198.85	193.35	191.13

*Weighted average MSQ, including the Domestic Dairy Product Innovation Program

Production of Milk* (million kg butterfat)

Province	2011-2012			2012-2013		
	Fluid	Industrial	Total	Fluid	Industrial	Total
Newfoundland and Labrador	1.48	0.40	1.88	1.41	0.38	1.79
Prince Edward Island	0.55	3.50	4.05	0.54	3.61	4.15
Nova Scotia	3.90	2.97	6.87	3.99	3.09	7.08
New Brunswick	2.54	2.85	5.39	2.46	3.04	5.50
Quebec	26.37	92.28	118.65	26.44	94.09	120.53
Ontario	46.79	55.58	102.37	46.11	56.98	103.09
Manitoba	4.99	7.88	12.87	4.99	7.65	12.64
Saskatchewan	2.59	6.46	9.05	2.56	6.39	8.95
Alberta	15.04	11.35	26.39	15.03	10.87	25.90
British Columbia	13.69	12.91	26.60	13.13	12.75	25.88
Total	**117.94**	**196.18**	**314.12**	**116.66**	**198.85**	**315.51**

* Before pooling

Number of Farms and Cows, and Total Production

	Number of farms	Number of cows (thousands)	Total production (million kg BF)
2008-2009	13,587	978.4	298.41
2009-2010	13,214	981.0	300.82
2010-2011	12,965	987.0	305.67
2011-2012	12,746	985.3	314.12
2012-2013	12,529	960.6	315.51