



Canadian Dairy Commission  
Commission canadienne du lait

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**CANADIAN DAIRY COMMISSION**  
CORPORATE PLAN SUMMARY  
FOR 2004-2005 TO 2008-2009

OPERATING AND CAPITAL BUDGETS  
FOR THE DAIRY YEAR ENDING JULY 31, 2005

October 2004

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# I OVERVIEW OF THE CANADIAN DAIRY COMMISSION

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## ***CDC at a glance***

Created in 1966

62 employees

Location: Ottawa

Web site: [www.cdc-ccl.gc.ca](http://www.cdc-ccl.gc.ca)

Budget 2003-2004: \$ 6.5 million

Legislation: *Canadian Dairy Commission Act* and regulations

*Financial Administration Act*

*Ministerial Directions to the Canadian Dairy Commission (Export Dairy Products)*

*Public Service Staff Relations Act*

## ***Mandate***

The Canadian Dairy Commission (CDC), a federal Crown corporation, plays a central facilitating role for the multi-billion dollar Canadian dairy industry. Created in 1966 through the *Canadian Dairy Commission Act*, the CDC reports to Parliament through the Minister of Agriculture and Agri-Food Canada. Its legislated objects are twofold: to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment; and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality.

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

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

## ***Summary of activities***

To achieve its mandate, the CDC works with provincial government authorities and industry stakeholders such as dairy producers<sup>1</sup>, processors, further processors and consumers. The CDC, on the federal government's behalf, facilitates and supports the dairy industry in the development and implementation of major policies and programs.

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

- operating domestic seasonality and surplus removal programs;
- administering the Special Milk Class Permit Program and the Dairy Ingredient Marketing Program;

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<sup>1</sup> Underlined words or phrases are further described in Appendix A.

- calculating and making recommendations to the industry regarding the level of the national Market Sharing Quota for industrial milk in Canada;
- setting support prices for butter and skim milk powder; and,
- administering the industry's pooling systems.

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

### ***Organization and structure***

The CDC is comprised of three executive members appointed by the Governor in Council: a Chairman and Chief Executive Officer, a Vice-chairman and a Commissioner. All three positions are part-time appointments. As of July 31, 2004, the CDC is composed of the following three members:

John Core, Chairman and CEO  
Carl Harrison, Vice-chairman  
Jean Grégoire, Commissioner

A total of 62 full-time staff members currently provide a wide range of services to the dairy industry and to all Canadians on the Canadian Dairy Commission's behalf.

## **II PERFORMANCE OF THE CANADIAN DAIRY COMMISSION**

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### ***The CDC's environment in 2003-2004***

The last dairy year (2003-2004) was a year of adjustments for the Canadian dairy industry. Export mechanisms had to change following the decision, in December 2002, of the Appellate Body of the World Trade Organization (WTO). The impact of this ruling is that Canada's exports of dairy products are essentially limited to the level of its allowed subsidized exports.

For the dairy industry, it means drastic reductions in exports of skim milk powder and cheese, as well as in exports in the "other dairy products" category, which includes products such as ice cream, evaporated milk, and whole milk powder. As a consequence, the CDC skim milk powder stocks have increased in 2003-2004 and the CDC, in collaboration with the dairy industry, will find ways to reduce these stocks in the future. Higher stocks increase the operating expenses of the CDC, which are covered by dairy producers. They do require, however, an increase in the borrowing capacity of the CDC so it can purchase all the surplus skim milk powder throughout the year.

Another consequence of the restrictions on exports is that the industry must plan production closer to domestic requirements in order to avoid surpluses that can no longer be exported. When production is closer to demand, it is necessary to hold larger stocks of butter to meet seasonal variations in demand for butter. Accordingly, the CDC has increased its butter stocks and this is contributing to larger operating expenses and the need to borrow more money.

Over the last year, the demand for industrial milk products in Canada has caused an increase in the Market Sharing Quota (MSQ) in the fall. By year end, the MSQ had returned to a level similar to what it was in August 2003. On February 1<sup>st</sup>, 2004, the CDC announced an increase in the support price of butter and skim milk powder that was equivalent to 2.2 cents per litre of milk. This increase was a significant step in the fulfillment of the CDC's commitment to gradually increase the support prices such that by February 1<sup>st</sup>, 2006, 50 percent of dairy farmers in Canada would recover their cost of production. During the summer, the CDC held consultations to evaluate whether or not a second price increase was justified to offset the impacts of the BSE crisis on the revenues of dairy producers. In light of the cost of production data available at the time, Commissioners decided that an increase in support prices was not justified. They are however committed to a significant price increase during the next dairy year.

During the year, the CDC continued to foster an open dialogue between dairy farmers and processors. These two sectors of the industry agreed to work together on issues, as reported later in this Plan.

### ***Corporate governance***

The Board of Directors for the CDC is composed of three Commissioners who are appointed by the Governor in Council. The Commissioners are responsible for overseeing CDC's management and business in the best interest of the Commission. They must also ensure that proper accountability exists for the funding provided by the Government of Canada and the industry stakeholders. The Commissioners have many years of dairy industry experience and their backgrounds as former producers or processors bring a balanced approach to satisfying the often conflicting objectives of the stakeholders.

As part of their overall stewardship, the Commissioners:

- establish and approve the CDC's strategic directions, Corporate Plan and budgets with input from senior management;
- approve the financial statements and the Annual Report, which are audited by the Auditor General of Canada;
- ensure proper accountability through internal audits and evaluations of CDC's systems, practices and programs;
- report on CDC activities and services to the industry as they relate to the legislated mandate and present the related financial statements to the CMSMC at least four times a year;
- receive and follow up on the Annual Audit and the Special Examination report of the Auditor General, carried out every 5 years.

Special initiatives in the past year include:

- Two Commissioners and one Senior Director attended Corporate Governance courses for Crown Corporations.
- The Domestic Dairy Product Innovation Program and the Dairy Ingredient Marketing Program were evaluated.
- An internal audit of the Financial Statement Reporting and Management Accounting Information was performed.
- Employees attended a presentation on the new Values and Ethics Code for the Public Service issued by Treasury Board and effective September 1, 2003.
- The Foreign Exchange Hedging Policy of the Commission was updated to reflect the latest requirements of the Canadian Institute of Chartered Accountants.
- An internal committee was formed to oversee the implementation of the recommendations from the Threat Risk Assessment study performed on Commission activities.
- An updated delegation of financial authority was completed and approved by Commissioners.
- The Human Rights Commission performed an Employment Equity audit at the Commission. The CDC's Employment Equity Plan was found to be acceptable.

### ***Achievement of goals for 2003-2004***

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

**Goal 1            In collaboration with producer and processor groups, coordinate and facilitate an open dialogue between the two sectors to foster a common vision, identify goals for the Canadian dairy industry, and establish a comprehensive means of communication.**

#### **Achievements for 2003-2004**

In order to continue the work undertaken last year under this goal, the CDC collaborated with Agriculture and Agri-Food Canada and Dairy Farmers of Canada to follow up on the first Visioning Workshop, which was held in March of 2003. Considerable background documentation and several options were developed to address the issues identified at this first Workshop such as growth of the market, innovation and balancing supply and demand. CDC

staff led the Steering Committee as well as the three sub-committees in charge of providing options for addressing these issues.

The CDC then organized a second Visioning Workshop in October 2003. The people present at this event were approximately the same 40 farmer and processor representatives who attended the first one. The objectives of this meeting were to share information about the current situation of the four issues listed above, and to identify concrete actions that producers and processors could undertake together in order to address these issues. Following the October Workshop, the CDC has taken the lead on asking processors and further processors for business proposals that would have the effect of increasing the market for dairy products or milk ingredients. Proposals received were dealt with through existing programs. Dairy Farmers of Canada (DFC) created a multi disciplinary committee that looks at the legislation to identify impediments to innovation. Ultimately, the objective is to ask for changes to the legislation, following an industry-wide consensus. The workshop also recommended that DFC use health claims in their promotion activities for dairy products.

The CDC also organized a workshop for each of the two regional milk pools, namely the All Milk Pool and the Western Milk Pool.

The writing of the book on the history of the CDC is on track. The senior writer is currently working on location and has access to an advisory committee as well as to the staff of the CDC to help with research and writing. The advisory committee is made up of people who have been involved for many years in the various segments of the industry. There is also geographic representation.

During the course of the last year, major dairy processors in Canada joined together to create a new organization to represent their interests. The Dairy Processors Association of Canada was established at the end of 2003 and has increased its membership to more than a dozen companies from coast to coast. The CDC supports the creation of this organization since it allows the processors to have a common voice at the national level.

**Goal 2 Facilitate the changes required in the Canadian dairy industry as a result of the World Trade Organization (WTO) ruling concerning the exports of Canadian dairy products and provide support to the Canadian negotiating team in the current round of WTO negotiations.**

#### **Achievements for 2003-2004**

In an effort to tighten the management of milk production in Canada, the CDC worked very closely with the industry in the last year to make the necessary changes to quota policies. Various scenarios have been designed, analyzed and proposed to the Canadian Milk Supply Management Committee (CMSMC). It is this committee who decides which changes will be put in place. In March, the CMSMC adopted one of the scenarios developed by the CDC to bring changes to the quota system which will make the supply management of milk more efficient as of August 1, 2004. This scenario includes tighter production controls and an increase in normal butter stocks from 11 to 12 million kilograms.

In response to the 2002 WTO Appellate Body ruling, the Comprehensive Agreement on the Pooling of Milk Revenues was re-drafted to remove all provisions related to Commercial Export Milk. The CDC oversaw the re-drafting and approval process of the agreement. The CDC is

collecting the endorsement signatures from each of the nine signatory provinces participating in this pool.

The CDC was responsible to oversee the audit work involved in the winding down of the Commercial Export Milk program, which allowed direct contracting, between producers and processors, for the sourcing of milk to manufacture dairy products for export. These audits were performed in collaboration with provinces.

According to Ministerial Directions, the CDC conducted its export activities while respecting Canada's WTO export limits. This was done through the issuance of permits for individual export transactions. Quarterly reports were submitted to Agriculture and Agri-Food Canada.

### **Goal 3 Encourage consumption of dairy products and the use of Canadian dairy ingredients through promotion, market research, and technical support.**

#### **Achievements for 2003-2004**

Apart from continuing its regular activities, the Dairy Ingredient Marketing Program has been enriched with a new technical support fund. The Milk Ingredients Technical Support Program provides technical support to Canadian further processors involved in the reformulation of finished products to incorporate dairy ingredients. The Program is intended to provide financial support and assistance to Canadian further processors who lack the facilities, technical expertise, and/or resources to conduct controlled product trials and analysis. The Program was launched in 2003 with a budget of \$100,000 per year and has already received a fair number of applications.

Following the funding of a butter promotion program in the last two years, the CDC has contacted Dairy Farmers of Canada's (DFC) to see how the Commission could increase its involvement in promotion without duplicating current efforts. Discussions are ongoing.

### **Goal 4 Achieve administrative efficiencies through the continuous improvement of administration and management practices.**

#### **Achievements for 2003-2004**

Following the Threat Risk Assessment conducted the year before, the CDC has formed a Security, Occupational Safety and Health Committee who will serve as an advisory body to senior management to develop policies and make recommendations on matters of security, safety and health.

Already, the CDC has prepared a second set of computers which are kept off the premises and available to resume operations in case of a major disaster in the CDC building. This Business Resumption Hot Site is a key feature of the Business Resumption plan of the CDC.

The CDC has also continued the evaluation of its programs. An evaluation of the Dairy Ingredient Marketing Program was carried out in the spring and summer of 2003 and a report was presented in October to the CMSMC which supported the expansion of these activities. Although the Special Milk Class Permit Program was next slated for an evaluation, this exercise was postponed because in July, the CMSMC requested an evaluation of the Domestic Dairy Product Innovation Program, which was up for review. The conclusions and recommendations of this evaluation were presented to the CMSMC in January. In July, the CMSMC extended the programme for five years until July 31, 2010 and approved the addition of a technical advisor to the Selection Committee.



The CDC has also undertaken to evaluate the services it offers to the various fora of the industry, such as the CMSMC, the All Milk Pool, the Western Milk Pool and their technical committees. Services such as organization of meetings, preparation and distribution of background documents, technical analysis and minutes and reports were examined. The results of the evaluation were generally positive and the conclusions and recommendations from this evaluation were presented to the CMSMC in July.

In the area of human resources, the CDC worked closely with the Human Rights Commission in the last year as it was being audited for compliance with the *Employment Equity Act*. CDC's Employment Equity Plan will be implemented over the coming three years. The CDC took a preliminary look at the demographics of its work force and a formal succession planning will follow. As a number of people left the CDC in the last year, requiring several hiring actions, the competency requirement analysis has been postponed to the coming year.

### III KEY ISSUES AND STRATEGIC DIRECTIONS

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Over the years, the Canadian supply management system has adapted to new parameters in the environment. Freer trade has been a major factor in these changes. As the Doha round of negotiations progresses at the World Trade Organization (WTO), discussions on the possibility of reduced tariffs on imports and increased market access cause a great deal of concern for the dairy industry. Furthermore, any reduction in the level of subsidized exports allowed under the WTO would have serious repercussions.

A reduction in tariffs threatens the integrity of the domestic market by increasing the probability that foreign products such as butter enter Canada to compete with domestic products. This would make it extremely difficult to manage supplies for the domestic market, not knowing exactly how much imported products will come in for a specific period. An increase in market access would automatically reduce the overall Canadian milk production required to supply the domestic market. Our current limitations on exports make it challenging to dispose of our structural surplus of skim milk solids and any further reduction in exports would worsen the situation.

The structural surplus of skim milk solids has grown beyond our export limits and the industry must find ways to deal with it. Pricing and quota policies at the farm level have been reviewed to remove incentives that lead to a larger structural surplus. In addition, the industry is seeking new domestic uses for skim milk solids.

This increase in structural surplus of skim milk solids has a direct impact on CDC's operations. To keep the supply management system in balance, the CDC must buy this surplus and find outlets for it. To finance these purchases, the CDC borrows money from the Consolidated Revenue Fund, and reimburses it when the product is sold. The interests on such loans are paid collectively by the dairy producers of Canada. Now that the surplus has increased, the CDC needs to increase the amount of money it borrows from the Consolidated Revenue Fund to hold these stocks until they can be sold.

In addition, the industry has tightened the quota policies to curtail the production of skim milk solids for which there is no domestic demand. Therefore, the CDC has increased its normal levels of butter stocks to be able to supply the market should a seasonal shortage of butterfat happen. This also requires the CDC to borrow more money. Interests on these loans are funded by the marketplace and by dairy producers.

Pricing at the farm gate continues to be a contentious issue and the industry needs to examine alternatives beyond 2006 when the CDC reaches its target of including 50 percent of producers in its annual support price consideration.

The increasing complexity of the industry has slowed the decision-making process at the national and pool levels. Getting decisions made on a timely basis will require increased focus.

The internal environment of the Canadian Dairy Commission is also changing. Our workforce is aging and we need to prepare the next generation of specialists and managers. The Commission also wants to put a greater emphasis on governance and this requires that new systems be put in place.

As a result, the CDC has identified six issues to be addressed in the next five years:

- The emphasis on improving the governance of public corporations;
- Our aging workforce;
- The need for better cohesion and more rapid decision-making within the Canadian dairy industry;
- The need for domestic markets for the non-fat milk components and the need to operate the supply management system more tightly;
- The uncertainty regarding the efficiency of tariff walls, depending on the results of the WTO negotiations;
- The need for a new strategy for pricing beyond 2006.

The goals presented in the next section are connected to these issues.

## IV GOALS FOR THE PLANNING PERIOD

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Last February, the CDC undertook a strategic planning exercise in order to better identify the priorities of the next three years. During this exercise, the CDC established a mission statement that reads as follows:

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

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

In the spirit of achieving its mission, the CDC will develop a clear vision for the dairy industry as well as for the organization and communicate this vision to industry stakeholders and CDC employees. The CDC will continue to provide transparent, equitable and impartial advice to stakeholders; administer programs and services with diligence and honesty; encourage an open dialogue between all stakeholders; and ensure equitable representation of stakeholders' interests.

The Strategic Plan also contains the values that the CDC embraces and strives to live by. They are the following:

**INTEGRITY:** CDC employees and Commissioners will accomplish their task with ethics, honesty and fairness. The CDC will honour its commitments.

**LEADERSHIP:** The CDC will communicate its vision for the industry and for the organization. It will exercise good judgment in implementing necessary changes. New ideas will be welcome and the norm will be challenged. Teamwork will be essential. CDC managers and Commissioners will lead by example.

**RESPECT AND DIGNITY:** The skills and contributions of everyone will be acknowledged and recognized. Diversity will be valued. Inappropriate behaviour will not be tolerated by the CDC.

**PROFESSIONALISM:** The CDC will strive for excellence by producing and delivering work that is consistently of high quality and timely. CDC employees and Commissioners will conduct themselves in a professional manner.

Following this, and in line with the analysis of the environment discussed in Section III, the CDC has identified the following goals for the planning period. The first two goals relate to the internal operations of the CDC, while the five others are related to the services provided to dairy industry stakeholders.

## CORPORATE GOALS

### **Goal 1**

**Enhance corporate governance, in line with Treasury Board's Modern Comptrollership guidelines.**

*Performance indicators for 2004-2005*

The CDC will:

- review and update the CDC bylaws
- operationalize and embrace CDC's corporate policy for employment equity, as well as Treasury Board's Values and Ethics Code
- promote CDC values to all CDC employees
- ensure that all Commissioners complete the course on Crown Corporate Governance
- include "improving internal communications" in the objectives of management for 2004-2005
- encourage managers to hold regular staff meetings
- establish a Manager's forum for middle management
- harmonize the processing and the filing of information, both in electronic and printed format
- train staff on their obligations under the *Access to Information Act* and the *Privacy Act*
- run a second round of training for staff concerning our electronic records management system

### **Goal 2**

**Improve the planning of human resources.**

*Performance indicators for 2004-2005*

The CDC will:

- prepare a succession plan
- offer all CDC employees the opportunity to prepare a personalized training plan
- prepare a corporate training plan

## SERVICE GOALS

### **Goal 3**

**Provide leadership to the industry and particularly enhance stakeholder relationships.**

*Performance indicators for 2004-2005*

The CDC will:

- complete the industry visioning initiatives and communicate the results to stakeholders
- provide transparent and impartial advice to stakeholders
- ensure stakeholders interests are heard
- participate in Agriculture and Agri-Food Canada's Dairy Round Table

#### **Goal 4**

##### **Further develop profitable markets for Canadian dairy products.**

###### *Performance indicators for 2004-2005*

The CDC will:

- develop, recommend to Canadian Milk Supply Management Committee (CMSMC) and fund an expanded innovation program for dairy product development and marketing
- explore ways to replace substitutes with dairy ingredients and investigate new markets for solids non fat and provide proposals to CMSMC
- stimulate growth through partnership initiatives
- maximize subsidized exports allowed under the World Trade Organization
- develop policy alternatives to reduce structural surplus

#### **Goal 5**

##### **Provide technical assistance to the Canadian negotiation team and evaluate the potential impact of the agriculture negotiations at the World Trade Organization on the Canadian dairy industry.**

###### *Performance indicators for 2004-2005*

The CDC will:

- monitor negotiations and provide any technical assistance and advice required by the Canadian negotiating team
- evaluate, anticipate and communicate any potential impact on the Canadian dairy industry

#### **Goal 6**

##### **Facilitate effective national milk quota management.**

###### *Performance indicators for 2004-2005*

The CDC will:

- provide various quota management analyses and recommendations to the CMSMC
- assist in the implementation and the administration of the chosen system

#### **Goal 7**

##### **Review farm gate pricing beyond 2006.**

###### *Performance indicators for 2004-2005*

The CDC will:

- hold consultations on farm gate pricing beyond 2006 and its dependency on CDC support prices

## V FINANCIAL INFORMATION

for the dairy years ending July 31, 2003 to 2009

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### ***Major assumptions used in the preparation of the budget and forecast***

Figures for 2002-2003 and 2003-2004 are actual figures. For the subsequent years, 2004-2005 through to 2008-2009, figures are projected.

For the dairy year 2003-2004, Canadian requirements were up by 0.2 percent from the previous year, namely from 48.9 to 49.0 million hectolitres. We estimate that the Canadian requirements will remain fairly stable in 2004-2005.

Beyond 2005, it is difficult to quantify all the variables and forecast potential developments, due to the possible changes within the dairy industry. A tighter milk supply system was implemented to deliver as precisely as possible the required milk to satisfy Canadian Requirements. The challenge is to avoid a build-up of stocks of butter while at the same time preventing shortages. However, it is not unreasonable, given all the correct economic intelligence, to assume a slow decline in requirements for 2005-2006 through to 2008-2009.

### **Sensitivity of the projections to assumptions**

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

CANADIAN DAIRY COMMISSION  
MARKETING OPERATIONS STATEMENT and BUDGET  
for the DAIRY YEARS ending JULY 31, 2003 - 2009

(in thousands of dollars)

	Actual		Budget	Forecast	Budget				
	Budget	Audited			2003-04	2004-05	2005-06	2006-07	2007-08
	2002-03		2003-04						
Sales	\$ 261,928	\$ 231,319	\$ 183,820	\$ 172,042	\$ 225,201	\$ 238,025	\$ 243,104	\$ 245,547	\$ 247,991
Cost of sales	253,622	212,038	178,522	167,171	218,502	231,243	236,325	238,768	241,212
Margin (loss) on sales	8,306	19,281	5,298	4,871	6,699	6,782	6,779	6,779	6,779
<b>Operating expenses</b>									
Dairy product assistance - Domestic	300	258	300	357	300	300	300	300	300
Carrying charges	6,160	2,911	5,268	4,769	4,488	4,206	4,157	4,099	4,113
Promotional and program activities		461	918	2,520	6,815	6,524	6,415	6,415	6,415
Administrative expenses - marketing activities	3,555	3,126	3,251	3,137	3,572	3,708	3,837	3,969	4,104
Total operating expenses	10,015	6,756	9,737	10,783	15,175	14,738	14,709	14,783	14,932
Net loss (gain) before funding	1,709	-12,525	4,439	5,912	8,476	7,956	7,930	8,004	8,153
Producer and marketplace funding	7,349	7,030	6,927	7,185	6,415	6,720	8,297	8,389	8,514
Net results of operations	5,640	19,555	2,488	1,273	-2,061	-1,236	367	385	361
Surplus beginning of year	15,132	15,132	32,440	32,440	21,405	19,344	18,108	16,735	15,573
	20,772	34,687	34,928	33,713	19,344	18,108	18,475	17,120	15,934
Refund of surplus	2,247	2,247	12,308	12,308			1,740	1,547	1,583
Surplus end of year (1) (2)	\$ 18,525	\$ 32,440	\$ 22,620	\$ 21,405	\$ 19,344	\$ 18,108	\$ 16,735	\$ 15,573	\$ 14,351

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

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

(1) Surpluses at year end are carried forward and applied against future funding of their respective operations or refunded to producers where applicable.

(2) Discussions are underway concerning promotion activities that could substantially reduce the surpluses in the 2004-2005 through to 2008-2009 dairy years.



CANADIAN DAIRY COMMISSION  
 STATEMENT OF DAIRY SUPPORT PROGRAM AND COSTS  
 FINANCED BY THE GOVERNMENT OF CANADA  
 for the DAIRY YEARS ending JULY 31, 2003 - 2009

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(in thousands of dollars)

	Actual		Budget				
	Audited	Forecast	2004-05	2005-06	2006-07	2007-08	2008-09
	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Administrative expenses	\$ 3,599	\$ 3,172	\$ 3,211	\$ 3,200	\$ 3,200	\$ 3,200	\$ 3,200
Dairy studies	300	343	300	300	300	300	300
Total costs financed by the Government of Canada	<u>\$ 3,899</u>	<u>\$ 3,515</u>	<u>\$ 3,511</u>	<u>\$ 3,500</u>	<u>\$ 3,500</u>	<u>\$ 3,500</u>	<u>\$ 3,500</u>

**Notes:**

The budget is based on the reference level of the fiscal year, adjusted where necessary to reflect the difference between the dairy year and the government fiscal year.

CANADIAN DAIRY COMMISSION  
 STATEMENT OF DAIRY SUPPORT PROGRAM AND COSTS  
 FINANCED BY THE GOVERNMENT OF CANADA  
 for the FISCAL YEARS ending MARCH 31, 2003 - 2009

(in thousands of dollars)

	Actual	Actual	Budget				
	Audited		2004-05	2005-06	2006-07	2007-08	2008-09
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Administrative expenses	\$ 3,135	\$ 3,219	\$ 3,211	\$ 3,200	\$ 3,200	\$ 3,200	\$ 3,200
Dairy studies	300	300	343	300	300	300	300
Total costs financed by the Government of Canada	<u>\$ 3,435</u>	<u>\$ 3,519</u>	<u>\$ 3,554</u>	<u>\$ 3,500</u>	<u>\$ 3,500</u>	<u>\$ 3,500</u>	<u>\$ 3,500</u>

**Notes:**

Effective April 1, 1989, the Canadian Dairy Commission has been person-year decontrolled. In the foreseeable future the Commission will maintain its staff of 62 employees and three Commissioners.

**CANADIAN DAIRY COMMISSION  
BORROWING PLAN**  
for the DAIRY YEARS ending JULY 31, 2003 - 2009

(in thousands of dollars)

**Consolidated  
Revenue Fund**

Loan transactions	Actual	Forecast	Projected				
	Audited		2003-04	2004-05	2005-06	2006-07	2007-08
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Balance at beginning of year	\$ 81,411	\$ 28,702	\$ 98,337	\$ 102,949	\$ 108,020	\$ 111,064	\$ 113,830
Drawings	78,710	161,234	136,534	130,000	130,000	130,000	130,000
Repayments	-131,419	-91,599	-131,922	-124,929	-126,956	-127,234	-127,177
Balance at end of year	\$ <u>28,702</u>	\$ <u>98,337</u>	\$ <u>102,949</u>	\$ <u>108,020</u>	\$ <u>111,064</u>	\$ <u>113,830</u>	\$ <u>116,653</u>

Highest level during year:

Month	August	July	June	June	June	June	June
Amount	\$81M	\$100M	\$110M	\$114M	\$116M	\$118M	\$120M

**Member of Canadian Payments Association**

Loan transactions	Actual	Forecast	Projected				
	2002-03		2003-04	2004-05	2005-06	2006-07	2007-08
Balance at beginning of year	\$ -	\$ 734	\$ 1,422	\$ 650	\$ 650	\$ 650	\$ 650
Drawings	8,967	29,192	10,000	10,000	10,000	10,000	10,000
Repayments	-8,233	-28,504	-10,772	-10,000	-10,000	-10,000	-10,000
Balance at end of year	\$ <u>734</u>	\$ <u>1,422</u>	\$ <u>650</u>	\$ <u>650</u>	\$ <u>650</u>	\$ <u>650</u>	\$ <u>650</u>

**Authority:** Under the authority of the Canadian Dairy Commission Act, the Commission may borrow money from the Government of Canada out of the Consolidated Revenue Fund. The Commission has established a line of credit with a member of the Canadian Payments Association. Borrowings from the Minister of Finance by the Commission will not exceed \$120 million outstanding at any time. Borrowings from a member of the Canadian Payments Association by the Commission will not exceed \$50 million outstanding at any time.

**Reason for borrowing:**

These loans are required so that the Commission may fulfill its role which is to purchase any dairy product and sell, or otherwise dispose of, any dairy product purchased by it; and package, process, store, ship, insure, import or export any dairy product purchased by it. The line of credit is necessary to provide bridge financing and ensure efficient operation of the pooling of market returns system established among the provinces.

CANADIAN DAIRY COMMISSION  
CAPITAL BUDGET  
for the DAIRY YEARS ending JULY 31, 2003 - 2009

(in thousands of dollars)

	Actual	Forecast	Budget				
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Major capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Minor capital *	<u>161</u>	<u>190</u>	<u>190</u>	<u>190</u>	<u>190</u>	<u>190</u>	<u>190</u>
Total capital budget	<u>\$ 161</u>	<u>\$ 190</u>	<u>\$ 190</u>	<u>\$ 190</u>	<u>\$ 190</u>	<u>\$ 190</u>	<u>\$ 190</u>

\*Minor capital expenditures are mainly for the planned replacement of information systems hardware, communications systems and software upgrades.

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

# APPENDIX A

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## GLOSSARY OF DAIRY TERMS

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

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

### **Canadian Requirements**

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

### **Dairy Producers**

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

### **Dairy Year**

The major elements of the supply management system in place for the Canadian dairy sector operate on a dairy rather than a calendar or fiscal year basis. Established to co-ordinate the natural patterns of milk production with market requirements, the dairy year goes from August 1 to July 31.

### **Domestic Requirements**

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

### **Further Processors**

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

### **Industrial Milk**

Milk sold for processing into such dairy products as butter, cheese, ice cream or yogurt.

### **Market Sharing Quota (MSQ)**

The MSQ is the national production target for industrial milk. This target is constantly monitored and adjusted when necessary to reflect changes in the domestic demand for industrial milk products, as measured in terms of butterfat, as well as changes in planned export activity plus a buffer (called the sleeve) to minimize the possibility of shortages on the domestic market. The CMSMC applies the terms of the National Milk Marketing Plan to establish the provincial shares of the MSQ. Each province allocates its share of the MSQ to its respective producers according to its own policies.

### **Milk Class**

All milk in Canada is classified according to its use (for example, fluid, cheese, butter, etc.). The price paid to the producer for the milk depends on the class. Such a classification system is not related to quality.

### **National Milk Marketing Plan**

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

**Processors**

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

**Supply Management**

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

**Structural Surplus**

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

**Support Prices**

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

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