



Canadian Dairy
Commission

Commission
canadienne du lait

CORPORATE PLAN SUMMARY FOR 2015-2016 TO 2019-2020

OPERATING AND CAPITAL BUDGETS
FOR THE DAIRY YEAR ENDING JULY 31, 2016

Corporate Plan dated March 1, 2015

DM319022

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EXECUTIVE SUMMARY

The Canadian dairy industry includes close to 12,000 farms and 465 milk processing plants. Canada produces almost 78 million hectolitres of milk per year, essentially for the domestic market. Dairy farms have revenues of \$5.9 billion. The processing industry ships \$16.4 billion in products and employs about 24,700 people¹. The consumption patterns have changed in the last 20 years. Canadians drink less fluid milk and eat less ice cream, but they consume more cream, yogurt, butter and cheeses. This trend translates into an average market growth of slightly over 1% per year.

The Canadian Dairy Commission (CDC) is a Crown Corporation of 60 employees. The CDC operates the elements of the milk supply management system that are under its authority pursuant to the *Canadian Dairy Commission Act* and federal-provincial agreements. It sets support prices for butter and skim milk powder, which are used as reference levels for the establishment of the price producers get for their milk. It ensures that milk production meets demand. The CDC is also a facilitator and a stakeholder in decision-making bodies that establish policies for the marketing of milk and dairy products. In addition, the CDC administers several programs that are part of the Canadian milk supply management system, as well as programs that have been put in place by the industry. It operates on a dairy year basis that starts August 1 and ends July 31.

As of March 1, 2015, the CDC is expecting to reach almost all of the objectives set for 2014-2015. Largely through existing programs, it continues to encourage the Canadian dairy industry to grow the market and innovate. The Canadian dairy industry needs to adapt and continue to grow in the coming years to remain profitable and become more cost-efficient, resulting in a continuous supply of dairy products and relatively steady prices for consumers.

The CDC has held its first annual staff satisfaction survey. This survey will be repeated at least twice to measure progress in employee satisfaction and engagement. The results of the 2014 Public Service Employee Survey, which were in general quite positive, will also be used in that regard.

The CDC will continue to support the industry as it adapts to the changing markets. In the next five years, the strategic themes in which the CDC will be involved are as follows:

- Growing markets
- An industry that adapts
- A well-administered supply management system
- A well-managed CDC

The CDC borrows money from both the Consolidated Revenue Fund (CRF) and from a credit line and interest rates are expected to increase slightly over the planning period. This will increase interest expenses but these are paid by either dairy farmers or the marketplace, depending on the program for which borrowings are made. This minimal increase in interest rates is therefore not expected to have an impact on the CDC financial results.

The CDC plans no large capital projects during the planning period nor does it anticipate the creation of new programs or major changes to its current programs that would require additional funding.

¹ Data in this paragraph are for 2013.

CORPORATE PROFILE

CDC AT A GLANCE

Created in 1966

60 employees as of March 1, 2015

Administrative budget for 2015-2016 (dairy year): \$7.77 million

Dairy year: August 1 to July 31

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

MISSION

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

CORPORATE MANDATE

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

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

PUBLIC POLICY

The CDC is both a facilitator and a stakeholder in the various forums that influence dairy policy in Canada. These forums include policy-making committees created by federal-provincial agreements (one national and two regional) that allow the pooling of milk revenues and the sharing of markets between milk producers. The CDC chairs these committees and provides technical expertise, logistical support and secretariat services. Through its presence and roles on these committees, the CDC provides analyses and recommendations and is in a position to influence most of the national and regional dairy policy decisions that are made. In these forums, the CDC represents the federal government and works with provincial governments, provincial milk marketing boards, and dairy industry stakeholder organizations representing dairy producers², processors, further processors and consumers.

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

² Underlined words and phrases are defined in Appendix A

The two regional committees are the P5 Supervisory Body, which administers the Agreement on the Eastern Canadian Milk Pooling, and the Western Milk Pool Coordinating Committee, administering the Western Milk Pooling Agreement. These regional agreements allow for the pooling of milk revenues and markets among producers of participating provinces.

MAIN ACTIVITIES

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

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

Once a year, the CDC sets the support price of butter and skim milk powder following consultations with industry stakeholders and using the results of an annual study on the cost of producing milk in Canada. These prices are used as a reference by the provincial milk marketing boards to establish the farm gate price of industrial milk in each province. The CDC can thus ensure that Canadian dairy farmers receive sufficient revenues from the marketplace to be appropriately compensated for their labour and investment, as its mandate requires.

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

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

The CDC operates certain programs³ for the benefit of the entire supply chain. The table below summarizes these programs.

Table 1. Programs administered by the Canadian Dairy Commission

Program Name	Objective	Target Audience
Domestic Seasonality Programs	To ensure a steady supply of dairy products all year long despite the seasonality of consumption. The CDC buys and stores butter and skim milk powder during periods of lower consumption (January to September) and typically sells these products back into the market when consumption rises (October to December).	Consumers
Surplus Removal Program	To remove surplus dairy products from the Canadian market in a timely manner. Surpluses are either	Dairy industry

³ CDC programs are further described in its Annual Report http://www.cdc-ccl.gc.ca/CDC/userfiles/file/CDC_AR_web_2014_en.pdf

	exported, within Canada's commitments to the WTO, or sold on less lucrative markets such as animal feed.	
Special Milk Class Permit Program (SMCPP)	To give further processors access to dairy products at competitive prices for use in further processing.	Further processors
Mozzarella for fresh pizzas	To provide fresh pizza restaurants access to mozzarella cheese at discounted prices.	Pizza restaurants
Dairy Innovation Program	To give processors access to extra milk so that they can develop new dairy products.	Dairy processors
Skim Milk Redirection Program	To redirect skim milk from the skim milk powder market to growing markets such as yogurt.	Manufacturers
Planned Export Program for Cheese	To develop long term export markets for Canadian cheeses.	Exporters
Dairy Marketing Program (including the Matching Investment Fund)	To encourage the use of dairy ingredients in food products.	Food processors
CDC Scholarship program	To encourage graduate studies in the fields of animal science, dairy science and policy and economics as they relate to dairy.	Graduate students

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

The CDC also controls the subsidized exports of Canadian dairy products through the issuance of export permits. These permits have been put in place to ensure that Canadian exports of dairy products do not exceed the limits established for Canada at the WTO for subsidized exports.

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

The roles that the CDC assumes for the dairy industry align with AAFC's strategic priorities as outlined in the five-year Growing Forward 2 (GF2) agriculture policy framework, which the CDC supports. GF2, which came into effect on April 1, 2013⁴, focuses on strategic initiatives in innovation, competitiveness and market development to further strengthen the sector's capacity to grow and prosper. Several CDC-administered programs align with these priorities. Programs such as the Matching Investment Fund and the Dairy Innovation Program are good examples. In addition, in January 2014, the CMSMC, on the recommendation of the CDC, approved the implementation of the Planned Export Program for Cheese. Through this program, the CDC was able to increase Canadian exports of cheese while respecting limit imposed by the WTO Agreement on Agriculture for both dairy years 2014-2015 and 2015-2016.

Furthermore, the supply management system, and particularly the three milk pools that currently exist, is a great risk management tool for Canadian dairy farms. Whereas market growth is shared among many producers during good times, during bad times, any shrinkage of the market is shared among many producers. This reduces the impact that a plant closure, for example, can have on local farms or a small province. As revenues are also pooled among producers, the effect of a change in the use of milk in one province, from a profitable class⁵ to a less lucrative class,

⁴ This 5-year initiative will end in 2018.

⁵ In Canada, producers receive a different price for their milk, depending on its use. The classification of milk is therefore based on use. A description of milk classes can be found at: <http://www.cdc-ccl.gc.ca/CDC/index-eng.php?id=3811>

will also be distributed over many farms, thereby reducing its impact on individual farms. Furthermore, price setting, production management and predictable imports provide stability in the domestic market and reduce risks for both farmers and processors.

OFFICIAL LANGUAGES

The *Official Languages Act* applies to the CDC. Since its offices are in the National Capital Region, 97% of its positions are bilingual. The CDC also adheres to the various policies related to official languages. It is proud to serve its clients and the general public in both official languages and to promote the use of both official languages in the workplace.

GOVERNANCE

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

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

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

The CDC reports on its board's specific activities in its Annual Report⁶. These board activities include the annual public meeting of the CDC, as well as the review and adoption of the Corporate Plan, the Annual Report, the financial statements, and the Corporate Risk Profile.

The governing board of the CDC is composed of the Chairperson, the CEO and the Commissioner⁷. The Chairperson heads the board and is also the main contact between the Minister and the CDC. The CEO is responsible for the daily operation of the CDC and is the main contact with stakeholders. The Commissioner supports both the Chairperson and the CEO in their functions and chairs the CDC Audit Committee. The members of the board have many years of dairy industry experience and their backgrounds in milk production and processing contribute to bringing a balanced approach to the often divergent objectives of the stakeholders. All positions are part-time and are filled by appointment of the Governor in Council. The Chairperson and the Commissioner are paid a yearly retainer and a per diem whereas the CEO is paid a per diem. Amounts are set by the Governor in Council. All board members are subject to the *Conflict of Interest Act*.

As of March 1, 2015, the board is composed of the following three members:

Randy Williamson, Chairman (third mandate ends July 2015)

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.

⁶ 2013-2014 Annual Report: http://www.cdc-ccl.gc.ca/CDC/userfiles/file/CDC_AR_web_2014_en.pdf

⁷ The mandate, roles, responsibilities and competencies of the board and a list of the Board's committees can be found in Appendix C. The Board's bylaws are available at <http://www.cdc-ccl.gc.ca/CDC/userfiles/file/Rules%20of%20governance%202014.pdf>

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).

Mr. Williamson will not seek another mandate after July 2015. His successor will be appointed by the Governor in Council.

Henricus (Hennie) Bos, Commissioner (first mandate ends September 2016)

Mr. Bos graduated with a B. Sc. in Dairy Science in 1974 in the Netherlands. Before moving to Canada, he took on various governance roles in the Netherlands dairy industry, while at the same time owning and operating a dairy farm. Mr. Bos immigrated to Lacombe, Alberta in 1994, where he and his family established a successful dairy farm and in 1996, founded their natural yogurt business. He now has over 30 years of experience in leadership capacities in dairy organizations.

Mr. Bos served on the Alberta milk marketing board between 2002 and 2013, where he became Vice-Chairman in 2008 and Chairman from 2009 to 2013. From 2007 to 2013, he also served as Alberta's representative on the Dairy Farmers of Canada board, where he took an active role on various committees. Between 1998 and 2002, Mr. Bos also served as a board member with organizations such as the Central Alberta Holstein Club and the Alberta Milk Producer Association.

Jacques Laforge, CEO (second mandate ends February 2018)

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

STRATEGIC ISSUES FOR THE PLANNING PERIOD

As of March 1, 2015, the CDC expects to achieve almost all of its objectives for 2014-2015. A discussion of what objectives were achieved, which were not and why is presented in the next section (Assessment of results for 2014-2015). The CDC continues to encourage the industry to review and improve the various aspects of milk supply management such as quota calculation and milk allocation to processing plants. The capacity of the system to supply milk to growing markets has received particular emphasis because demand for dairy products continued to grow whereas milk production was in a downward trend. The CDC also continues to improve the efficiency of its operations and follow good governance practices.

In 2014-2015, the areas of activity of the CDC were separated into four strategic themes: 1) Growing markets, 2) An industry that adapts, 3) A well-administered supply management system, and 4) A well-managed CDC. A set of five-year goals⁸ were developed under each of these themes and annual activities were planned for each of these goals. These goals fell into two of the 16 outcome areas of the government of Canada: strong economic growth and a fair and secure marketplace.

⁸ These goals are not expected to change in the next 5 years.

ASSESSMENT OF RESULTS FOR 2014-2015

Following are highlights in each strategic theme for 2014-2015. A complete performance report will be presented in the 2014-2015 CDC Annual Report which will be tabled in Parliament.

Growing markets

To encourage growth of dairy markets in Canada, the CDC has performed a review of milk class 3(d) and suggested that the class be expanded to cover all uses of standardized mozzarella cheese. Class 3(d) covers only mozzarella used on fresh pizzas. The CDC proposed that it cover all mozzarella used by restaurants, in any menu item, as well as the retail market. Given that the farmers get less money for the milk used to make the mozzarella in class 3(d), some provincial marketing boards voted against this change. To increase the mozzarella market, the CDC intends to continue to encourage the industry in that direction during the rest of the dairy year. As of March 1, 2015, over 6,700 restaurants have registered in the program and annual sales of mozzarella cheese amount to 32,760 tonnes. The CDC board has extended the funding of the Dairy Marketing Program until July 2016. Seventeen innovative dairy products have been approved under the Dairy Innovation Program and the manufacturers will receive the milk they need to develop new products. The various programs that the CDC operates to encourage innovation have been promoted to potential participants at the Canadian Institute of Food Science Technology Suppliers' Night and at the Restaurant Canada trade show. In addition, the Planned Export Program for Cheese will ensure that at least 3,000 tonnes of cheese are exported during the 2015-2016 dairy year.

An industry that adapts

To explore export markets for Canadian dairy ingredients, the CDC started to build contacts between foreign and Canadian companies with the help of a consultant. So far in 2014-2015, CDC representatives have been to Asia three times to visit companies and the CDC has hosted three delegations of companies. The goal of establishing these contacts is to arrive at private investments from Canadian or foreign enterprises to grow markets both in Canada and abroad and perhaps eliminate the Canadian structural surplus of milk. This work will continue in 2015-2016.

A well-administered supply management system

To provide for a well-administered supply management system, the CDC announced an adjustment to the support prices as of March 1, 2015. The support prices of butter and skim milk powder (SMP) are used as references by provincial milk marketing boards to set the farm price of milk that is used to make dairy products such as butter, cheese, ice cream, etc. For the first time since 1993, the CDC announced a reduction in the support price of SMP. This reduction was warranted given the significant decrease in the cost of producing milk, as confirmed by the CDC's annual survey on cost of production. The support price of SMP will be reduced from \$6.4754 to \$6.3109 per kg. This represents approximately a 1.8% decrease in producer revenues from industrial milk. This reduction in revenue per unit produced should not impact the profitability of farms due to a growing market and reduced costs. Audit activities are on track. CDC butter stocks are low because they have been used to fill market demand for butter while milk production was ramping up. However, stocks held by private companies are adequate so no market shortage is forecasted. To boost milk production and rebuild butter inventories, the CMSMC decided to increase the growth allowance from 1 to 2% effective February 1, 2015. This increased production to cover butterfat demand will create larger surpluses of solids non fat. For that reason, at the beginning of 2014-2015, the target for CDC skim milk powder stocks at year-end was increased from 11,000 t to 14,300 t. As explained later, year-end stocks will exceed this target because of increases in milk production to fill demand for butterfat.

A well-managed CDC

To adapt and remain a high-performing organization, the CDC conducted its first annual staff satisfaction survey in the spring of 2014. This survey will be repeated at least twice to measure progress in addressing the issues identified in the survey results. The survey highlighted strengths in the areas of interpersonal relations and engagement, as well as training and development, and weaknesses mostly in terms of workload and career advancement. In the case of career advancement, the CDC changed its recruiting strategies to recruit within its ranks as much as possible and several employees benefited from this change. Consequently, results of the 2014 Public Service Employee Survey showed an improved level of satisfaction in that regard compared to 2011. To improve its efficiency, the CDC

completed a web-based application to allow participants in the Special Milk Class Permit Program to see and enter their own data and also started the development of another program that will facilitate most of the critical calculations that the CDC does to administer the milk supply management system. As of March 1, 2015, more than half of the Special Class participants (processors, further processors and distributors) have registered into the new system. This has allowed the CDC to take on the administration of the program for mozzarella cheese implemented in June 2013, which has more than 6,000 participating restaurants, without hiring more staff. Furthermore, the Audit and Evaluation team has started working with Teammate™ to render the audits paperless and better coordinated.

Routine activities such as audits, pooling calculations, exports, imports, and setting quota are progressing as per the CDC Strategic Plan.

EXTERNAL ENVIRONMENT

Trends in the Dairy Industry

In the last five years, Canada lost 1,252 dairy farms, a 9% reduction⁹, an attrition rate that is not very different from rates in non supply-managed commodities, or in US or European dairy farms¹⁰. This trend is expected to continue over the planning period. As a result, the remaining farms produce more milk and generate more revenues per farm. To reduce the cost of managing the supply management system, which is largely borne by producers, provincial marketing boards are trying to share resources and harmonize policies. In the coming years, the CDC's expertise will continue to be required to provide facilitation and technical expertise during interprovincial harmonization, which can be long processes because of diverging provincial interests and priorities.

In the 2013-2014 dairy year, milk production continued to decrease during the first part of the year but started to increase again at the end of the year. This growth was sparked by several quota increases issued to producers following a growth in demand for dairy products in Canada. As the production decreased and sales of SMP in the animal feed sector increased, CDC year-end stocks of skim powder in Class 4(m) (animal feed) went from 20,700 t to 12,300 t at the end of 2013-2014, lower than the estimated target of 14,000 t. However, year-end stocks in 2014-2015 are expected to be 27,000 t, much higher than the target of 14,300 t. Many factors explain this increase. In the fall of 2014, the world market was flooded with SMP due to increased production in Europe, the US and New Zealand. The Russian embargo on European dairy products, and large inventories of SMP in China made the situation worse. This excess production, coupled with reduced demand, caused the world prices to drop by half. Despite these very low prices, there was little appetite on the part of buyers in the market. Prices are not expected to rise much in the coming few months; milk quota is set to disappear in Europe as of April 1, 2015 and several important milk producing countries (France, Germany, the Netherlands, Ireland) have increased their production in anticipation of this deadline. Low world prices mean that Canada will export relatively small quantities of SMP while respecting its WTO commitments related to subsidized exports. At the same time, Canada's milk production is increasing to supply demand and rebuild butter stocks, requiring an increase in the surplus removal of solids non fat. In comparison, 2013-2014 was exactly the opposite, with high world prices and low Canadian milk production. The increase in stocks therefore looks even more drastic. The CDC continues to work with the industry to create markets for solids non fat. This is partly done through existing means, such as the Dairy Marketing Program and the Dairy Innovation Program, but also through market development initiatives.

⁹ Despite having fewer farms, Canada produces 5% more milk than 5 years ago to respond to domestic demand.

¹⁰ US dairy farms declined 6% between 2007 and 2012 (<http://www.ers.usda.gov/amber-waves/2014-december/milk-production-continues-shifting-to-large-scale-farms.aspx#.VMkFoZ2EhD8>); EU27 dairy farms declined by 11% between 2011 and 2013 (International Dairy Federation); overall farms in Canada declined by 10% between 2006 and 2011 (Statistics Canada)

Table 2. Number of farms and production of milk per province in 2013-2014

Province	Number of farms on August 1, 2014		Milk production	
			M kg of butterfat	%
Newfoundland and Labrador	32	0.3	1.95	0.6
Prince Edward Island	180	1.5	4.03	1.3
Nova Scotia	229	1.9	6.86	2.2
New Brunswick	206	1.7	5.34	1.7
Quebec	5,894	49.3	118.97	37.9
Ontario	3,926	32.8	102.54	32.7
Manitoba	308	2.6	12.54	4.0
Saskatchewan	166	1.1	9.19	2.9
Alberta	566	4.7	25.91	8.3
British Columbia	455	3.8	26.34	8.4
Canada	11,962	100.0	313.67	100.0

Over the last 20 years, Canadian consumers started consuming less fluid milk, butter and ice cream but increased their per capita consumption of cream, specialty cheeses and yogurt¹¹. Manufacturers have responded to these trends by offering more diversity in products. Canada now produces over 1,050 cheeses, most of which are made with cow milk. Innovation programs administered by the CDC have certainly been a factor in the development of some of these new products. For example, since August 2010, 71 projects under the Domestic Dairy Innovation Program¹² to create new cheeses, yogurt products and other dairy products used 132.8 million litres of milk. The Matching Investment Fund, launched in 2009, has financed 24 innovation projects that have received a total of \$758,000. Cheese, skim milk powder, and fluid milk are the main ingredients involved in these projects for the development or reformulation of dairy desserts, novelty ice cream, and cheese-based and nutraceutical¹³ products. The CDC expects that over the next five years, overall domestic consumption of dairy products will continue to grow at an average pace of 2% per year.

Through the issuance of a permanent growth allowance of 1% added to the industrial milk quota in 2012, the milk supply system was made more flexible as there was more milk to supply domestic market growth. The milk produced with this extra quota was directed in priority to growing markets such as yogurt and fine cheeses. At its January 2015 meeting, the CMSMC decided to increase this growth allowance to 2% for a two-year period starting February 1, 2015. This should ensure that growing markets are never short of milk.

On the international trade policy front, the agriculture negotiations at the WTO have not moved forward much in the 2014-2015 dairy year. The CDC is preparing for a possible elimination of subsidized exports of dairy products¹⁴ once a formal agreement is reached. WTO members had agreed to this elimination but it was never implemented. Canada and the European Union reached an agreement in September 2014 towards a Comprehensive Economic and Trade Agreement (CETA). When fully implemented, this agreement will increase the EU access to the Canadian cheese market by 17,700 tonnes and will also give Canada duty-free access to the EU dairy markets.

¹¹ Source: www.dairyinfo.gc.ca

¹² Replaced by the Dairy Innovation Program on August 1, 2013. Program parameters are essentially the same.

¹³ Nutraceutical refers to foods thought to have a beneficial effect on human health. The classic example is yogurt with probiotic. Some specific milk proteins could also have benefits but more research is needed.

¹⁴ Canada's exports of dairy products are considered subsidized by the WTO because the milk to manufacture those exports is paid at a price that is inferior to the price paid for the milk used to make dairy products that are consumed in Canada. The export subsidy is calculated as the difference between world prices and domestic prices.

Financial Trends

Interest rates have been low for several years and in January 2015, the Bank of Canada reduced its target by an additional one quarter of one percentage point to 0.75%. The CDC expects to see interest rates rise during the planning period, but only slightly. Given that the CDC borrows money from the Consolidated Revenue Fund and from a line of credit, an increase in interest rates has an impact on the transactions of the CDC. However, CDC's borrowings are used for programs that the CDC administers on behalf of the dairy industry. This means that interest fees are paid by either dairy producers or the marketplace, depending on the program. Therefore, increases in interest rates will have no impact on the financial situation of the CDC.

The world prices of dairy products remain extremely volatile. World prices for SMP fell by 50% between January 2014 and January 2015. This volatility affects CDC revenues from the sale of SMP destined for the export and animal feed markets. Setting the purchase price for these products to allow CDC to break even at the time of their resale becomes difficult. Close monitoring of world prices, of milk production in the various areas of the world, of the geopolitical landscape, and of demand in emerging economies allows the CDC to fine-tune its determination of purchase prices.

Current world prices for dairy products are quite low. This means that the CDC can export smaller quantities of SMP while respecting Canada's export subsidy limits, making it more difficult for CDC to reduce its inventories of SMP. On the other hand, low world prices for butter favour the mandatory imports of butter that the CDC handles.

CORPORATE RESOURCES

Financial Resources

The CDC has four sources of revenues: appropriations, its commercial operations, funds from milk producers for programs administered on their behalf, and funds from the marketplace for the storage of butter. The marketplace contribution is added to the price of milk that is used to manufacture dairy products. It is collected by milk marketing boards when invoicing processors. Processors pass on this charge to consumers through the price of dairy products. The CDC collects this contribution monthly, as well as the producer contribution, when it manages the money transfers between provinces for the purpose of pooling producer revenues among the 10 provinces.

This dairy year, the CDC expects to sell approximately \$247 million in dairy products on the domestic and international markets. Its most important expense is the purchase of dairy products on the domestic and international markets. The CDC also pays carrying charges for its inventories. These include storage, insurance, transportation and interest charges.

Programs that the CDC operates on behalf of the industry are financed by producers and the marketplace. Two of these are the Domestic Seasonality Program and the Surplus Removal Program. The operation of these programs uses borrowings from the Consolidated Revenue Fund and borrowing costs are covered by dairy producers and the marketplace. These loans are repaid within their terms and conditions.

In order to perform the pooling of revenues on behalf of the dairy industry, the CDC maintains a line of credit with a member of the Canadian Payments Association. As established in the *CDC Act*, the CDC recovers all expenses related to the administration of the pools from those pools.

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

As announced in the 2013 Speech from the Throne, the government has implemented a two-year operating budget freeze beginning in fiscal year 2014-2015. As our appropriations will not be adjusted to compensate for wage and

salary increases during that freeze period, the CDC will continue to find ways to improve the efficiency of its internal operations and administration.

Human Resources

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

The CDC's employees are knowledgeable and experienced within their respective fields. They are definitely one of the CDC's biggest strengths. Because the CDC staff is involved in various industry committees and discussions, the CDC is well aware of industry issues. The CDC invests in training to ensure that employees succeed at meeting CDC's goals and to remain competitive with the private sector in attracting competent staff. For the upcoming year, the CDC will allocate the equivalent of 1.25% of its payroll expenses to training and professional development. It also has a training policy that supports staff in earning a university degree or a professional designation while continuing their work.

During the last 18 months, the CDC has had several opportunities to get feedback from its staff on their level of engagement and any issues related to the work environment. Through Blueprint 2020 consultations, staff identified issues under 5 themes: work flexibility and accommodation, job opportunities and career advancement, IT resources, communications, and improving the CDC. Comments also revealed that employees appreciate the nimbleness and agility that are made possible by the small size of the organization. They also enjoy the training opportunities offered by the CDC. Following some very specific comments, the CDC changed the tools it uses to communicate with employees and the industry, confirmed its policy on working from home, prioritized its IT projects, and involved employees in the strategic planning process.

Employee mobility will remain a challenge mostly because the CDC is not under the *Public Service Employment Act* and therefore, many of the positions advertised in other government organizations are not open to CDC employees. Furthermore, CDC employees cannot be deployed to the core public service. However, the CDC is trying to modify its structure to create internal career advancement paths.

The CDC held its first annual employee satisfaction survey in the spring of 2014 and results were presented to staff in June. This survey points to strengths and weaknesses similar to those identified by the Blueprint 2020 consultation exercise. It also highlighted the difficulties that the staff encountered in 2014 because of a relatively large number of vacant positions¹⁵ and a backlog in hiring. In response to this, the CDC increased the resources allocated to staffing as of August 2014 and the situation is now back to normal. The CDC is continuing to work on improving areas under its control. The next survey, scheduled for the spring of 2015, will indicate if the measures taken have been successful.

Eighty seven percent of CDC employees completed the Public Service Employee Survey (PSES) in the fall of 2014. Generally, results are excellent. Compared with the 2011 results, improvements are noticeable in the area of respect, physical environment, promotion opportunities, flexibility and training in the preferred official language of the employee. On the other hand, results are lower than in 2011 in the areas of workload, timeliness of decisions, recourses, recognition and employees' contribution to decisions.

Material Resources

¹⁵ Up to 1 out of 6 positions at one time.

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

The CDC leases office space from AAFC and has signed a lease agreement for the period of April 1, 2012 to March 31, 2017 with the possibility to renew for another 5 year period at rental market value rates established by Treasury Board Policy on Management of Real Property.

OBJECTIVES, STRATEGIES AND PERFORMANCE MEASURES

STRATEGIC THEMES AND STRATEGIES

The CDC uses four strategic themes to present its objectives for the coming period. Five-year goals, as well as objectives related to the dairy industry for the next dairy year are found under the following strategic themes: *Growing Markets*, *An Industry that Adapts* and *A Well-Administered Supply Management System*. Five-year goals were established for dairy year 2014-2015 and they are reviewed annually. Objectives related to internal services, which support the mandate of the CDC, have been grouped together under the strategic theme *A Well-Managed CDC*. Objectives for all strategic themes are detailed under the section of this plan entitled *Objectives and Performance Measures for the Planning Period*.

Objectives and performance indicators will be reviewed every year and are subject to change based on the policy decisions made at the Canadian Milk Supply Management Committee (CMSMC), the conclusions of the current trade negotiations, and the general priorities of the federal government.

Strategic theme: Growing Markets

This strategic theme focusses on domestic markets. The CDC's strategy is twofold: creating an environment that is conducive to market growth and innovation, and promoting the timely supply of milk to growing markets. The CDC already has several programs in place that facilitate innovation and market growth¹⁶. These programs will continue and will be improved if new needs arise.

The CDC will also work with the industry to ensure that growing markets receive the milk that they need to sustain growth. Milk supply to processing plants is controlled by provincial marketing boards but the CDC plays a proactive role in developing milk allocation policies that ensure market development is not hindered by a shortage of milk. Through the Skim Milk Redirection Program, the CDC has tools to redirect skim milk to the plants that can use it if there is a shortage of whole milk.

Strategic theme: An Industry that Adapts

This strategic theme includes two goals: helping the industry adapt to new market conditions and promoting new markets for milk solids non fat, the surplus of which is a burden for the dairy industry as a whole, and for dairy farmers in particular.

¹⁶ Such as the Dairy Innovation Program and the Matching Investment Fund.

To favour the development of new markets for solids non fat in Canada and abroad, the CDC will continue to work on developing partnerships between companies who wish to create value-added products using solids non fat.

Strategic theme: A Well-Administered Supply Management System

Under this strategic theme, the CDC's strategy involves both the day-to-day operation of the milk supply management system, and efforts to simplify the system and make its administration more efficient. The day-to-day administration of the system includes the control of the quantity of milk produced in Canada, the setting of support prices, the operation of programs that prevent shortages and dispose of surpluses, and the administration of federal-provincial and international agreements¹⁷. To improve the efficiency of its import, export, seasonality and surplus removal programs the CDC will perform a business process improvement analysis. The results of this analysis will be used in future years to design an improved, updated and more efficient computer application to automate some of the aspects of the administration of these programs.

Strategic theme: A Well-Managed CDC

The focus of the CDC is to ensure that it has the right number of engaged employees, with the right skill set, and in the right structure to achieve its objectives and fulfil its mandate as efficiently as possible. In light of the increased demands from the dairy industry, the CDC will undertake a review of the current and future workload, then present recommendations to the board.

To maintain employee engagement, the CDC will perform its third annual employee satisfaction survey to evaluate improvements after two years¹⁸. It will also use the results of the 2014 PSES to guide its decisions and actions related to the workplace.

¹⁷ This entails monitoring WTO commitments for dairy products, ensuring Canada is compliant with WTO export subsidy commitments. In addition, the CDC imports the mandatory butter tariff rate quota as approved on an annual basis by the Department of Foreign Affairs, Trade and Development (DFATD).

¹⁸ The first survey took place dairy year 2013-2014 and the second will take place in 2014-2015.

OBJECTIVES AND PERFORMANCE MEASURES FOR THE PLANNING PERIOD

This section of the Plan presents, for each strategic theme, the five-year goals of the CDC, its specific objectives for 2015-2016, and how it will measure its performance.

Strategic theme: Growing Markets

5-year goals	2015-2016 objectives	Performance indicators and target
Create an environment that is conducive to market growth and innovation	Grow the demand for Canadian dairy products	Total quota Target: at least 2% growth
Promote the timely supply of milk to growing markets	Ensure that ample milk supply is available at the right place at the right time	Time to respond to requests for a supply of skim milk to manufacture dairy products, if any Target: 100% within 30 days

Strategic theme: An Industry that Adapts

5-year objective	2015-2016 objectives	Performance indicators and target
Help the Canadian dairy industry adapt to changing market conditions, within the framework of supply management	Make specific proposals or take specific actions to support the industry in addressing changing market conditions	Number of proposals made or specific actions taken Target: at least 3
Create an environment conducive to the development of new markets for solids non fat (SNF)	Ensure that the private sector makes new investment commitments to increase the use of SNF as ingredients in value-added products	Number of private investment commitments Target : at least 3 Forecasted additional use of SNF as ingredient in subsequent dairy years Target: at least 10,000 tonnes of SMP equivalent per year Number of partners identified to develop the East Asian market for existing Canadian dairy product Target: at least 1

Strategic theme: A Well-Administered Supply Management System

5-year objective	2015-2016 objectives	Performance indicators and target
Ensure that efficient producers receive fair returns	Ensure that the increase in overall producer revenues is driven mostly by market growth	Total overall producer revenues per dairy year Target: a 1% increase from the previous dairy year
	Ensure that milk components sold under various programs are used in eligible products	Number of audits <ul style="list-style-type: none"> • Target: 50 audits of participants to the Special Milk Class Permit Program • 750 audits of restaurants participating in Class 3(d)
Ensure that Canadian milk production meets demand.	Send the proper signals to the milk marketing boards to ensure that the supply of milk is sufficient to satisfy demand and replenish butter stocks	Plan A butter stocks Target: No less than 3,000 tonnes on August 1, no less than 1,000 tonnes on January 1 Total quota <i>vs.</i> total demand Target: total quota is between 99.5 and 101% of demand
Ensure the respect of federal-provincial and international agreements.	Improve the tools that the CDC uses to monitor compliance with federal-provincial and international agreements	Number of tools implemented Target: 2
	Administer the federal-provincial pooling agreements (sharing of markets and producer revenues among provinces)	Time to perform pooling calculations Target: monthly, within 3 business days of data reception Time to transfer funds among provinces and send quota figures Target: monthly, within 5 business days of the end of calculations Time to send milk movement figures Target: monthly, before the 10th of each month
	Respect CDC's obligations under the World Trade Organization (WTO) Agreement on Agriculture	Quantities of exports Target: at least 99% of permitted exports of cheese and products containing high quantities of milk solids non fat Quantities of butter imports Target: 3,274 tonnes
Propose and support measures that improve the administration of the supply management system	Initiate a project to develop and implement a software to administer imports, exports, seasonality, and surplus removal programs	Perform a business process improvement analysis (BPIA) of imports, exports, seasonality and surplus removal programs Target: BPIA 100% completed

Strategic theme: A Well-Managed CDC

5-year objective	2015-2016 objectives	Performance indicators and target
The CDC adapts to remain a high-performing organization	Ensure that the CDC has the right workforce to achieve its objectives	<p>Employee satisfaction rate as measured by the annual employee satisfaction survey Target: satisfaction rate of 70%</p> <p>Degree of implementation of HR plan Target: Plan 80% completed</p> <p>Performance management ratings Target: less than 5% of employees require action plans</p> <p>Time to complete staffing actions Target: 90% of positions staffed within 3 months of departure or end of classification process for internal staffing processes</p>

FINANCIAL INFORMATION

SUMMARY

During the period covered by this corporate plan, the structure and standards of the financial statements, as well as the main activities and programs of the CDC, are expected to remain the same. Minor capital expenses are forecasted. The financial statements presented in this Plan are based on the International Financial Reporting Standards (IFRS). Despite an increase in milk production at the end of 2013-2014 and at the beginning of 2014-2015, butter stocks are low because they have been used to supply an increase in demand. Increased production in 2014-2015 will produce more surplus skim milk powder (SMP).

MAJOR ASSUMPTIONS USED IN PREPARING BUDGETS

Foreign exchange rates and interest rates

- The exchange rates used in these budgets are CAD\$1.25 per USD for 2014-2015 and 2015-2016, CAD\$1.15 per USD for 2016-2017 and 2017-2018 and CAD\$1.10 per USD for 2018-2019 through 2019-2020.
- The interest rates used for outstanding loans for 2014-2015 and 2015-2016 are 0.75%, 1.00% for 2016-2017 and 2017-2018, 1.25% for 2018-2019 and 1.50% for 2019-2020
- Interest rates on loans from the member of Canadian Payments Association will remain at prime which is estimated to be 2.85% for 2014-2015 and 2015-2016, 3.00% for 2016-2017 and 2017-2018, 3.25% for 2018-2019 and 3.50% for 2019-2020.

Accounts receivable

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

Accounts payable

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

Sensitivity of the projections to assumptions

Beyond 2015, it is difficult to quantify all the variables and forecast potential developments, due to the possible changes within the dairy industry and the international trade environment. The key factors in the budget presented are total production of industrial milk, domestic demand, support prices and world market conditions for the sales of dairy products. Any significant changes in the assumptions will affect the budgeted results.

CANADIAN DAIRY COMMISSION
STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
for the Dairy Years ended July 31, 2014 - 2020

	(in thousands)							
	Actual Audited	Budget	Forecast	Budget				
	2013-2014	2014-2015	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Sales and Cost of Sales								
Domestic sales revenue	\$ 256,645	\$ 229,772	\$ 211,481	218,631	224,416	218,673	216,889	220,598
Cost of goods sold - domestic	226,539	211,149	182,773	200,589	210,712	208,674	209,107	212,835
Transport and carrying charges	4,255	4,146	4,388	4,795	3,997	3,798	3,608	3,682
Finance costs	757	797	389	594	808	824	1,051	1,285
Gross profit on domestic sales	<u>25,094</u>	<u>13,680</u>	<u>23,931</u>	<u>12,653</u>	<u>8,899</u>	<u>5,377</u>	<u>3,123</u>	<u>2,796</u>
Export sales revenue	92,832	65,900	35,608	40,813	41,281	41,281	39,563	39,563
Cost of goods exported	90,862	64,650	34,413	39,750	40,165	40,175	38,450	38,415
Transport and carrying charges	2,189	1,185	1,106	988	1,007	1,022	1,039	1,056
Finance costs	1	16	7	6	8	8	11	13
Gross profit (loss) on export sales	<u>(220)</u>	<u>49</u>	<u>82</u>	<u>69</u>	<u>101</u>	<u>76</u>	<u>63</u>	<u>79</u>
Total gross profit	<u>24,874</u>	<u>13,729</u>	<u>24,013</u>	<u>12,722</u>	<u>9,000</u>	<u>5,453</u>	<u>3,186</u>	<u>2,875</u>
Other revenues								
Funding from milk pools	5,697	5,831	5,854	6,403	7,714	7,799	8,528	8,631
Funding from the Government of Canada	4,025	3,753	3,857	3,703	3,675	3,675	3,675	3,675
Audit services	155	183	183	183	183	202	202	202
	<u>9,877</u>	<u>9,767</u>	<u>9,894</u>	<u>10,289</u>	<u>11,572</u>	<u>11,676</u>	<u>12,405</u>	<u>12,508</u>
Total	<u>34,751</u>	<u>23,496</u>	<u>33,907</u>	<u>23,011</u>	<u>20,572</u>	<u>17,129</u>	<u>15,591</u>	<u>15,383</u>
Operating Expenses								
Industry initiatives	1,788	546	1,147	1,046	796	646	746	746
Cost of Production study	801	806	805	818	834	851	868	885
Other charges / (recoveries)	294	20	32	32	28	28	28	28
	<u>2,883</u>	<u>1,372</u>	<u>1,984</u>	<u>1,896</u>	<u>1,658</u>	<u>1,525</u>	<u>1,642</u>	<u>1,659</u>
Administrative Expenses								
Salaries and employee benefits	5,591	6,065	5,894	6,060	6,060	6,060	6,060	6,060
Other administrative expenses	1,803	1,705	1,787	1,712	1,712	1,712	1,712	1,712
	<u>7,394</u>	<u>7,770</u>	<u>7,681</u>	<u>7,772</u>	<u>7,772</u>	<u>7,772</u>	<u>7,772</u>	<u>7,772</u>
Total	<u>10,277</u>	<u>9,142</u>	<u>9,665</u>	<u>9,668</u>	<u>9,430</u>	<u>9,297</u>	<u>9,414</u>	<u>9,431</u>
Profit before distribution to provincial milk boards and agencies	<u>24,474</u>	<u>14,354</u>	<u>24,242</u>	<u>13,343</u>	<u>11,142</u>	<u>7,832</u>	<u>6,177</u>	<u>5,952</u>
Distribution to provincial milk boards and agencies	27,388	16,557	21,389	14,575	11,304	7,793	5,800	5,768
Results of operations and comprehensive income (loss)	<u>\$ (2,914)</u>	<u>\$ (2,203)</u>	<u>\$ 2,853</u>	<u>\$ (1,232)</u>	<u>\$ (162)</u>	<u>\$ 39</u>	<u>\$ 377</u>	<u>\$ 184</u>

CANADIAN DAIRY COMMISSION
STATEMENT OF COSTS FINANCED BY THE GOVERNMENT OF CANADA
for the Fiscal Years ending March 31, 2014 - 2020

(in thousands of dollars)

	Actual	Forecast	Budget				
	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>
Administrative expenses							
CDC appropriation Vote 15	\$ 3,976	3,608	3,605	3,600	3,600	3,600	3,600
Eligible payroll expenditures	459	250	100	75	75	75	75
Total costs financed by the Government of Canada	<u>\$ 4,435</u>	<u>\$ 3,858</u>	<u>\$ 3,705</u>	<u>\$ 3,675</u>	<u>\$ 3,675</u>	<u>\$ 3,675</u>	<u>\$ 3,675</u>

CANADIAN DAIRY COMMISSION
BORROWING PLAN
for the Dairy Years ended July 31, 2014 - 2020

(in thousands)

Consolidated Revenue Fund

	Actual Audited 2013-2014	Forecast 2014-2015	Projected				
			2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Loan transactions							
Balance at beginning of year	\$ 122,324	\$ 58,404	\$ 89,495	\$ 104,472	\$ 98,802	\$ 98,845	\$ 100,279
Drawings	180,574	140,000	160,000	160,000	160,000	160,000	160,000
Repayments	(244,494)	(108,909)	(145,023)	(165,670)	(159,957)	(158,566)	(160,346)
Balance at end of year	<u>\$ 58,404</u>	<u>\$ 89,495</u>	<u>\$ 104,472</u>	<u>\$ 98,802</u>	<u>\$ 98,845</u>	<u>\$ 100,279</u>	<u>\$ 99,933</u>
Average level during year:	\$68,500	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000
Highest level during year:							
Month	August	July	June	June	June	June	June
Amount	\$ 115,000	\$ 100,000	\$ 127,000	\$ 127,000	\$ 128,000	\$ 129,000	\$ 129,000

Member of Canadian Payments Association

	Actual 2013-2014	Forecast 2014-2015	Projected				
			2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Loan transactions							
Balance at beginning of year	\$ 71	\$ 1,264	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500
Drawings	19,486	25,000	25,000	25,000	25,000	25,000	25,000
Repayments	(18,293)	(24,764)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)
Balance at end of year	<u>\$ 1,264</u>	<u>\$ 1,500</u>	<u>\$ 1,500</u>	<u>\$ 1,500</u>	<u>\$ 1,500</u>	<u>\$ 1,500</u>	<u>\$ 1,500</u>

Authority:

Under the authority of the *Canadian Dairy Commission Act*, the Commission may borrow money from the Government of Canada out of the Consolidated Revenue Fund.

The Commission has also established a line of credit with a member of the Canadian Payments Association. Currently, the Minister of Finance has authorized borrowings from the Consolidated Revenue Fund (CRF) for which the outstanding amount shall not exceed \$165 million at any time.

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

Reason for borrowing:

These loans are required so that the Commission may fulfil its mandate within the *CDC Act* which is to

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

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

CANADIAN DAIRY COMMISSION
CAPITAL BUDGET
for the Dairy Years ended July 31, 2014 - 2020

(in thousands)

	Actual	Forecast	Budget				
	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>
Capital	\$ 111	\$ 20	\$ 0	\$ 20	\$ 0	\$ 20	\$ 0
Total capital budget	<u>\$ 111</u>	<u>\$ 20</u>	<u>\$ 0</u>	<u>\$ 20</u>	<u>\$ 0</u>	<u>\$ 20</u>	<u>\$ 0</u>

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

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

APPENDIX A
GLOSSARY OF DAIRY TERMS

Canadian Milk Supply Management Committee (CMSMC)

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

Dairy Producers

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

Further Processors

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

Industrial Milk

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

Processors

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

Skim milk powder (SMP)

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

Solids non fat (SNF)

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

Supply Management

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

Structural Surplus

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

Support Prices

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

Tariff Rate Quota (TRQ)

A quantity of product that can be imported in a country at little or no tariff. Canada must import each year 3,274 tonnes of butter as part of its commitments to the World Trade Organization.