



Canadian Dairy
Commission

Commission
canadienne du lait

CORPORATE PLAN SUMMARY FOR 2010-2011 TO 2014-2015

OPERATING AND CAPITAL BUDGETS
FOR THE DAIRY YEAR ENDING JULY 31, 2011

Corporate Plan dated April 1, 2010

TABLE OF CONTENTS

EXECUTIVE SUMMARY	II
PROFILE OF THE CANADIAN DAIRY COMMISSION.....	1
CDC at a glance	1
Mandate.....	1
Sector of intervention	2
Organization and Structure.....	2
STRATEGIC ISSUES FOR THE PLANNING PERIOD.....	4
Assessment of results for 2009-2010	4
Analysis of the external environment.....	8
Assessment of CDC resources.....	9
STRATEGIES, GOALS AND PERFORMANCE MEASURES	10
Description of strategies.....	10
Goals, objectives and performance measures.....	11
FINANCIAL INFORMATION	14
Major assumptions used in the preparation of the budget and forecast	14
APPENDIX A - Glossary of dairy terms	

EXECUTIVE SUMMARY

The Canadian dairy industry benefits from a relatively stable environment, mainly due to its supply management system with predictable prices and production levels.

The harmonization trend that started in the industry two years ago continues, especially in the Western provinces. As discussions progress, it becomes apparent that in some cases, the various provincial regulations make interprovincial harmonization of policies more difficult. Provincial governments will therefore be invited to get involved in future discussions.

The domestic market for dairy products is generally recognized as a mature market and only modest growth can be expected.

The risk of a significant entry of dairy products into Canada above tariff rate quotas varies greatly over time because of the increased volatility of world prices and exchange rates. As this could have a serious impact on the dairy industry in Canada, the Canadian Dairy Commission (CDC) is monitoring the situation very closely.

Because the external and internal environments of the CDC have remained largely the same as 12 months ago, the goals of the CDC for 2010-2011 to 2014-2015 remain as follows:

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

These goals will be reviewed annually.

The CDC is not planning any major capital projects in the coming years, as can be seen in the attached capital budget. From the positive balance generated by its commercial operations, the CDC will continue to finance specific projects that benefit the Canadian dairy industry. However, to comply with the cost containment measures announced in the 2010 Federal Budget, some of the expenses will be delayed.

PROFILE OF THE CANADIAN DAIRY COMMISSION

CDC AT A GLANCE

Created in 1966

62 employees (as of April 1, 2010)

Location: Ottawa

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

Budget 2010-2011 (fiscal year): \$ 8.086 million

Dairy year: August 1st to July 31st

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

MANDATE

The Canadian Dairy Commission (CDC) is a federal Crown corporation listed in Part I of Schedule III of the *Financial Administration Act*. Created in 1966 through the *Canadian Dairy Commission Act*, the CDC reports to Parliament through the Minister of Agriculture and Agri-Food Canada. The CDC has the authority to purchase, import, store, process, and sell dairy products; to investigate matters relating to the production, processing or marketing of any dairy product; and to help promote the use of dairy products. Its legislated objectives are twofold: to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment; and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality.

The CDC plays a central facilitating role for the multi-billion dollar Canadian dairy industry. Federal-provincial agreements now provide the authority for many of the programs and activities that the CDC employees administer and facilitate on a day-to-day basis. The CDC strives to balance and serve the interests of all dairy stakeholders — producers, processors, further processors, exporters, consumers and governments.

SECTOR OF INTERVENTION

To achieve its mandate, the CDC works with provincial governments and dairy industry stakeholders such as dairy producers¹, processors, further processors and consumers. The CDC, on the federal government's behalf, oversees the core features of the current orderly marketing approach in the dairy sector. This is done by:

- calculating and recommending to the industry the level of the national Market Sharing Quota for industrial milk in Canada;
- setting support prices for butter and skim milk powder;
- operating domestic seasonality and surplus removal programs; and,
- administering Canada's imports of butter to respect the minimum access requirements established by the World Trade Organization.

In addition, the CDC facilitates and supports the dairy industry in the development and implementation of major policies and programs. On the industry's behalf, the CDC

- administers the Special Milk Class Permit Program, the Domestic Dairy Product Innovation Program, and the Dairy Marketing Program; and,
- administers 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, alternatives or recommendations which could contribute to more orderly and efficient marketing and therefore avoid large deficit or surplus milk production. The CDC performs a similar role with regional industry decision making bodies that manage regional revenue and market pooling agreements.

ORGANIZATION AND STRUCTURE

As of April 1, 2010, the governing board was composed of the following three members:

Randy Williamson, Chairman

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

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

¹ Underlined words or phrases are further described in Appendix A.

Gilles Martin, Commissioner

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

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

John Core, CEO (mandate ends October 2011)

Mr. Core holds a Masters degree from the University of Guelph. He was a lecturer at Ridgetown College in Ontario at the beginning of his career. He then owned and operated a dairy and cash crop farm in Lambton County, Ontario, with his brothers. During his dairy farming years, Mr. Core was a board member for Dairy Farmers of Ontario from 1981 to 2001. He chaired this organization from 1990 to 2001. He was also a member of the board of Dairy Farmers of Canada from 1986 to 2001, and was the organization's President between 1999 and 2001. He is currently a member of the boards of the Guelph General Hospital and The Royal Agricultural Winter Fair.

All positions are part-time and are appointed by the Governor in Council.

In preparation for the end of the mandates of its Chairman and Commissioner in early August 2010, the CDC organized a meeting of its Nominating Committee. The Committee has forwarded its recommendations to the Minister of Agriculture and Agri-Food.²

² On June 25, 2010, the Minister of Agriculture and Agri-Food announced the reappointment of Randy Williamson, Chairman, and Gilles Martin, Commissioner, for a three-year mandate.

STRATEGIC ISSUES FOR THE PLANNING PERIOD

ASSESSMENT OF RESULTS FOR 2009-2010

The goals set by the Canadian Dairy Commission (CDC) for the current dairy year, along with a brief summary of the status of achievement of each goal, are described below. The reader must keep in mind that the current dairy year will end on July 31, 2010.

STRATEGIC GOALS

Goal 1. The Canadian dairy industry successfully adapts to change.

Objective	Performance indicators for 2009-2010	Results August 1, 2009 to April 1, 2010
Key dairy industry stakeholders are discussing the evolution of the dairy industry within <u>supply management</u> .	<ul style="list-style-type: none"> • A background document on the main issues facing the dairy industry has been prepared. • Key stakeholders have been consulted. • Stakeholders are engaged in discussions. 	<ul style="list-style-type: none"> • A background document outlining the main issues facing the dairy industry is being prepared internally. • When the document is finalized, consultations will begin. • Discussions will follow consultations.
The CDC is better prepared to deal with potential issues impacting the industry.	<ul style="list-style-type: none"> • The efficiency of tariff walls is monitored on a continuous basis and reported to the industry in collaboration with Agriculture and Agri-Food Canada (AAFC). • An industry plan has been developed to face a sudden surge of imports. • The roles of the CDC, AAFC and the Canadian Food Inspection Agency (CFIA) have been clarified in the case of an industry emergency affecting domestic milk supply. 	<ul style="list-style-type: none"> • A bi-weekly report is prepared for internal use and limited circulation to AAFC and Dairy Farmers of Canada (DFC). • No progress on this issue so far. • The CDC has contacted AAFC and CFIA to initiate these discussions.

Objective	Performance indicators for 2009-2010	Results August 1, 2009 to April 1, 2010
	<ul style="list-style-type: none"> • Regular World Trade Organization (WTO) reports are presented to the Commission and regular meetings are held with Canadian negotiators. • New communication tools are put in place to better inform the dairy industry. 	<ul style="list-style-type: none"> • Reports are presented monthly and one meeting was held. The WTO negotiations have been progressing very slowly. • The CDC Market Bulletin was significantly improved and is now available on the CDC Internet site every month. The CDC Internet site will include new functionalities that will facilitate the work of industry committees.

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

Objective	Performance indicators for 2009-2010	Results August 1, 2009 to April 1, 2010
<p>Net opening stocks of skim milk powder (SMP) equivalent on August 1, 2010 are below 20,000 tonnes.</p>	<ul style="list-style-type: none"> • The Market Committee has been advised of new market opportunities reaching 10,000 t • A new pricing strategy for milk solids non fat (SNF) started on February 1, 2010. • A report outlining the potential means to reduce the production of milk solids non fat at the farm has been presented to the Canadian Milk Supply Management Committee (CMSMC). • Utilization of SMP in animal feed totals 30,000 t. 	<ul style="list-style-type: none"> • The CDC presented new market opportunities for SNF amounting to over 10,000 tonnes. • The CMSMC accepted a new initiative in class 4(m) recommended by the Market Committee to develop the SNF markets identified above. • Preliminary work indicates limited potential for reduction of SNF production at the farm level. • Utilization of SMP in animal feed totals 30,000 tonnes after 8 months. • SMP stocks as of April 1, 2010 are at 22,000 tonnes and are expected to be below 20,000 tonnes on July 31, 2010.
<p>The growth of the Canadian market for dairy products and components is supported by CDC initiatives.</p>	<ul style="list-style-type: none"> • 5 Matching Investment Fund (MIF) projects are underway. • The CDC participates on the Board of Directors responsible of the administration of the research cluster funding from AAFC. If applicable, a decision was made on CDC's participation in the research cluster funding proposal. • Agreements have been signed with industry promotion organizations. 	<ul style="list-style-type: none"> • The MIF received 33 submissions. 18 were authorized to proceed to the full application stage, of which 4 received funding. • The CDC participates with Dairy Farmers of Canada in the dairy research cluster approved by AAFC. • The CDC's financial participation is \$1.5 million. • In 2009-2010, the CDC invested \$1.7 million towards a national milk promotion program which markets chocolate milk as a recovery drink after physical activity.

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

Objective	Performance indicators for 2009-2010	Results August 1, 2009 to April 1, 2010
<p>CDC managers embrace creative best practices for employee attraction and retention.</p>	<ul style="list-style-type: none"> • CDC managers have received training on the expectations of the various generations in the workplace. • The CDC employee turnover rate is below the average of the Public Service. • Within the succession plan of the CDC, potential successors for 50% of key positions have been identified. • Development plans have been established for these successors. 	<ul style="list-style-type: none"> • This training was received in October 2009. The same learning activity was offered to all other CDC staff in March 2010. • The CDC employee turnover³ is 0% whereas the average turnover in the Public Service is 1.4%. • The key position profiles were completed. Potential successors will be identified during the end of year performance evaluation of staff, in July 2010. • These development plans will be established as part of the development plans of employees for the new dairy year (2010-2011).
<p>CDC employees have a good knowledge of the various CDC activities and a general understanding of the dairy industry.</p>	<ul style="list-style-type: none"> • 5 teams of the CDC have presented their activities to the rest of the staff. • At least 20 staff members have followed a course on the processing of dairy products. • Staff meetings are held monthly. • An orientation session on the milk supply management system has been offered to all staff. • A new orientation method has been implemented and used with new employees. 	<ul style="list-style-type: none"> • 4 presentations were done to the staff as of April 1, 2010 and 3 others are planned before the end of the dairy year. • A one-day dairy science course was presented by 2 University of Guelph professors to approximately 40 CDC staff and other attendees from the industry. • Management met with staff on a regular basis. • The orientation session for decision-makers of the industry will be presented to 28 staff members on April 8. • A revised, more comprehensive orientation package was developed and is being implemented.

³ Turnover: number of employees leaving for a position outside of the public service/total number of employees. No figure available for public service beyond March 31, 2008. Note that one year of data is relatively meaningless.

ANALYSIS OF THE EXTERNAL ENVIRONMENT

Because of the supply management system, the environment in which the CDC operates is more stable than dairy industries in other countries and more stable than some other agricultural industries in Canada. The support of the Canadian and provincial governments for this system bodes well for the stability of our environment and the industry generally enjoys a positive public image. The Canadian dairy industry is highly regulated and organized and over the years, it has developed some excellent risk mitigation tools such as the pooling of markets and revenues as well as innovation incentives such as the Matching Investment Fund. These tools and incentives operate at no cost to governments other than the appropriations that the CDC receives annually from the Federal government. It is also worth noting that most of the industry, whether at the farm or at the plant, is profitable while consumers enjoy a continuous supply of dairy products at predictable prices.

The increased harmonization trend that started two years ago is still strong, especially in the Western provinces. These provinces commissioned a study on the potential for harmonization and are now following up on the recommendations of the report. The Eastern provinces seem to be catching their breath after a strong push to harmonize producer quota policies. Although they have not yet reached full harmonization, these provinces have now entered a new dynamic and they seem to be in an adjustment period as they are working out the details of this agreement.

The industry is not without its challenges. Its markets are mostly mature, growth is expected to be modest and there might be limited opportunity for expansion both at the farm and at the plant level. In addition, the industry faces competition from substitute products. It must be noted, however, that the domestic market for dairy products has not been affected by the recent economic slow-down. Consumers bought less dairy products in the food service and restaurant sector and more in groceries, but the overall demand continued to increase slowly during that period.

On the international front, it seems unlikely that a new trade agreement will come into force in the next dairy year (2010-2011). However, the current trade rules already pose a risk to the domestic dairy market. World dairy prices and exchange rates are increasingly volatile. The tariff wall that protects domestic markets from large volumes of imports has been threatened on a few occasions in the past years. At some point, the relatively high domestic prices combined with low enough World prices and a strong Canadian dollar could make it such that butter, for example, is imported into Canada in addition to the tariff rate quota. Depending on the volumes, such imports could disrupt milk supply management significantly. The CDC continues to monitor the situation very closely.

Finally, relationships between producers and processors remain difficult in certain areas such as product standards, milk supply and prices. In spite of this, their collaboration on other fronts such as sustainable development of the industry, research and innovation, and milk quality must be recognized.

ASSESSMENT OF CDC RESOURCES

a) Financial resources

The CDC receives stable funding. Approximately half of its administrative budget comes from government appropriations whereas the other half comes from dairy producers, the marketplace and commercial operations. 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 Government of Canada and costs are covered by dairy producers and the marketplace. Industry support initiatives such as scholarships, the Canadian Quality Milk Program and the Matching Investment Fund are financed by margins on commercial operations. Further details will be presented in the financial section of this Corporate Plan Summary, which begins on page 14.

Following the last federal budget, the CDC is responding to direction from the Minister to do everything in its power to contain costs and control discretionary spending. The CDC has therefore maintained government appropriations at their 2010-2011 (fiscal) levels in its administrative budget for the next three years. The administrative budget that the Commission approved for dairy year 2010-2011 is the same as for the previous year.

b) Human resources

The CDC's employees are knowledgeable and experienced within their respective specialized field. The CDC invests in training and development to ensure that employees succeed at meeting CDC's goals.

Recruiting employees with specialized knowledge in the fields of agricultural economics and the dairy industry remains a challenge due to the small number of potential candidates. Employee attraction and retention are therefore important. The CDC is aware that it will face stiff competition from other government departments and the private sector to replace people who either move on or retire. New generations entering the job market have priorities that differ from those of previous generations and the job market is such that they have a choice. These parameters will orient CDC's actions in terms of HR management and planning.

In addition, in an attempt to deal with a lean workforce and increases in stakeholder demands, the CDC continues to automate and streamline as many processes as possible to increase efficiency.

c) Material resources

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

The CDC leases office space from Agriculture and Agri-Food Canada under a five-year lease which is due to expire at the end of March 2012. The CDC will contact Agriculture and Agri-Food Canada before the end of the dairy year to start negotiations on a new lease.

STRATEGIES, GOALS AND PERFORMANCE MEASURES

DESCRIPTION OF STRATEGIES

a) Business segment: policy support

Goal 1. The Canadian dairy industry successfully adapts to change.

Under this business segment, the activities of the Canadian Dairy Commission (CDC) will largely be a continuation of the previous year's activities. Using a background paper prepared in 2009-2010, the CDC will hold consultations with the major industry stakeholders to identify changes that could make the industry more adaptable. These could include changes to the milk pricing methodology, to key federal provincial agreements, or to legislation. Consultations will establish if there is an appetite for such changes and if so, their order of priority.

The CDC will also continue to support the harmonization trend in the industry by providing facilitation, technical expertise and secretarial support to the various industry committees and forums that pursue this goal.

b) Business segment: market support

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

In order to support the industry in its efforts to grow the market for dairy products and ingredients, the CDC will facilitate the review and encourage the renewal of the Domestic Dairy Product Innovation Program. This program adds flexibility to the national industrial milk supply management system by providing an amount of milk outside of provincial milk allocation quotas for the introduction of new and innovative products on the domestic market. It is up for renewal by the Canadian Milk Supply Management Committee (CMSMC) at its July 2010 meeting. To further promote innovation in the use of milk ingredients and components, the CDC will maximize the use of the funds available under the Matching Investment Fund. This initiative will be in its second year in 2010-2011.

The CDC will also invite processors to form a committee to discuss market development and propose initiatives to the CMSMC. The current market Committee is composed of producer representatives and the CDC feels that it is important to give a voice to processors as a group on this issue.

c) Business segment: improve the CDC

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

The CDC plans ahead to mitigate the negative impact of planned retirements and normal employee turnover. In 2010-2011, it will continue the implementation of its succession plan and will take various initiatives to adapt to the demands of the new generation of employees and become a preferred employer.

To improve its governance, the CDC will continue to work with the relevant government bodies to modify the membership of its Board of directors. The CDC would like the CEO position to be removed from the Board and replaced with a Vice-chair position. This would allow the separation of authority between the board and the CEO, clarify the reporting structure, and improve the Board's independence.

In addition, the CDC will continue the transition of its accounting systems from generally accepted accounting principles (GAAP) to the International Financial Reporting Standards (IFRS) and will review the government's security policy to identify the necessary changes, if any, for the CDC to be in compliance.

GOALS, OBJECTIVES AND PERFORMANCE MEASURES

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

The CDC has identified the following goals for the planning period, which are in line with the analysis of the environment and with the strategies outlined above. The goals are the same as the two previous years and they remain relevant for the foreseeable future. They will be reviewed every year and are subject to change based on the policy decisions made at the CMSMC, the conclusions of the current round of WTO negotiations, and the general orientations of the federal government.

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

Strategic Goals

Goal 1. The Canadian dairy industry successfully adapts to change.

Objectives	Performance indicators for 2010-2011
Key dairy industry stakeholders are discussing the evolution of the dairy industry within supply management.	<ul style="list-style-type: none"> • Consultations were held with key industry stakeholders. • A summary report and recommendations were written and circulated to stakeholders. • The Commission consulted on, and adopted a new methodology for establishing support prices.
The CDC is better prepared to deal with potential issues impacting the industry.	<ul style="list-style-type: none"> • A review of the current provincial and federal legal frameworks was performed and a summary was prepared and circulated to stakeholders. • Monthly reports and specific analysis on trade negotiations were presented to the Commission. • Reports on the effectiveness of the current tariffs for dairy products were prepared and circulated to the industry. • The CDC Web site was redesigned to include new interactive tools for efficient information flow.

Objectives	Performance indicators for 2010-2011
Facilitate further harmonization within the pools and at the national level in order to be better positioned for a national pool.	<ul style="list-style-type: none"> • The Quebec/Ontario Milk Allocation Working group reconvened negotiations. • The Maritimes Milk Allocation Working Group has completed its analysis and prepared a report. • Harmonized policies were presented to provincial boards for approval and eventually, implementation. • A meeting of provincial auditors was held to identify differences in milk use declaration and audit procedures and to recommend best practices for harmonization. • Progress was achieved on various files such as fluid component pricing, the Domestic Dairy Product Innovation Program (DDPIP), and East-West pricing. • Reports presented to each pool were harmonized and simplified.

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

Objectives	Performance indicators for 2010-2011
Grow the demand for milk components.	<ul style="list-style-type: none"> • The new DDPIP program was agreed to and implemented by the CMSMC • \$1.5 million were allocated to projects under the Matching Investment Fund • The CMSMC made a decision on a methodology to introduce and remove the growth allowance. • A market development committee for processors was created, held meetings and its recommendations were shared with the Market Committee and the CMSMC
Optimize producer returns for solids non fat (SNF) and further reduce closing skim milk powder (SMP) inventories from 20,000 to 10,000 tonnes.	<ul style="list-style-type: none"> • Use of milk protein concentrates in Class 4(m) has increased. • Use of SNF in class 4(a)1 went from 18,000 to 20,000 tonnes. • Use of SNF in Special Classes went from 8,000 to 10,000 tonnes. • Inventories of SMP are at 10,000 tonnes.

Operational goal

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

Objectives	Performance indicators for 2010-2011
Continue the implementation of the succession plan.	<ul style="list-style-type: none">• Potential successors were identified for each key position.• Development plans were designed for each potential successor.
Attract and retain employees.	<ul style="list-style-type: none">• A framework for alternative working arrangements was established, policies modified or written accordingly and acceptable arrangements presented to CDC employees.• The Board made a decision on the renewal of the Scholarship Program.• Managers and staff were made aware of the existence of “non traditional” learning activities and 10 staff members have included them in their development plans.• Scenarios were prepared and the Commission made a decision whether or not to amend the <i>CDC Act</i> to allow for increased mobility of CDC employees within the public service.
Deal with emerging and existing governance trends.	<ul style="list-style-type: none">• The recommended governance structure of the CDC was implemented in partnership with government bodies.• Systems are ready to prepare financial statements using both the GAAP and the IFRS.• An assessment of the resources needed to comply with government security policies was prepared and submitted to the senior management team.

FINANCIAL INFORMATION

MAJOR ASSUMPTIONS USED IN THE PREPARATION OF THE BUDGET AND FORECAST

Figures for 2008-2009 are actual. Figures for 2009-2010 are forecasted while those for subsequent years are projected.

During the dairy year 2008-2009, Canadian requirements finished the year at 179.6 million kg of butterfat. They continued to increase slowly during the first part of the current dairy year. As of February 28, 2010, Canadian requirements stand at 182.7 million kg of butterfat. Given the recent trends and the state of the economy, it is reasonable to assume that the Canadian requirements will continue to increase slightly during the rest of the 2010-2011 dairy year.

Beyond 2011, 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 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
PROGRAM STATEMENT and BUDGET
for the DAIRY YEARS ending JULY 31, 2009 - 2015

(in thousands of dollars)

	Budget	Actual	Budget	Forecast	Budget				
	2008-09	Audited	2009-10	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Sales	\$ 264,034	\$ 231,897	\$ 222,040	\$ 222,962	\$ 250,970	\$ 245,462	\$ 234,350	\$ 237,487	\$ 241,021
Cost of sales	<u>257,762</u>	<u>232,415</u>	<u>215,773</u>	<u>211,891</u>	<u>233,477</u>	<u>236,437</u>	<u>226,759</u>	<u>230,324</u>	<u>232,582</u>
Margin (loss) on sales	6,272	(518)	6,267	11,071	17,493	9,025	7,591	7,163	8,439
Operating expenses									
Dairy product assistance - Domestic	200	312	225	400	350	357	364	371	379
Carrying charges and miscellaneous costs	5,021	7,053	4,818	4,874	4,717	5,574	5,550	5,233	5,430
Cost of production - Pool share	717	892	805	814	803	818	834	851	868
Industry support initiatives	5,260	3,230	5,450	2,896	2,779	2,779	2,717	1,800	-
Administrative expenses - marketing activities	<u>3,995</u>	<u>4,044</u>	<u>4,219</u>	<u>4,038</u>	<u>4,000</u>	<u>4,071</u>	<u>4,071</u>	<u>4,142</u>	<u>4,166</u>
Total operating expenses	<u>15,193</u>	<u>15,531</u>	<u>15,517</u>	<u>13,022</u>	<u>12,649</u>	<u>13,599</u>	<u>13,536</u>	<u>12,397</u>	<u>10,843</u>
Net (loss) gain before funding	(8,921)	(16,049)	(9,250)	(1,951)	4,844	(4,574)	(5,945)	(5,234)	(2,404)
Pool funding	8,178	7,930	7,468	7,685	7,057	7,274	7,328	7,454	8,549
Provision for refund (recovery) of the operational surplus (deficit) (1)(3)	<u>2,922</u>	<u>(9,689)</u>		<u>3,385</u>	<u>14,792</u>	<u>6,245</u>	<u>4,427</u>	<u>4,714</u>	<u>5,886</u>
Net results of operations	(3,665)	1,570	(1,782)	2,349	(2,891)	(3,545)	(3,044)	(2,494)	259
Surplus beginning of year	<u>10,612</u>	<u>10,612</u>	<u>15,306</u>	<u>12,182</u>	<u>14,531</u>	<u>11,640</u>	<u>8,095</u>	<u>5,051</u>	<u>2,557</u>
Surplus end of year (2)	<u>\$ 6,947</u>	<u>\$ 12,182</u>	<u>\$ 13,524</u>	<u>\$ 14,531</u>	<u>\$ 11,640</u>	<u>\$ 8,095</u>	<u>\$ 5,051</u>	<u>\$ 2,557</u>	<u>\$ 2,816</u>

NOTES: The data presented herein excludes all Government appropriated operating expenses.

The CDC intends to gradually reduce its end of year surpluses over the next five years. The figures included above are forecasts, and as economic and market conditions change, the CDC may make adjustments to ensure that retained earnings are always kept in an overall surplus position.

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

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

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

(3) For 2008-2009 the operating loss for 2007-2008 was recovered from the Provincial Milk Boards and Agencies

CANADIAN DAIRY COMMISSION
STATEMENT OF COSTS FINANCED BY THE GOVERNMENT OF CANADA
for the DAIRY YEARS ending JULY 31, 2009 - 2015

(in thousands of dollars)

	Actual Audited 2008-09	Forecast 2009-10	Budget				
			2010-11	2011-12	2012-13	2013-14	2014-15
Administrative expenses							
CDC appropriation Vote 25	\$ 4,086	\$ 3,942	\$ 3,921	\$ 3,921	\$ 3,941	\$ 4,000	\$ 4,060
Eligible payroll expenditures	184	106	165	94	74	66	75
Total costs financed by the Government of Canada	<u>\$ 4,270</u>	<u>\$ 4,048</u>	<u>\$ 4,086</u>	<u>\$ 4,015</u>	<u>\$ 4,015</u>	<u>\$ 4,066</u>	<u>\$ 4,135</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. Appropriations seem to increase in 2012-2013 because 4/12th of this dairy year is in fiscal year 2013-2014, when appropriations may rise again.

CANADIAN DAIRY COMMISSION
STATEMENT OF COSTS FINANCED BY THE GOVERNMENT OF CANADA
for the FISCAL YEARS ending MARCH 31, 2009 - 2015

(in thousands of dollars)

	Actual		Budget				
	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
Administrative expenses							
CDC appropriation Vote 25	\$ 4,056	\$ 3,952	\$ 3,921	\$ 3,921	\$ 3,921	\$ 3,980	\$ 4,040
Eligible payroll expenditures	78	61	197	101	80	62	75
Total costs financed by the Government of Canada	\$ <u>4,134</u>	\$ <u>4,013</u>	\$ <u>4,118</u>	\$ <u>4,022</u>	\$ <u>4,001</u>	\$ <u>4,042</u>	\$ <u>4,115</u>

Notes:

In the foreseeable future the Commission will maintain its current level of staffing.

CANADIAN DAIRY COMMISSION
BORROWING PLAN
for the DAIRY YEARS ending JULY 31, 2009 - 2015

(in thousands of dollars)

Consolidated Revenue Fund

Loan transactions	Actual Audited 2008-09	Forecast 2009-10	Projected				
			2010-11	2011-12	2012-13	2013-14	2014-15
Balance at beginning of year	\$ 116,316	\$ 129,488	\$ 110,588	\$ 102,496	\$ 110,012	\$ 109,731	\$ 114,098
Drawings	188,575	156,357	160,000	160,000	160,000	160,000	160,000
Repayments	(175,403)	(175,257)	(168,092)	(152,484)	(160,281)	(155,633)	(161,303)
Balance at end of year	<u>\$ 129,488</u>	<u>\$ 110,588</u>	<u>\$ 102,496</u>	<u>\$ 110,012</u>	<u>\$ 109,731</u>	<u>\$ 114,098</u>	<u>\$ 112,795</u>
Average level during year:	\$98,752	\$95,000	\$95,000	\$95,000	\$95,000	\$95,000	\$95,000
Highest level during year:							
Month	June	June	June	June	June	June	June
Amount	\$138M	\$131M	\$125M	\$134M	\$134M	\$135M	\$133M

Member of Canadian Payments Association

Loan transactions	Actual 2008-09	Forecast 2009-10	Projected				
			2010-11	2011-12	2012-13	2013-14	2014-15
Balance at beginning of year	\$ 25,367	\$ 825	\$ 850	\$ 850	\$ 850	\$ 850	\$ 850
Drawings	40,046	15,476	15,500	15,500	15,500	15,500	15,500
Repayments	(64,588)	(15,451)	(15,500)	(15,500)	(15,500)	(15,500)	(15,500)
Balance at end of year	<u>\$ 825</u>	<u>\$ 850</u>	<u>\$ 850</u>	<u>\$ 850</u>	<u>\$ 850</u>	<u>\$ 850</u>	<u>\$ 850</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 \$175 million (\$150 million 2008-2009) at any time.
The Minister of Finance has also approved lines of credit of up to \$50 million outstanding with members of the Canadian Payments Association.

Reason for borrowing:

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

CANADIAN DAIRY COMMISSION
CAPITAL BUDGET
for the DAIRY YEARS ending JULY 31, 2009 - 2015

(in thousands of dollars)

	Actual	Forecast	Budget				
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Major capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Minor capital	<u>151</u>	<u>116</u>	<u>150</u>	<u>150</u>	<u>150</u>	<u>150</u>	<u>150</u>
Total capital budget	<u>\$ 151</u>	<u>\$ 116</u>	<u>\$ 150</u>	<u>\$ 150</u>	<u>\$ 150</u>	<u>\$ 150</u>	<u>\$ 150</u>

Minor Capital expenditures for the years 2009-2010 through to 2014-2015 are for the planned replacement of servers, desktop computers, laptops and peripherals. These amounts also include software licence fees purchases and renewals.

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

APPENDIX A
GLOSSARY OF DAIRY TERMS

Canadian Milk Supply Management Committee (CMSMC)

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

Canadian Requirements

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

Dairy Producers

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

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. 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.

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 marketing quotas at the farm level. The size of the quota depends on the demand for milk and other dairy products.

Support Prices

Support prices are the prices at which the CDC offers to purchase domestically produced butter and skim milk powder under its Domestic Seasonality programs. Support prices 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.
