



Canadian Dairy
Commission

Commission
canadienne du lait

CORPORATE PLAN SUMMARY FOR 2014-2015 TO 2018-2019

OPERATING AND CAPITAL BUDGETS
FOR THE DAIRY YEAR ENDING JULY 31, 2015

Corporate Plan dated April 1, 2014

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EXECUTIVE SUMMARY

The Canadian dairy industry includes over 12,000 farms and 480 milk processing plants. Canada produces close to 79 million hectolitres of milk per year, essentially for the domestic market. Dairy farms have receipts of \$5.9 billion. The processing industry ships \$15.7 billion in products and employs about 24,500 people. 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 and fine cheese. 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. It sets support prices for butter and skim milk powder, which are used as reference levels for the establishment of farm gate milk price. It also 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 April 1, 2014, the CDC is expecting to reach almost all of the objectives set for 2013-2014. It has made the necessary adjustments to its budget and workforce to comply with the measures contained in the 2012 Federal budget without reducing the services offered to the industry.

In addition, the CDC has implemented several initiatives that should maintain or grow the domestic and export markets for Canadian dairy products. Some of these initiatives simply ensure that growing markets receive the milk supply that they need.

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
- A well-administered supply management system
- An industry that adapts to change
- A well-managed CDC

The CDC borrows money from both the Consolidated Revenue Fund and from a credit line and interest rates are expected to increase over the planning period. This will increase interest expenses but these are paid by either dairy farmers or the marketplace, depending on the program through which borrowings are made. This 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.

PROFILE OF THE CANADIAN DAIRY COMMISSION

CDC AT A GLANCE

Created in 1966

60 employees as of April 1, 2014

Budget 2014-2015 (dairy year): \$7.77 million

Dairy year: August 1 to July 31

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

MISSION

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

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. It 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 and dairy industry stakeholders such as dairy producers¹, 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.

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

¹ Underlines words and phrases are defined in Appendix A

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.

The Canadian milk supply management system rests on three pillars: the setting of milk prices at the farm gate, the control of milk production through quotas, and the control of imports of dairy products. Since supply management was first applied to the dairy sector, the CDC has been 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. 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.

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. 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 programs² for the benefit of the entire supply chain. The table below summarizes these programs.

² CDC programs are further described in its Annual Report http://www.cdc-ccl.gc.ca/CDC/userfiles/file/CDC_AR_2012-2013_EN.pdf

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 October) and sells these products back into the market when consumption rises (November and December).	Consumers
Surplus Removal Program	To remove surplus dairy products from the Canadian market in a timely manner. Surpluses are either exported, within Canada's commitments to the World Trade Organization (WTO), or sold on less lucrative markets such as animal feed.	Dairy industry
Special Milk Class Permit Program (SMCPP)	To give further processors access to dairy products at competitive prices for use in further processing.	Further processors
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 milk from the skim milk powder market to growing markets.	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 part of its administrative budget as well as initiatives that provide benefits to the entire industry. Examples of these initiatives are graduate scholarships for studies related to the dairy industry and the validation of dairy farms under the Canadian Quality Milk Program, an on-farm quality assurance program administered by Dairy Farmers of Canada.

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 Agriculture and Agri-Food Canada (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 close 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.

In many aspects, the roles that the CDC assumes for the dairy industry are in line 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, 2013, 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 fall exactly within these priorities. Programs such as the Matching Investment Fund, the Dairy Innovation Program,

the Scholarship Program and other activities under the Dairy Marketing Program are good examples. One of the objectives of CDC's Dairy Marketing Program is to favour innovation and the development of new products. The CDC Scholarship Program also favours innovation and contributes to the constitution of a pool of young minds that will continue to bring innovation to the entire agri-food sector.

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 class³ to a less lucrative class, 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.

Over the years, the CDC has established excellent working relationships with industry stakeholders. The CDC has an in-depth understanding of the intricacies of the milk supply management system and can propose solutions that will be acceptable to the entire industry. It is also seen as a good program administrator, as several industry programs are administered by CDC staff.

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 daily.

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 specific activities of its board in its Annual Report⁴. These 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 Commissioner⁵. The Chairperson heads the board and is also the main contact between the Minister and the CDC. The CEO is

³ 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>

⁴ 2012-2013 Annual Report: http://www.cdc-ccl.gc.ca/CDC/userfiles/file/CDC_AR_2012-2013_EN.pdf

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 are subject to the *Conflict of Interest Act*.

As of April 1, 2014, 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.

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).

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 (first mandate ends February 2015)

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

⁵ The Board's bylaws are available at <http://www.cdc-ccl.gc.ca/CDC/userfiles/file/Rules%20of%20governance%202014.pdf>

STRATEGIC ISSUES FOR THE PLANNING PERIOD

As of April 1, 2014, the CDC expects to achieve almost all of its objectives for 2013-2014. The CDC continues to improve and adapt the various aspects of milk supply management over which it has some influence. These include the annual study on the cost of producing milk in Canada, the tools used to forecast demand and production, the required levels of stocks, and audits. The CDC also continues to improve the efficiency of its operations and follow good governance practices.

In 2013-2014, the areas of activity of the CDC were separated into two overall goals: 1) to provide efficient producers of milk and cream with the opportunity to obtain a fair return for their labour and investment, and 2) to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality. These goals fell into two of the 16 outcome areas of the government of Canada: strong economic growth and a fair and secure marketplace.

Each overall goal represented a part of the mandate outlined in the *CDC Act* (see page 4) and contained several areas of activity. Internal services such as Human Resources, Finance, and Communications, act in support of the goals.

ASSESSMENT OF RESULTS FOR 2013-2014

Following is a summary of the status of achievement of goals for 2013-2014. A complete performance report will be presented in the 2013-2014 CDC Annual Report which will be tabled in Parliament in the fall of 2014.

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

Area of activity: Pricing of industrial and fluid milk

In December 2013, the CDC announced a 1% increase in support prices⁶. This increase should help Canadian dairy farmers face increases in cost. Every year, the CDC's decision on support prices is partly based on an annual study on the cost of producing milk in Canada. The manual used to perform this study was recently updated to improve the reliability of the study while reducing its cost. As a result, the cost of the study will decrease by 10% for calendar year 2014.

Area of activity: Market development

The CDC continued to administer several programs aimed at expanding the market for dairy products and ingredients. One of these was the Dairy Innovation Program. The Canadian Milk Supply Management Committee had formerly established a program called the Domestic Dairy Product Innovation Program but could not agree on details of its administration before its expiry, on July 31, 2013. Provinces could not agree on how to share the quota created by the program, but recognized its value and agreed that it should continue. Given the unanimous support for the objective of the program, the CDC implemented a similar program, called the Dairy Innovation Program.

At its January 2013 meeting, the CMSMC approved the creation of a new class of milk for mozzarella cheese used on fresh pizzas (Class 3(d)). The new class was launched on June 1, 2013 and promoted to pizza restaurants. It allows eligible establishments to have access to mozzarella cheese at a reduced price to stimulate growth for this type of cheese. Over 5,700 restaurants are registered as of April 1, 2014. After developing audit requirements for this

⁶ These are prices at which the CDC purchases and sells butter and skim milk powder within the framework of its various programs. Support prices are used as references by provincial milk marketing boards to determine the price paid by processors for the portion of the milk that gets processed into butter, skim milk powder, cheese, yogurt, ice cream, etc. (industrial milk).

class, the CDC will begin auditing some program participants before the end of the current dairy year. This class is due to be reviewed by the CMSMC in the fall of 2014.

In an effort to create long term export opportunities for Canadian cheeses, the CDC, following consultations with the industry, created the Planned Export Program for Cheese and launched it in February 2014. The program was well-received by industry stakeholders, including exporters, and its fine-tuning will continue in 2014-2015.

The CDC has also put in place a Skim Milk Redirection Program to direct skim milk to growing markets instead of to skim milk powder production for which there is little market. Unfortunately, stakeholders have not yet been able to agree on some of the details of the administration of the program such as who will be responsible for milk transport and analysis. Partly for that reason, and partly because milk has been plentiful and processing plants had access to all the whole milk that they needed, no skim milk has been redirected under this program yet. The CDC expects that stakeholders will reach a consensus in April so that skim milk can be redirected in the following months, when supplies are expected to be tighter because of decreased milk production.

Area of activity: Pool administration

The CDC administers three federal-provincial agreements that frame the sharing of revenues and markets among Canadian milk producers. As administrator of these pools, the CDC chairs the decision-making bodies and provides them with technical expertise and secretariat services. In early 2012-2013, the CDC co-chaired the P10 Negotiating Committee, a group that was mandated to negotiate the establishment of a pool for all the milk among the 10 Canadian provinces. Although this group was not able to establish a national pool for all milk, it made several recommendations to the CMSMC aimed at making it easier for processing plants that experience growth to acquire the milk that they need to serve their markets. These recommendations were approved and implemented by the CMSMC.

Area of activity: External audits

The CDC performs a series of audits to ensure that milk sold at reduced prices is used in eligible products, that milk utilization is declared in the appropriate classes and that producer revenues are shared adequately. These audits are progressing well and the CDC should meet its annual objectives in that regard. The CDC also audits some of the participants to the Import for Re-export program, a program that is administered by Foreign Affairs, Trade and Development Canada.

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

Area of activity: Manage the national industrial milk supply

Under the supply management system, Canadian milk producers only produce the volume of milk that is required to fill domestic markets for dairy products, as well as a small quantity of planned exports. To achieve this, the CDC monitors demand and sends notice to provincial authorities if a change in demand justifies a change in the national quota for industrial milk. For the first 7 months of the dairy year, milk production was at 99.1% of total quota. The CDC forecasts that by July 31, milk production will still be at 99.1% of total quota. This is slightly below the target of 99.5% but the stocks will be sufficient to fill demand.

The CDC also exports surplus dairy products, mostly in the export categories for skim milk powder, incorporated products, and other dairy products. The aim of the CDC is to export at least at 99% of what is permitted in each category under the WTO Agreement on Agriculture, and it expects to reach that level by the end of the dairy year.

Low world prices for dairy products and a strong Canadian dollar sometimes reduce the effectiveness of the tariffs that protect the Canadian market from large imports of foreign dairy products. Such imports could destabilize the Canadian dairy industry and generate surpluses of Canadian dairy products. The CDC is hoping that the industry can take a proactive approach to this potential threat. In that spirit, the CDC, in collaboration with the industry, analyzed

the risks of additional imports that could destabilize the Canadian market and the opportunities for growing domestic markets for Canadian dairy products.

To balance a system which generates a surplus of milk solids non fat, the CDC administers the Surplus Removal Program which aims to remove surpluses from the market in a timely manner, while maximizing revenues for producers. Some of the surpluses are exported, within the limits of Canada’s commitments at the WTO.

INTERNAL SERVICES

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

EXTERNAL ENVIRONMENT

Trends in the Dairy Industry

In the last five years, Canada lost 980 dairy farms, a 7% reduction⁷, an attrition rate that is not very different from rates in non supply-managed commodities, or in US or European dairy farms. This trend is expected to continue over the planning period.

In the 2012-2013 dairy year, milk production reached a plateau and started to decrease slowly. Producers were getting close to reaching their production limit where they would receive penalties for over production. The strong production of the previous year was required to replenish stocks and these stocks are now adequate. As the production decreased and sales of skim milk powder in the animal feed sector increased, CDC year-end stocks of skim powder in Class 4(m) (animal feed) went from 22,600 t to 20,700 t at the end of 2012-2013. Since the beginning of the 2013-2014 dairy year, the CDC has continued to reduce its stocks by exporting as much product as possible within the limits established at the WTO, and by increasing its sales in the animal feed sector. Projected year-end stocks for 2013-2014 are 14,000 t.

Table 2. Number of farms and production of milk per province in 2012-2013

Province	Number of farms on August 1, 2013		Milk production	
		%	M kg of butterfat	%
Newfoundland and Labrador	33	0.3	1.79	0.6
Prince Edward Island	187	1.5	4.15	1.3
Nova Scotia	235	1.9	7.08	2.2
New Brunswick	211	1.7	5.50	1.7
Quebec	6,038	49.3	120.53	38.2
Ontario	3,997	32.7	103.09	32.7
Manitoba	321	2.6	12.64	4.0
Saskatchewan	166	1.4	8.95	2.8
Alberta	571	4.7	25.90	8.2
British Columbia	475	3.9	25.88	8.2
Canada	12,234		315.51	

⁷ Despite having fewer farms, Canada produces 6% more milk than 5 years ago to respond to domestic demand.

Over the last 20 years, Canadian consumers have been reducing their consumption of fluid milk, butter and ice cream but increasing their consumption of cream, specialty cheeses and yogurt⁸. 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 Product Innovation Program⁹ to create new cheeses, yogurt products and other dairy products used 132.8 million litres of milk. Another program, called the Matching Investment Fund, was launched in 2009. Since then, it has approved 21 innovation projects that have received a total of \$640,000. Cheese, skim milk powder, and fluid milk are the main ingredients involved in these projects for the development or reformulation of dairy desserts and novelty ice cream, cheese-based and nutraceutical¹⁰ products. The CDC expects that over the next five years, overall domestic consumption of dairy products will continue to grow at a modest pace.

Recently, the CDC implemented some initiatives to develop markets for Canadian dairy products. To grow the market in the restaurant sector, the CDC suggested the creation of a class of milk for mozzarella used on fresh pizzas. The Canadian Milk Supply Management Committee approved the suggestion at its January 2013 meeting and the class became available to eligible establishments on June 1, 2013. In January 2014, the CMSMC approved the implementation of a cheese export program. Through the issuance of a permanent growth allowance of 1% added to the industrial milk quota, 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.

If the Canadian dairy industry is to continue to adapt to new trends and prosper, it will have to be open to new possibilities and welcome new business opportunities. The CDC intends to encourage the industry in this direction.

On the international trade policy front, the agriculture negotiations at the WTO have picked up at the December 2013 Ministerial Conference, although no final conclusion has been reached so far. Canada and the European Union reached an agreement in principle towards a Comprehensive Economic and Trade Agreement (CETA) in the fall of 2013. This agreement gives the EU increased access to the Canadian cheese market by 17,700 tonnes and also gives Canada duty-free access to the EU dairy markets. Recognizing that this agreement will be implemented over the next several years, the CDC is analyzing how this agreement could create challenges and opportunities for the Canadian dairy industry once it comes into effect.

Financial Trends

After several years of low interest rates, the CDC expects to see them 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 Canadian consumers, depending on the program. Therefore, increases in interest rates will have no impact on the financial situation of the CDC.

In recent years, the world price of dairy products has been increasingly volatile. This affects CDC revenues from the sale of skim milk powder to the export and animal feed markets. It has become difficult to establish a purchase price for these products that will allow the CDC to break even once these products are resold. Close monitoring of world prices, of milk production in the various areas of the world, and of demand in emerging economies allow the CDC to fine-tune its determination of purchase prices.

⁸ Source: www.dairyinfo.gc.ca

⁹ Replaced by the Dairy Innovation Program on August 1, 2013. Program parameters are essentially the same.

¹⁰ 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.

Current world prices for dairy products are strong. This means that the CDC can export larger quantities of skim milk powder while respecting Canada's export subsidy limits. It is therefore easier to reduce the CDC stocks of skim milk powder. High world prices for butter complicate the mandatory imports of butter that the CDC handles. As the imported butter is sold on the domestic further processing market, the margin for these operations is reduced as world prices increase.

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. This year the CDC expects to sell approximately \$330 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. A large part of these charges are reimbursed to the CDC by the dairy industry and funding from the marketplace¹¹.

Programs that the CDC operates on behalf of the industry are financed by producers and the marketplace (consumers). 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 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 one year and also from year to year, depending on the supply and demand situation.

The government has undertaken spending reviews with the goal of reducing expenditures on an ongoing basis until fiscal year 2014-2015. Following the 2012 Federal budget, the funding that the CDC receives from the government was reduced by 10% or \$393,000 as of April 1, 2014. The CDC achieved the net savings required by government with the budgetary reductions included in the 2013-2014 administrative budget. Two positions have been eliminated and no further workforce reductions are planned. 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. 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

¹¹ A few cents is transferred to the CDC for each pound of butter sold at retail to pay for the storage costs of normal butter stocks.

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.

In an attempt to satisfy increases in stakeholder demands using a small workforce, the CDC continues to automate and streamline as many processes as possible to increase efficiency. This is increasingly important given that two full-time employees (FTEs) have been removed from the workforce as part of the spending reviews. This reduction in employee numbers is not expected to have a significant impact on the services offered by the CDC. Efforts are also made to maintain employee engagement in this cost-reduction environment.

Material Resources

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.

STRATEGIC THEMES AND STRATEGIES

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

Activities 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, 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 growth¹². These programs will continue and will be improved if new needs arise. Some additional programs could also be created in 2014-2015, if they do not require particular investments. Such programs require the collaboration of the dairy industry and would be put in place in consultation with the various stakeholders.

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 that market development is not hindered by a shortage of milk.

Strategic theme: A Well-Administered Supply Management System

Under this strategic theme, the CDC's strategy involves both the day-to-day administration 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 agreements. To simplify the supply management system and make its administration more efficient, the CDC will continue to work with provinces to increase the level of harmonization of their various policies, simplify some of the key calculations on which the system depends¹³, and harmonize audit procedures related to milk utilization.

Strategic theme: An Industry that Adapts

This strategic theme includes three objectives: helping the industry adapt to new market conditions, 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, and encouraging efficiencies in all sectors of the industry.

¹² Programs such as the Dairy Innovation Program and the Matching Investment Fund.

¹³ Such as the quota and pooling calculations.

As mentioned in previous corporate plan summaries, the Canadian milk supply management system, and therefore the Canadian dairy industry, is faced with a series of changes going from consumer preferences to new trade agreements. While the Canadian-EU trade deal means new access for European cheese into the Canadian market, it also presents real opportunities for Canadian dairy exports into one of the world's biggest markets. The CDC will look for those opportunities and encourage the industry to seize them.

To favour the development of new markets for solids non fat in Canada and abroad, the CDC will seek investments by foreign and Canadian companies who wish to create value-added products using solids non fat, such as infant formula, milk protein concentrates, and other products.

To encourage efficiencies in the industry, the CDC will ensure that efficiency gains such as increased productivity in plants and on farms are captured in relevant calculations such as the calculation of the assumed processor margin (used to set support prices for butter and skim milk powder) and the calculation of the cost of producing milk.

Strategic theme: A Well-Managed CDC

The focus of the CDC is to maintain employee engagement and to continue to improve the efficiency of its operations. To maintain employee engagement, the CDC will share the results of its first employee satisfaction survey with the staff and follow up on the results of this survey¹⁴. It will also follow up on several of the suggestions made by its employees by way of Blueprint 2020¹⁵.

The improvement of CDC's efficiency will involve several approaches. The CDC will conduct a thorough review of the services it offers the industry and prioritize them so that resources can be better allocated to high priority services. The CDC will also continue to automate some of its administrative processes according to the priorities established by its IT Consultative Committee, with representation from all CDC divisions. Financial and HR delegations of authority will be examined to ensure that powers are delegated to the most appropriate level.

Furthermore, the CDC will take measures to implement the new Public Service Directive on Performance Management as of August 1, 2014.

¹⁴ The survey itself will be conducted in dairy year 2013-2014.

¹⁵ The CDC Blueprint 2020 reports are posted in the Blueprint 2020 Champion's Corner in GCPedia.

OBJECTIVES AND PERFORMANCE MEASURES FOR THE PLANNING PERIOD

MISSION	To provide leadership to enhance the vitality of the Canadian dairy industry for the benefit of Canadians.		
Strategic themes	GROWING MARKETS	A WELL-ADMINISTERED SUPPLY MANAGEMENT SYSTEM	AN INDUSTRY THAT ADAPTS
5-year objectives	<ol style="list-style-type: none"> 1. Create an environment that is conducive to market growth and innovation 2. Promote the timely supply of milk to growing markets 	<ol style="list-style-type: none"> 1. Ensure that efficient producers receive fair returns 2. Ensure that Canadian milk production meets demand. 3. Ensure the respect of interprovincial and international agreements. 4. Propose and support measures that improve the administration of the supply management system 	<ol style="list-style-type: none"> 1. Help the Canadian dairy industry adapt to changing market conditions, within the framework of supply management 2. Create an environment conducive to the development of new markets for SNF 3. Encourage efficiencies in all sectors of the industry
Activities	<p>Review programs, propose modifications or new programs to encourage market growth and innovation (1) With the industry, develop strategies to ensure that Canadian markets for dairy products and ingredients, receive the required milk supply at the opportune time(2)</p>	<p>Set support prices (1) Perform audits of participants to various programs (1) Measure demand (2) Operate programs to prevent shortages (2) Dispose of surpluses (2) Administer the interprovincial agreements (3) Maximize exports while respecting limits set out in the WTO agreement (3) Import the mandatory butter imports as per the WTO agreement (3) Work with provinces to increase their level of harmonization both within and between regional pools and streamline the administration of the supply management system (4) Improve the efficiency of information exchange between the CDC and stakeholders (4)</p>	<p>Maintain the stability and predictability of the industry as it adapts to change (1) Improve access to market intelligence (1) Support investment to grow the market for Canadian dairy products and ingredients, in particular solids non fat (2) Ensure that the assumed processor margin calculations capture efficiency gains (3) Ensure that producer cost of production calculations capture efficiency gains (3).</p>
Strategic theme	A WELL-MANAGED CDC		
5-year objective	The CDC adapts to remain a high-performing organization.		
Activities	<p align="center">Benchmark and improve employee satisfaction and engagement Improve process efficiency Prioritize the services that the CDC offers to the industry Implement the new Public Service Directive on Performance Management</p>		

CDC PERFORMANCE TARGETS FOR 2014-2015

This section presents, for each strategic theme, how the CDC will measure its performance in dairy year 2014-2015.

Strategic theme: Growing Markets

5-year objective	Activities	Performance measure for 2014-2015
Create an environment that is conducive to market growth and innovation	Review programs, propose modifications or new programs to encourage market growth and innovation	<ul style="list-style-type: none"> Review 3 programs and propose modifications, if needed¹⁶
Promote the timely supply of milk to growing markets	With the industry, develop mechanisms to ensure that Canadian markets for dairy products and ingredients receive the required milk supply at the opportune time	<ul style="list-style-type: none"> Implement mechanisms to better supply growth in milk Classes 5(a), (b) and (c)¹⁷

Strategic theme: A Well-Administered Supply Management System

5-year objective	Activities	Performance measure for 2014-2015
Ensure that efficient producers receive fair returns	Set support prices	<ul style="list-style-type: none"> Announce new support prices by December 15, 2014
	Perform audits of participants to various programs to ensure that milk sold at reduced prices is used in eligible products.	<ul style="list-style-type: none"> 50 audits of the Special Milk Class Permit Program 6 audits of the Import for Re-export program¹⁸ audits of 500 participants in Class 3(d) including major pizza franchises, top users and randomly selected users
	Perform audits to ensure that milk utilization is declared in the appropriate class and that producer revenues are shared appropriately	<ul style="list-style-type: none"> Perform milk utilization audits in provinces where the CDC has a contract and monitor audits in other provinces Examine revenue sharing data in 10 provinces
Ensure that Canadian milk production meets demand.	Measure demand and calculate related quota adjustments	<ul style="list-style-type: none"> Calculate milk quota adjustments and send them to provinces every 2 months Milk production is between 99.5 and 100.5% of quota
	Operate storage programs to prevent shortages Dispose of surpluses while reducing CDC stocks of skim milk powder	<ul style="list-style-type: none"> CDC butter stocks never fall below 90% of their target level Reduce skim milk powder stocks from 14,000 tonnes¹⁹ to 11,000

¹⁶ The programs currently targeted for this review are Class 3(d) (mozzarella for fresh pizzas), and the Dairy Innovation Program. The third program is to be determined.

¹⁷ Milk used to make dairy products that are then used in further processing.

¹⁸ A program administered by Foreign affairs, Trade and Development

		tonnes
Ensure the respect of interprovincial and international agreements.	Administer the interprovincial pooling agreements (sharing of markets and producer revenues among provinces)	<ul style="list-style-type: none"> Perform pooling calculations within 3 business days of data reception and transfer funds to provinces within 5 business days of the end of calculations
	Maximize exports while respecting limits set out in the WTO Agreement on Agriculture	<ul style="list-style-type: none"> Export at least 99% of permitted exports in the case of products containing high quantities of milk solids non fat Ensure the export of at least 99% of permitted cheese exports
	Import the mandatory butter imports as per the WTO agreement	<ul style="list-style-type: none"> Import the mandatory 3,274 tonnes of butter
Propose and support measures that improve the administration of the supply management system	Work with provinces to increase their level of harmonization, both within and between regional pools Streamline the administration of the supply management system	<ul style="list-style-type: none"> Regional pools will harmonize three policies overall Update the National Milk Utilization Audit Standards and have them approved by the CMSMC Simplify quota and pooling calculations in collaboration with the industry.
	Improve the efficiency of information exchange between the CDC and stakeholders	<ul style="list-style-type: none"> Use Web services to send program data to Dairy Farmers of Ontario 80% of participants in the Special Milk Class Permit Program submit their data to the CDC using the new Web portal

Strategic theme: An Industry that Adapts

5-year objective	Activities	Performance measure for 2014-2015
Help the Canadian dairy industry adapt to changing market conditions, within the framework of supply management	Maintain the stability and predictability of the industry as it adapts to change	<ul style="list-style-type: none"> Explore ways to maintain the stability and predictability of the dairy industry while stimulating market growth
	Improve access to market intelligence	<ul style="list-style-type: none"> Explore the export potential of CETA and inform the industry Work with other government agencies to better assess the impact of dairy imports on the Canadian industry and inform the industry

¹⁹ Projected for 2013-2014

Create an environment conducive to the development of new markets for SNF	Support investment to grow the market for Canadian dairy products and ingredients, in particular solids non fat	<ul style="list-style-type: none"> • Provide support to investors wishing to manufacture products rich in solids non fat • Promote investment at 2 trade shows
Encourage efficiencies in all sectors of the industry	Ensure that the assumed processor margin calculations capture efficiency gains	<ul style="list-style-type: none"> • Use up-to-date data in the calculation of the assumed processor margin
	Ensure that producer cost of production calculations capture efficiency gains	<ul style="list-style-type: none"> • Use up-to-date data in the calculation of the cost of producing milk

Strategic theme: A Well-Managed CDC

5-year objective	Activities	Performance measure for 2014-2015
The CDC adapts to remain a high-performing organization	Benchmark and improve employee satisfaction and engagement	<ul style="list-style-type: none"> • Improve employee satisfaction (as measured by an annual survey)
	Improve process efficiency	<ul style="list-style-type: none"> • Reprogram 3 internal applications in a more current programming language • Audit files are 100% electronic
	Prioritize the services that the CDC offers to the industry	<ul style="list-style-type: none"> • Draft guidelines on allocation of resources to priority services and circulate them to managers
	Implement the new Public Service Directive on Performance Management	<ul style="list-style-type: none"> • Measure 100% of staff performance using the Public Service Performance Agreement

FINANCIAL INFORMATION

SUMMARY

During the period covered by this corporate plan, the structure and standards of the financial statements are expected to remain the same, as well as the main activities and programs of the CDC. No capital expenses are forecasted. The financial statements presented are based on the International Financial Reporting Standards (IFRS). Thanks to an increase in milk production in 2012-2013, butter stocks have returned to normal levels. A decline in production in 2013-2014 will produce less surplus skim milk powder.

MAJOR ASSUMPTIONS USED IN PREPARING BUDGETS

Foreign exchange rates and interest rates

- The exchange rates used in these budgets are CAD\$1.10 per USD (USD\$0.90 per CAD) for 2014-2015 through 2018-2019.
- The interest rates used for outstanding loans for 2014-2015 are 1.00%, 1.25% for 2015-2016 and 2016-2017, 1.5% for 2017-2018 and 1.75% for 2018-2019.
- Interest rates on loans from the member of Canadian Payments Association will remain at prime which is estimated to be 3.00% for 2014-2015, 3.25% for 2015-2016 and 2016-2017, 3.50% for 2017-2018 and 3.75% for 2018-2019.

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).
- Skim milk powder: 30% of July purchases remain outstanding (12 working days).

Sensitivity of the projections to assumptions

Beyond 2014, 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.

Figures for 2012-2013 are actual. Figures for 2013-2014 are forecasted while those for subsequent years are projected.

CANADIAN DAIRY COMMISSION
STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS
for the Dairy Years ended July 31, 2013 - 2019

	(in thousands)							
	Actual Audited	Budget	Forecast	Budget				
	2012-2013	2013-2014	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Sales and Cost of Sales								
Domestic sales revenue	\$ 252,686	\$ 234,875	\$ 221,544	229,772	224,104	215,573	218,335	221,140
Cost of goods sold - domestic	234,423	217,983	192,701	211,149	212,795	207,389	210,113	212,904
Transport and carrying charges	5,330	4,878	4,474	4,146	3,880	3,811	3,889	3,970
Finance costs	1,126	1,030	827	797	1,011	1,026	1,250	1,480
Gross profit on domestic sales	<u>11,807</u>	<u>10,984</u>	<u>23,542</u>	<u>13,680</u>	<u>6,418</u>	<u>3,347</u>	<u>3,083</u>	<u>2,786</u>
Export sales revenue	51,131	34,720	110,585	65,900	45,125	44,550	44,550	44,550
Cost of goods exported	49,266	33,600	108,514	64,650	43,990	43,388	43,384	43,374
Transport and carrying charges	1,336	1,014	1,981	1,185	1,081	1,099	1,117	1,137
Finance costs	21	21	6	16	10	10	13	15
Gross profit on export sales	<u>508</u>	<u>85</u>	<u>84</u>	<u>49</u>	<u>44</u>	<u>53</u>	<u>36</u>	<u>24</u>
Total gross profit	<u>12,315</u>	<u>11,069</u>	<u>23,626</u>	<u>13,729</u>	<u>6,462</u>	<u>3,400</u>	<u>3,119</u>	<u>2,810</u>
Other revenues								
Funding from milk pools	6,418	5,741	5,723	5,831	7,145	7,291	7,485	8,151
Funding from the Government of Canada	4,496	3,919	4,320	3,753	3,638	3,638	3,638	3,638
Audit services	178	184	183	183	183	202	202	202
	<u>11,092</u>	<u>9,844</u>	<u>10,226</u>	<u>9,767</u>	<u>10,966</u>	<u>11,131</u>	<u>11,325</u>	<u>11,991</u>
Total	<u>23,407</u>	<u>20,913</u>	<u>33,852</u>	<u>23,496</u>	<u>17,428</u>	<u>14,531</u>	<u>14,444</u>	<u>14,801</u>
Operating Expenses								
Industry initiatives	1,597	2,328	2,078	546	296	296	46	46
Cost of Production study	862	824	833	806	822	839	855	873
Other charges / (recoveries)	(406)	(85)	(42)	20	25	22	22	22
	<u>2,053</u>	<u>3,067</u>	<u>2,869</u>	<u>1,372</u>	<u>1,143</u>	<u>1,157</u>	<u>923</u>	<u>941</u>
Administrative Expenses								
Salaries and employee benefits	5,912	6,072	5,762	6,065	6,065	6,065	6,065	6,065
Other administrative expenses	1,766	1,676	1,824	1,705	1,705	1,705	1,705	1,705
	<u>7,678</u>	<u>7,748</u>	<u>7,586</u>	<u>7,770</u>	<u>7,770</u>	<u>7,770</u>	<u>7,770</u>	<u>7,770</u>
Total	<u>9,731</u>	<u>10,815</u>	<u>10,455</u>	<u>9,142</u>	<u>8,913</u>	<u>8,927</u>	<u>8,693</u>	<u>8,711</u>
Profit before distribution to provincial milk boards and agencies	<u>13,676</u>	<u>10,098</u>	<u>23,397</u>	<u>14,354</u>	<u>8,515</u>	<u>5,604</u>	<u>5,751</u>	<u>6,090</u>
Distribution to provincial milk boards and agencies	14,531	13,852	26,608	16,557	9,458	6,348	6,299	6,255
Results of operations and comprehensive loss	<u>\$ (855)</u>	<u>\$ (3,754)</u>	<u>\$ (3,211)</u>	<u>\$ (2,203)</u>	<u>\$ (943)</u>	<u>\$ (744)</u>	<u>\$ (548)</u>	<u>\$ (165)</u>

CANADIAN DAIRY COMMISSION
 STATEMENT OF COSTS FINANCED BY THE GOVERNMENT OF CANADA
 for the Fiscal Years ending March 31, 2013 - 2019

(in thousands of dollars)

	Actual 2012-2013	Forecast 2013-2014	Budget				
			2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Administrative expenses							
CDC appropriation Vote 15	\$ 3,937	3,986	3,611	3,588	3,588	3,588	3,588
Eligible payroll expenditures	149	459	150	50	50	50	50
Total costs financed by the Government of Canada	<u>\$ 4,086</u>	<u>\$ 4,445</u>	<u>\$ 3,761</u>	<u>\$ 3,638</u>	<u>\$ 3,638</u>	<u>\$ 3,638</u>	<u>\$ 3,638</u>

CANADIAN DAIRY COMMISSION
BORROWING PLAN
for the Dairy Years ended July 31, 2013 - 2019

(in thousands)

Consolidated Revenue Fund

	Actual Audited 2012-2013	Forecast 2013-2014	Projected					
			2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	
Loan transactions								
Balance at beginning of year	\$ 127,277	\$ 122,323	\$ 83,487	\$ 98,974	\$ 100,070	\$ 105,383	\$ 107,502	
Drawings	243,825	140,000	160,000	160,000	160,000	160,000	160,000	
Repayments	(248,779)	(178,836)	(144,513)	(158,904)	(154,687)	(157,881)	(158,246)	
Balance at end of year	\$ <u>122,323</u>	<u>83,487</u>	<u>98,974</u>	<u>100,070</u>	<u>105,383</u>	<u>107,502</u>	<u>109,256</u>	
Average level during year:	\$103,000	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000	
Highest level during year:								
Month	May	June	June	June	June	June	June	
Amount	\$ 134,000	\$ 110,000	\$ 128,000	\$ 131,000	\$ 133,000	\$ 135,000	\$ 137,000	

Member of Canadian Payments Association

	Actual 2012-2013	Forecast 2013-2014	Projected				
			2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Loan transactions							
Balance at beginning of year	\$ 1,794	\$ 71	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500
Drawings	28,221	25,000	25,000	25,000	25,000	25,000	25,000
Repayments	(29,944)	(23,571)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)
Balance at end of year	\$ <u>71</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, 2013 - 2019

(in thousands)

	Actual	Forecast	Budget				
	<u>2012-2013</u>	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>
Capital	\$ 231	\$ 97	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total capital budget	<u>\$ 231</u>	<u>\$ 97</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</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

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

Solids non fat

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.

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

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