
CANADIAN DAIRY COMMISSION
CORPORATE PLAN SUMMARY
FOR 2005-2006 TO 2009-2010

OPERATING AND CAPITAL BUDGETS
FOR THE DAIRY YEAR ENDING JULY 31, 2006

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APPENDIX A

Glossary of Dairy Terms

I OVERVIEW OF THE CANADIAN DAIRY COMMISSION

CDC at a glance

Created in 1966

63 employees

Location: Ottawa

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

Budget 2004-2005: \$ 6.8 million

Year of operation: August 1st to July 31st

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

Legislation: *Canadian Dairy Commission Act* and Dairy Products Marketing Regulations
Financial Administration Act
Ministerial Directions to the Canadian Dairy Commission (Export Dairy Products)
Public Service Labour Relations Act

Mandate

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

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

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

Summary of activities

To achieve its mandate, the CDC works with provincial government authorities and industry stakeholders such as dairy producers¹, processors, further processors and consumers. The CDC, on the federal government's behalf, facilitates and supports the dairy industry in the development and implementation of major policies and programs.

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

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

- operating domestic seasonality and surplus removal programs;
- administering the Special Milk Class Permit Program and the Dairy Marketing Program;
- 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; and,
- administering the industry's pooling systems.

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

Organization and structure

The CDC is comprised of three executive members appointed by the Governor in Council: a Chairman and Chief Executive Officer, a Vice-chairman and a Commissioner. All three positions are part-time appointments. As of May 1, 2005, the CDC is composed of the following three members:

John Core, Chairman and CEO

Carl Harrison, Vice-chairman

Jean Grégoire, Commissioner

A total of 63 staff members currently provide a wide range of services to the dairy industry and to all Canadians on the Canadian Dairy Commission's behalf.

II PERFORMANCE OF THE CANADIAN DAIRY COMMISSION

The CDC's environment in 2004-2005

The last dairy year (2004-2005) was a year of relative stability for the Canadian dairy industry. The changes required to Canadian export mechanisms following the decision, in December 2002, of the Appellate Body of the World Trade Organization (WTO) have been in effect for two years and the industry is settling into this new environment.

The closing of the American border for cull dairy cows and reproduction heifers in May 2003 has continued to hurt the revenue of the Canadian dairy farmers. That is why, exceptionally, the CDC included a BSE add-on to its announcement on support prices for butter and skim milk powder in December 2004. These new prices were effective on February 1st, 2005. The importance of the increase (equivalent to 5 ¢ per litre, including the BSE add-on) created a fair amount of negative reactions from the Canadian Consumers Association and the Canadian Restaurant and Food services Association, as well as in some of the daily newspapers. This increase took the CDC very close to fulfilling its commitment to gradually increase the support prices such that by February 1st, 2006, 50 percent of dairy farmers in Canada would recover their cost of production. The BSE add-on is not a permanent part of the support prices and will be reviewed on a yearly basis, taking into account the evolution of the situation and government support programs.

Demand has been steady for dairy products since the beginning of the year (August 2004). There has so far been only one quota increase, in December 2004, when Market Sharing Quota went from 49.23 to 49.95 million hectolitres of industrial milk.

Following the ballooning structural surplus of the previous dairy year (over 67,000 tonnes in 2003-2004) the CDC has worked relentlessly with the dairy industry to control the surplus and find new outlets for it. Provinces no longer receive payment for solids non fat delivered above a specific ratio. Provinces have also agreed to cap the solids non fat to butterfat ratio (SNF/BF) in raw milk, and to reduce it by a predetermined amount over the next 2 to 3 years. This will reduce the SNF produced with each kg of butterfat delivered to meet Canadian requirements.

To provide incentives to individual farmers in reducing the SNF content of their milk, most provinces have allocated a bigger share of the price paid to farmers to the butterfat portion, transferring some of the value formerly put on the protein fraction.

Taking these measures into consideration, the CDC expects the structural surplus in 2004-2005 to reach 55,000 tonnes, which represents a reduction of approximately 12,000 tonnes from the previous year. Its year-end inventories would therefore be reduced from 30,000 in 2003-2004 to about 20,000 tonnes at the end of July 2005.

During the year, the CDC has actively pursued the idea of using some of this structural surplus to participate in Food Aid programs. Discussions took place with Agriculture and Agri-Food Canada and the Canadian International Development Agency. In the end, it was concluded that using food aid programs as a market for surplus skim milk powder was not compatible with WTO rules.

Part of the solution to this structural surplus is to find new uses and applications for the non fat components of milk. The CDC's Dairy Marketing Program (DMP), an expansion of the Dairy Ingredients Marketing Program, was approved by the Commission in October 2004 and will help in this regard. The DMP includes a Direct Access Fund and an Innovation Support Fund. These funds allow manufacturers of dairy and other food products to have access to technical expertise and to develop new products and uses for milk ingredients and dairy products. Two Innovation Champions were hired in April 2005 to liaise between Canadian companies, expertise centres and funding programs from various sources.

Increasing per capita consumption of dairy products in Canada continues to be one of the objectives of the CDC. In 2004-2005, the Commission started to explore new partnerships to achieve this with promotion activities. An initial proposal was submitted by Dairy Farmers of Canada in the fall of 2004 and Commissioners requested revisions to the proposal, which were provided in the spring of 2005. After careful consideration, the CDC decided that the initial target of its promotional efforts would be fluid milk products, and that discussions would be undertaken with provincial agencies as they are responsible for this type of promotion.

The dairy industry, following various options presented by the CDC, started a new quota management policy on August 1st, 2004. This new policy ensures tighter control over milk production, keeping it even more in line with Canadian demand. This avoids costly surpluses and prevents possible shortages in periods of peak demand. Under this new policy, provinces no longer receive payment for the milk produced and delivered above 100 percent of their industrial quota. Provinces failing to meet this requirement will see their quota reduced by an equivalent amount in the following year. In addition, year-end reallocation of underproduction occurs at the national level. Measures such as these provide strong incentives for the provincial marketing boards to tightly control milk production in their jurisdiction.

This tighter quota policy, coupled with a structural surplus that is still significant, require the CDC to have sufficient borrowing capacity to be able to purchase the entire surplus and dispose of it, and maintain adequate butter inventories to prevent shortages on the domestic market. The borrowing limit was increased last year to \$120 million and this amount appears to be adequate for the foreseeable future.

During the year, the CDC continued to foster an open dialogue between dairy farmers and processors, with a particular focus on pricing, milk supply and allocation, as well as dairy product regulations.

Corporate governance

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

As part of their overall stewardship, the Commissioners:

- establish and approve the CDC's strategic directions, Corporate Plan and budgets with input from senior management;

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

The following steps were taken in 2004-2005 to improve corporate governance.

- The Special Milk Class Permit Program and the services offered by the CDC to the various permanent industry committees were evaluated. The results, along with recommendations, were presented to the CMSMC.
- Internal audits were performed on the Concentrated Milk Assistance Program and on the system used to calculate the subsidy value for dairy exports.
- The Commission carried out a business resumption exercise.
- A delegation of authority in the area of Human Resources was completed and approved by Commissioners.
- The Commission adopted a new grievance policy, which was circulated to all staff.
- A Code of Ethics and Professional Conduct was approved by the Commission as an additional step beyond the standards provided by Treasury Board's "Value and Ethics Code for the Public Service".
- The Public Service Human Resources Management Agency of Canada carried out a verification of employee classification at the CDC.
- The Office of the Auditor General performed the five-year Special Examination at the CDC. The report is expected before July 31st, 2005.

Achievement of goals for 2004-2005

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

CORPORATE GOALS

Goal 1

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

Performance indicators for 2004-2005	Achievements
Review and update the CDC rules	This objective has been set aside in light of Treasury Board's Review of the Governance Framework for Canada's Crown Corporation. The Rules will include applicable changes brought on by this review.

Performance indicators for 2004-2005	Achievements
Operationalize and embrace CDC's corporate policy for employment equity, as well as Treasury Board's Values and Ethics Code	The CDC keeps monitoring the presence of protected groups in certain categories where a balance is required. The CDC prepares reports on all competitions which show the numbers of candidates from protected groups applying, screened in, assessed and hired. These are to go to the newly created EE Advisory body, which reports to the Chairman, and which meets to review CDC activity and progress towards EE goals.
Promote CDC values to all CDC employees	In a first promotion campaign, posters were displayed in the main entrance and in the meeting rooms of the CDC building. The new Employee Recognition Policy also puts a lot of emphasis on the values of the CDC.
Ensure that all Commissioners complete the course on Crown Corporate Governance	So far, this course has not been offered in French therefore our Commissioner has not been able to take it.
Include "improving internal communications" in the objectives of management for 2004-2005	This objective led to more frequent meetings of managers throughout the year. The Chairman held two meetings to inform staff of the current issues faced by the CDC.
Encourage managers to hold regular staff meetings	Some teams have started regular meetings while smaller teams have chosen a less formal method.
Establish a Manager's forum for middle management	The managers' forum has met about six times during the year.
Harmonize the processing and the filing of information, both in electronic and printed format	A policy on information management has been drafted and remains to be adopted by the Commission. This policy contains guidelines related to the processing and storing of information, as well as document security guidelines.
Train staff on their obligations under the <i>Access to Information Act</i> and the <i>Privacy Act</i>	This will be done once the policy on information management is adopted and implemented.
Run a second round of training for staff concerning our electronic records management system	This will be done once the policy on information management is adopted and implemented.

Goal 2
Improve the planning of human resources.

Performance indicators for 2004-2005	Achievements
Prepare a succession plan	This task has been included in a broader goal for 2005-2006.
Offer all CDC employees the opportunity to prepare a personalized training plan	All employees have had the opportunity to prepare a personalized training plan.
Prepare a corporate training plan	The corporate training plan in 2004-2005 included Performance Management (for managers), Media Training (for spokespeople) and First Aid/CPR for a group of 11 employees.

SERVICE GOALS

Goal 3
Provide leadership to the industry and particularly enhance stakeholder relationships.

Performance indicators for 2004-2005	Achievements
Complete the industry visioning initiatives and communicate the results to stakeholders	The industry visioning initiatives were completed and the results communicated to stakeholders. What could be achieved with this method was achieved and the CDC now turns to other forums and activities to continue moving issues forward. We will have more sessions in the future as new challenges emerge.
Provide transparent and impartial advice to stakeholders	Transparent and impartial advice was provided to stakeholders throughout the year thanks to economic and policy analyses performed by CDC staff and communicated by staff and Commissioners.
Ensure stakeholders interests are heard	Numerous meetings were held with industry stakeholders, either formally or informally. For the pricing exercise in December 2004, the Commission invited all stakeholders to present their position, either in writing or in person. Many accepted the invitation.
Participate in Agriculture and Agri-Food Canada's Dairy Round Table	The Round Table has not started its work. There does not seem to be an interest from producers or processors for this sort of Round Table at this time.

Goal 4**Further develop profitable markets for Canadian dairy products.**

Performance indicators for 2004-2005	Achievements
Develop, recommend to Canadian Milk Supply Management Committee (CMSMC) and fund an expanded innovation program for dairy product development and marketing	The expanded program was approved in October and is called the Dairy Marketing Program. It is an expansion of a pre-existing program, called the Dairy Ingredient Marketing Program. New components of the program include the Direct Access Fund (giving companies limited free access to technical expertise in the area of food technologies), the Innovation Support Fund (funding development of new products and applications) and the hiring of two Innovation Champions (who started on April 6).
Explore ways to replace substitutes with dairy ingredients and investigate new markets for solids non fat and provide proposals to CMSMC	Following the recommendation by the CDC, the CMSMC approved a new class of milk for solids non fat which are to be sold for use in non-standardized processed cheese products.
Stimulate growth through partnership initiatives	Talks have been taken place between the CDC and dairy farmers to promote consumption of dairy products in Canada.
Maximize subsidized exports allowed under the World Trade Organization	Each category of subsidized exports has been maximized and the results reported quarterly to Agriculture and Agri-Food Canada.
Develop policy alternatives to reduce structural surplus	Following the advice of the CDC, provincial marketing boards have put in place a series of measures aimed at reducing the structural surplus at the farm level.

Goal 5**Provide technical assistance to the Canadian negotiation team and evaluate the potential impact of the agriculture negotiations at the World Trade Organization on the Canadian dairy industry.**

Performance indicators for 2004-2005	Achievements
Monitor negotiations and provide any technical assistance and advice required by the Canadian negotiating team	The CDC staff has monitored the WTO negotiations and has provided help as requested by the Canadian negotiating team. The CDC also participated in the Agriculture Trade Negotiation Consultation Group.
Evaluate, anticipate and communicate any potential impact on the Canadian dairy industry	The CDC hired a trade analyst.

**Goal 6
Facilitate effective national milk quota management.**

Performance indicators for 2004-2005	Achievements
Provide various quota management analyses and recommendations to the CMSMC	Various options for tighter quota management were proposed to the CMSMC. The Committee adopted one of these options in July 2004.
Assist in the implementation and the administration of the chosen system	The new system was implemented on August 1 st , 2004; the CDC now helps the industry to implement and monitor it.

**Goal 7
Review farm gate pricing beyond 2006.**

Performance indicators for 2004-2005	Achievements
Hold consultations on farm gate pricing beyond 2006 and its dependency on CDC support prices	Following further advancements in the Doha Round of WTO negotiations, the CDC intends to put together a Task Force to develop recommendations on the determination of support prices beyond February 2006.

III KEY ISSUES AND STRATEGIC DIRECTIONS

Over the years, the Canadian supply management system has adapted to many changes. Trade liberalization has been a major factor in these changes. As the Doha round of negotiations progresses at the World Trade Organization (WTO), discussions on the possibility of reduced tariffs on imports and increased market access cause a great deal of concern for the dairy industry. Furthermore, the elimination or any reduction in the level of subsidized exports allowed under the WTO would have serious repercussions. The CDC intends to continue its leadership role in the dairy industry to respond to any challenges.

The Canadian Dairy Commission will need to take a leadership role in deciding on the future of pricing of industrial milk. Until February 1st, 2006, the drivers of the pricing decision are clear. The CDC will fulfill its commitment, taken in January 2002, to gradually increase the support prices for butter and skim milk powder to ensure that, by February 1st, 2006, 50 percent of Canadian dairy farmers recover their cost of production. This commitment will thus be fulfilled at the next pricing announcement, in December 2005. The pricing method to be used beyond that needs to be discussed, analyzed, and implemented. To this end, the CDC wants to undertake consultations with the industry, from producers to consumers, to hear their views on the direction that the pricing methodology should take.

Since its creation in 1966, the CDC has worked to increase the level of harmonization in dairy policies from sea to sea. Many agreements underpinning the industry are up for review in the coming year. The All Milk Pooling Agreement (of Eastern Canada) contained a clause asking for its review in 2005-2006. The pricing agreement in Class 5(c) (milk ingredients for the confectionery industry) ends in 2005-2006 and negotiations are required to arrive at a new agreement. The CDC will facilitate these discussions, hoping to further harmonize dairy policies. The Commission also hopes to start active discussion on a national pool for all milk classes.

The structural surplus of skim milk solids has grown beyond our export limits and the industry is implementing ways to deal with it. Pricing and quota policies at the farm level have been reviewed to remove incentives that lead to a larger structural surplus. Structural surplus is expected to reach 57,000 tonnes of skim milk powder in 2004-2005, compared to 67,820 tonnes the previous year. It is hoped that this downward trend will continue although there are suggestions that it may worsen because of increased imports of milk protein. In the meantime, the CDC's borrowing capacity must be maintained so that it can purchase all the surplus and dispose of it in a way that will maximize producer returns. CDC's borrowing capacity is also used to maintain adequate butter stocks to prevent shortages in an environment that requires tighter management of production.

In addition to reducing the production of structural surplus at the farm level, new uses for these solids non fat must be found and the industry is also looking at this, with support from the CDC. The expanded Dairy Marketing Program will assist in this regard, along with the creation of a new class of milk that encourages the use of milk solids non fat in non-standardized processed cheese products.

Increasing the per capita consumption of dairy products is also a good way to create new markets for all milk components. Promotional activities can take many forms and the CDC wants to ensure that it does not duplicate efforts already made by other industry stakeholders. At its May meeting, the Commission decided to start discussions with provincial

milk marketing agencies in order to establish partnerships in the promotion of fluid milk products.

All these measures should decrease the quantity of skim milk powder that the CDC needs to buy from the industry and dispose of on domestic and international markets.

As the work continues at the WTO, the Commission feels that it is important for the organization to increase its expertise and capacity in the area of trade. The Commission needs to be better equipped to monitor the WTO negotiations and understand the impact of the decisions made at the WTO on the various programs and systems in place in the Canadian dairy industry. The CDC also needs to be in a position to explain these impacts to the industry and help it implement the new rules.

Furthermore, the CDC commissioners feel it is important to ensure the future availability of specialists in the areas of dairy policy analysis and dairy food science. To that end discussions will be undertaken with several Canadian universities to pursue the possible funding of graduate student scholarships in those areas.

Public corporations are under more and more public scrutiny and governance is taking centre stage. The public demands ethical and honest behaviour from its public servants and appointees and the Commission must be able to show that measures are in place to encourage proper governance and prevent abuse. The CDC subscribes to this trend and has already started to improve its accountability framework. For example, the CDC has put in place a Code of Ethics and Professional Conduct to formalize this requirement from its employees. The CDC intends to continue in this direction. For the coming year, a particular emphasis will be put on the promotion of CDC values, internal communications, records management, human resources management and efficiency.

Following a strategic planning session where all these issues were discussed and analyzed, the CDC has identified four areas of priority for the next years:

Leadership in the Canadian dairy industry (Goal 1 in the next section)

Many issues will require leadership, bringing stakeholders to the table, and ensuring that proper solutions are chosen and implemented. The CDC has had a very important facilitator role in the industry, especially in the last 10 years and it is generally seen as a competent, neutral advisor. Based on these factors, the CDC intends to assume the leadership role in the dairy industry for the following issues:

- industrial milk pricing beyond 2006;
- increasing the level of harmonization among provinces;
- implementing a new price agreement for confectionery Class 5(c);

Developing new markets for Canadian dairy products (Goal 2 in the next section)

The structural surplus has decreased, but is still significant. New uses and applications must be found for milk solids non fat. At the same time, the dairy industry can only look at increasing domestic consumption for its growth, since the WTO rules severely restrict its exports. The *CDC Act* allows the CDC to get involved in the promotion of dairy products and the Commission will increase its involvement in promotion by supporting efforts of provincial agencies engaged in promoting fluid milk products.

The Commission will also use current programs to find new markets for solids non fat, and to promote innovation in the fields of manufacture and use of dairy products and ingredients.

Expertise in trade issues (Goal 3 in the next section)

The importance of the WTO negotiations and rulings is paramount to the Canadian dairy industry. In order to be better able to provide advice to the industry and to the Canadian negotiating team, the CDC intends to increase its expertise and capacity in the area of interprovincial and international trade.

Governance and efficiency (Goal 4 in the next section)

The public sector is increasingly being asked to be more transparent, more accountable, and more efficient. The Commission wishes to do its part in the Federal government's efforts toward these goals. To be better prepared to fulfill its mandate in the future, the CDC needs a comprehensive human resources plan, better internal communications and better information management. As Treasury Board recently published a review of the Governance Framework for Crown Corporations, the CDC needs to closely monitor the results from this review and act accordingly.

IV GOALS FOR THE PLANNING PERIOD

Mission of the CDC:

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

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

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

Values of the CDC

INTEGRITY	LEADERSHIP	RESPECT AND DIGNITY	PROFESSIONALISM
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Goals for 2005-2010

The CDC has identified the following goals for the planning period, which are in line with the analysis of the environment discussed in Section III.

Goal 1. Provide leadership to the Canadian dairy industry

PERFORMANCE INDICATORS FOR 2005-2006

- Creation of a pricing review process
- Receipt of recommendations of review process
- Commission approval
- Implementation of recommendations
- Completion of the All Milk Pooling Agreement review by March 2006
- Start active discussion on an All Milk National Pooling Agreement
- Coordination of a national auditors meeting by March 2006
- Revision of the National Milk Utilization Audit Manual by March 2006
- Effective monitoring of the National Milk Quota Management
- Completion of the review of the Comprehensive Agreement on Pooling of Milk Revenues by December 2005 for presentation to CMSMC in January 2006
- Creation of a 5(c) Price Committee
- Receipt of Committee's report by the CMSMC
- Committee's final report and recommendation(s)
- CMSMC approval

Goal 2. Encourage the development of markets for Canadian dairy products

PERFORMANCE INDICATORS FOR 2005-2006

- New markets for SNF
- Lower purchases and stocks of SMP under 4(m)
- Increase level of activity under the Dairy Marketing Program
- Increase level of activity under 4(a)1
- Increase in revenue per unit of SNF
- Report to CMSMC the results of the Special Class evaluation
- Act according the CMSMC direction
- Approval of partnerships by Commission
- Full implementation of Dairy Marketing Program
- Reduced SMP stocks
- Fulfill close to 100% of WTO export commitments without exceeding them

Goal 3. Increase CDC's involvement and expertise in trade issues

PERFORMANCE INDICATORS FOR 2005-2006

- Train the new trade analyst to increase CDC's expertise in trade issues
- Provide expertise and advice to WTO negotiation team
- Evaluate impact of WTO decisions on Canadian dairy industry
- Report to Commission and stakeholder/government committees

Goal 4. Enhance the governance and operations of the CDC

PERFORMANCE INDICATORS FOR 2005-2006

- Key positions identified by March 2006
- Competency profiles of key positions developed by March 2006
- Development and implementation of a self-identification methodology by March 2006
- Number of people with personal learning plans
- Commission approval
- Implementation of the PSMA elements as per Treasury Board timelines
- Implementation of two initiatives
- Increased number of team meetings
- Implementation of directives as required
- Commission approval
- Completion of training on the Guidelines for all employees
- Implement the policy and guidelines in daily operations of all employees
- Reach expenditure review goal through operational efficiency
- Review and recommend changes to improve services to clients (avoid duplication)
- Implementation of recommendations of CDC's review

V FINANCIAL INFORMATION

for the dairy years ending July 31, 2004 to 2010

Major assumptions used in the preparation of the budget and forecast

Figures for 2003-2004 are actual figures. For the subsequent years, 2004-2005 through to 2009-2010, figures are projected.

For the dairy year 2003-2004, Canadian requirements were up by 0.2 percent from the previous year, namely from 48.9 to 49.0 million hectolitres. Given the rising trend in imports of milk ingredients and the important price increase in raw milk effective February 1st, 2005, it is not unreasonable to assume that the Canadian requirements will decrease slightly from 2005-2006 through to 2009-2010.

Beyond 2005, it is difficult to quantify all the variables and forecast potential developments, due to the possible changes within the dairy industry. A tighter milk supply system was implemented to deliver as precisely as possible the required milk to satisfy Canadian Requirements. The challenge is to avoid a build-up of stocks of butter while at the same time preventing shortages.

Sensitivity of the projections to assumptions

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

CANADIAN DAIRY COMMISSION
MARKETING OPERATIONS STATEMENT and BUDGET
for the DAIRY YEARS ending JULY 31, 2004 - 2010

(in thousands of dollars)

	Budget	Actual	Budget	Forecast	Budget				
	2003-04	Audited	2004-05		2005-06	2006-07	2007-08	2008-09	2009-10
Sales	\$ 183,820	\$ 172,042	\$ 225,201	\$ 222,007	\$ 227,124	\$ 217,091	\$ 221,797	\$ 225,335	\$ 222,826
Cost of sales	<u>178,522</u>	<u>167,171</u>	<u>218,502</u>	<u>212,395</u>	<u>213,674</u>	<u>208,745</u>	<u>213,854</u>	<u>217,346</u>	<u>214,987</u>
Margin (loss) on sales	5,298	4,871	6,699	9,612	13,450	8,346	7,943	7,989	7,839
Operating expenses									
Dairy product assistance - Domestic	300	357	300	450	450	450	450	450	450
Carrying charges	4,758	4,232	3,978	5,265	5,202	4,946	4,833	4,795	4,795
Cost of production - Pool share	510	537	510	593	570	570	570	570	570
Promotional and program activities	918	2,520	6,815	685	4,818	4,788	4,670	4,638	4,638
Administrative expenses - marketing activities	<u>3,251</u>	<u>3,137</u>	<u>3,572</u>	<u>3,188</u>	<u>3,482</u>	<u>3,534</u>	<u>3,638</u>	<u>3,744</u>	<u>3,852</u>
Total operating expenses	<u>9,737</u>	<u>10,783</u>	<u>15,175</u>	<u>10,181</u>	<u>14,522</u>	<u>14,288</u>	<u>14,161</u>	<u>14,197</u>	<u>14,305</u>
Net loss (gain) before funding	<u>4,439</u>	<u>5,912</u>	<u>8,476</u>	<u>569</u>	<u>1,072</u>	<u>5,942</u>	<u>6,218</u>	<u>6,208</u>	<u>6,466</u>
Pool funding	6,927	7,185	6,415	7,064	5,923	6,892	6,987	7,057	7,155
Net results of operations	<u>2,488</u>	<u>1,273</u>	<u>(2,061)</u>	<u>6,495</u>	<u>4,851</u>	<u>950</u>	<u>769</u>	<u>849</u>	<u>689</u>
Surplus beginning of year	<u>32,440</u>	<u>32,440</u>	<u>21,405</u>	<u>21,405</u>	<u>27,900</u>	<u>30,779</u>	<u>24,039</u>	<u>21,954</u>	<u>20,190</u>
	<u>34,928</u>	<u>33,713</u>	<u>19,344</u>	<u>27,900</u>	<u>32,751</u>	<u>31,729</u>	<u>24,808</u>	<u>22,803</u>	<u>20,879</u>
Refund of surplus from prior year	12,308	12,308	0	0	1,972	7,690	2,854	2,613	2,743
Surplus end of year (1)	<u>\$ 22,620</u>	<u>\$ 21,405</u>	<u>\$ 19,344</u>	<u>\$ 27,900</u>	<u>\$ 30,779</u>	<u>\$ 24,039</u>	<u>\$ 21,954</u>	<u>\$ 20,190</u>	<u>\$ 18,136</u>

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

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

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

CANADIAN DAIRY COMMISSION
 STATEMENT OF DAIRY SUPPORT PROGRAM AND COSTS
 FINANCED BY THE GOVERNMENT OF CANADA
 for the DAIRY YEARS ending JULY 31, 2004 - 2010

(in thousands of dollars)

	Actual Audited <u>2003-04</u>	Forecast <u>2004-05</u>	Budget				
			<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Administrative expenses	\$ 3,172	\$ 3,239	\$ 3,202	\$ 3,202	\$ 3,202	\$ 3,202	\$ 3,202
Dairy studies	343	300	300	300	300	300	300
Total costs financed by the Government of Canada	<u>\$ 3,515</u>	<u>\$ 3,539</u>	<u>\$ 3,502</u>	<u>\$ 3,502</u>	<u>\$ 3,502</u>	<u>\$ 3,502</u>	<u>\$ 3,502</u>

CANADIAN DAIRY COMMISSION
 STATEMENT OF DAIRY SUPPORT PROGRAM AND COSTS
 FINANCED BY THE GOVERNMENT OF CANADA
 for the FISCAL YEARS ending MARCH 31, 2004 - 2010

(in thousands of dollars)

	<u>Actual</u> <u>2003-04</u>	<u>Actual</u> <u>2004-05</u>	<u>Budget</u>				
			<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Administrative expenses	\$ 3,219	\$ 3,258	\$ 3,202	\$ 3,202	\$ 3,202	\$ 3,202	\$ 3,202
Dairy studies	300	343	300	300	300	300	300
Total costs financed by the Government of Canada	<u>\$ 3,519</u>	<u>\$ 3,601</u>	<u>\$ 3,502</u>	<u>\$ 3,502</u>	<u>\$ 3,502</u>	<u>\$ 3,502</u>	<u>\$ 3,502</u>

CANADIAN DAIRY COMMISSION
BORROWING PLAN
for the DAIRY YEARS ending JULY 31, 2004 - 2010

(in thousands of dollars)

Consolidated Revenue Fund

	Actual Audited 2003-04	Forecast 2004-05	Projected					
			2005-06	2006-07	2007-08	2008-09	2009-10	
Loan transactions								
Balance at beginning of year	\$ 28,702	\$ 98,337	\$ 103,770	\$ 96,731	\$ 101,373	\$ 99,940	\$ 98,205	
Drawings	161,234	150,397	150,000	150,000	150,000	150,000	150,000	
Repayments	(91,599)	(144,964)	(157,039)	(145,358)	(151,433)	(151,735)	(145,147)	
Balance at end of year	<u>\$ 98,337</u>	<u>\$ 103,770</u>	<u>\$ 96,731</u>	<u>\$ 101,373</u>	<u>\$ 99,940</u>	<u>\$ 98,205</u>	<u>\$ 103,058</u>	
Average level during year:	\$41,533	\$60,000	\$48,000	\$51,000	\$50,000	\$49,000	\$52,000	
Highest level during year:								
Month	July	July	June	June	June	June	June	
Amount	\$100M	\$104M	\$105M	\$105M	\$103M	\$102M	\$107M	

Member of Canadian Payments Association

	Actual 2003-04	Forecast 2004-05	Projected				
			2005-06	2006-07	2007-08	2008-09	2009-10
Loan transactions							
Balance at beginning of year	\$ 734	\$ 1,422	\$ 750	\$ 750	\$ 750	\$ 750	\$ 750
Drawings	29,192	15,873	16,000	16,000	16,000	16,000	16,000
Repayments	(28,504)	(16,545)	(16,000)	(16,000)	(16,000)	(16,000)	(16,000)
Balance at end of year	<u>\$ 1,422</u>	<u>\$ 750</u>	<u>\$ 750</u>	<u>\$ 750</u>	<u>\$ 750</u>	<u>\$ 750</u>	<u>\$ 750</u>

Authority:

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

Reason for borrowing:

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

CANADIAN DAIRY COMMISSION
CAPITAL BUDGET
for the DAIRY YEARS ending JULY 31, 2004 - 2010

(in thousands of dollars)

	Actual	Forecast	Budget				
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Major capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Minor capital	190	211	142	142	142	142	142
Total capital budget	\$ 190	\$ 211	\$ 142	\$ 142	\$ 142	\$ 142	\$ 142

Minor Capital expenditures for the years 2004-2005 through to 2009-2010 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 five times per year to review and consider the major economic and marketing factors affecting the dairy sector. It also reviews and monitors the CDC's marketing operations and promotional activities; the pooling systems established for market returns from certain milk sales; and provincial quota allocations and utilization. The CMSMC determines the national production target or Market Sharing Quota (MSQ).

Canadian Requirements

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

Dairy Producers

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

Dairy Year

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

Domestic Requirements

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

Further Processors

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

Industrial Milk

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

Market Sharing Quota (MSQ)

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

Milk Class

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

National Milk Marketing Plan

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

Processors

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

Supply Management

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

Structural Surplus

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

Support Prices

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

DM 80544
October 6, 2005