Canadian Dairy Commision | Commision canadienne du lait

Canadian Dairy Commission

Annual Report

13-14

Canada

Mandate of the Canadian Dairy Commission

Under the *Canadian Dairy Commission Act*, the CDC's legislated objectives are:

- to provide efficient producers of milk and cream with the opportunity to obtain 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.

Mission statement

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

Values

Excellence Integrity Leadership Respect.

Commission staff is available to serve you, in either official language, from 8 a.m. to 4:30 p.m. Eastern time, Monday to Friday (statutory holidays excluded).

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Catalogue No.: A88-2014E-PDF

ISSN: 0382-3229

Design and production:
Element Design and Communications

Printing: Gilmore Printing Services Inc.,
printed in Canada

Cover photo: Southside Dairy, Egbert and Jeannette Klaassen, Elm Creek, Manitoba

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Letter From the Chairman

Carla Soutar, Tonesa Holsteins, Chilliwack, BC

Mister Minister,

I am pleased to submit the Canadian Dairy Commission's Annual Report for the 2013-2014 dairy year. As we conclude the year, the Canadian Dairy Commission (CDC) is in a sound financial position and has achieved most of the objectives it had set for itself. Some of these objectives were not reached either because the industry was not ready to move forward on some issues or because circumstances required a change in direction. Throughout the year, the CDC continued to help the Canadian dairy industry and its stakeholders to implement changes in order to respond positively and in a timely fashion to the many challenges that arose.

In 2013-2014, the CDC continued to execute a three-year strategy for the dairy industry to grow markets, create a more flexible milk allocation system for processors, and continue the ongoing task of reducing the structural surplus of solids non fat. Many components were already put in place in dairy year 2012-2013. This year, the CDC implemented the Planned Export Program for Cheese (PEPC), which aims at developing longer term export markets for Canadian cheeses. After a year of existence, the new milk Class 3(d) for mozzarella cheese used on fresh pizzas has been quite successful with in excess of 6,000 pizza restaurants now registered. It will be evaluated by the CDC in the fall of 2014 and the Canadian Milk Supply Management Committee will review its modalities based on this evaluation.

In October 2013, we were pleased to welcome Mr. Hennie Bos as our new commissioner for a three-year mandate. Mr. Bos is a dairy farmer and yogurt processor from Alberta with extensive board experience and he has already made substantial contributions to the deliberations of the CDC board.

As we undertake a new year, I would also like to express my appreciation for the co-operation we receive from industry stakeholders, provincial governments, the Minister's Office and our colleagues at Agriculture and Agri-Food Canada and the other Agriculture and Agri-Food Portfolio organizations.

On behalf of the board, I would like to thank you, Mr. Minister, for supporting the work of the CDC.

Randy Williamson

Message From the CEO

The Canadian Dairy Commission (CDC) is proud to partner with the Canadian dairy industry, an industry characterized by a spirit of collaboration. In 2013, Canada's dairy processing sector alone contributed $15.7 billion and 22,700 jobs to Canada's economy.

Rene Miedema, Bomi Farms, Enderby, BC

Over the course the 2013-2014 dairy year, demand for milk increased by 3.1% from the previous year to reach 321.7 million kg of butterfat. This increased demand was most noticeable in the butter, cream and further processing markets. During the same period, milk production remained relatively stable at 313.7 million kg of butterfat.

Milk production was lower than demand this year as producers had difficulty keeping pace with increases in demand. Thanks to sufficient stocks and a growth allowance added to the quota, all markets were adequately supplied. Strong world prices throughout the year allowed the CDC to sell important quantities of skim milk powder on export markets while respecting its World Trade Organization commitments. The CDC managed to lower its inventories of skim milk powder (SMP) in Class 4(m)[1], reducing its year end stocks to 12,262 t compared to 20,660 t a year ago.

In December 2013, the CDC announced a modest increase of 1% in the support prices of skim milk powder and butter. The new prices took effect on February 1, 2014. This change in support prices was very much in line with the consumer price index, which stood at 0.9%. It is worth noting that the resulting increases in raw milk prices did not affect the newly created milk Class 3(d) for mozzarella used on fresh pizzas.

In 2013-2014, the Canadian Milk Supply Management Committee (CMSMC) approved the movement of milk between regional pools in order to ensure an adequate milk supply to processors to meet growth requirements for the yogurt and fine cheese markets. The cost of transporting the milk will be shared among all provinces except Newfoundland and Labrador. The committee also approved the creation of growth reserves in each regional pool to supply growing markets.

The CMSMC approved a reduced budget for the annual cost of production study. The study stills provides the CDC with quality results thanks to a streamlined data collection process and an improved methodology. The committee also approved new terms of reference for its Secretariat. The new terms of reference align the provincial representation on this technical committee with the provincial representation at the CMSMC.

The CMSMC voted on a budget for the drafting of its Record of Standing Policy. A consultant was hired to produce this document, which will be presented to the CMSMC in the next dairy year. It will contain an overview and timeline of the various federal-provincial agreements that regulate the dairy industry, as well as the major decisions that amend or interpret these agreements. During the course of the year, the CDC obtained an order in council to sign an amendment to the Agreement for the entry of the province of Newfoundland and Labrador into the National Milk Marketing Plan and the Comprehensive Agreement on Pooling of Milk Revenues. This amendment clarifies the minimum guaranteed industrial milk quota that Newfoundland and Labrador will have at the end of the implementation period of the agreement in 2015-2016.

From a financial point of view, the CDC had another successful year in managing its commercial operations. As a result of conservative and prudent purchasing practices, the CDC was able to generate a surplus of $27.4 million which will be refunded to producers through the provincial milk marketing boards and agencies. Overall, retained earnings at year-end were lower than those of the previous year.

Dairy Industry Trends

In the last five years, the number of dairy farms in Canada saw a 7% reduction. This attrition rate is not very different from rates in non supply-managed commodities, or in US or European dairy farms.

Some new trends appeared in the retail consumption of dairy products over the last year. Butter consumption rose by 4.5% and that of cream, by 2.8% while overall cheese consumption only reached a 0.3% increase, down from 3.1% a year ago. Surprisingly, the retail consumption of fine cheeses decreased by 0.9% while yogurt consumption, which had risen significantly in the last few years, only grew by 0.2%. Because Canadian demand is measured in kg of butterfat, this increased butter and cream consumption had a direct, positive impact on milk demand.

[1] Mostly destined for animal feed.

On the international trade policy front, Canada and the European Union (EU) reached an agreement in principle towards a Comprehensive Economic and Trade Agreement (CETA) in October 2013. This agreement will provide the EU increased access to the Canadian cheese market by 17,700 tonnes and will also give Canada duty-free access to the EU dairy markets. Recognizing that this agreement will be implemented over the next several years, the CDC will evaluate how CETA 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 in future years, 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.

The world price of dairy products is 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. Fortunately, the world price of dairy products remained relatively high throughout the dairy year which helped minimize financial risks associated with these operations.

Workplace Trends

The Blueprint 2020 exercise had significant results at the CDC in 2013-2014. In response to employee suggestions, I now meet with all staff at least four times a year to discuss changes in the workplace and industry orientation. Directors meet with all of their staff at least twice a year to discuss priorities and answer questions. Having only 60 employees, the CDC chose meetings as the best avenue to improve communication between upper management and employees. Also, employees are being consulted at the outset of the CDC's yearly strategic planning exercise.

Recruiting employees with specialized knowledge in the fields of agricultural economics and the dairy industry remains a challenge due to the small number of potential skilled candidates. Employee attraction and retention are therefore important. The CDC is aware that it faces strong competition from other government departments and the private sector to replace people who move on or retire. In order to deal with a lean workforce and increased stakeholder demands, the CDC continues to automate and streamline its processes to increase efficiency. In 2013-2014, the CDC conducted its first annual employee satisfaction survey. This survey will be used to establish a baseline of employee satisfaction as well as an action plan targeting areas for improvement.

In closing, I am proud to be part of an organization that contributes to the betterment of the Canadian agriculture and dairy industry. Thank you to all CDC employees who are dedicated to the dairy industry and run our operations with efficiency and fairness.

Jacques Laforge

Cedarbink Dairy Ltd. Chilliwack, BC

The Canadian Dairy Commission

Tonesa Holsteins,Chilliwack, BC

The Canadian Dairy Commission (CDC) is a Crown corporation created in 1966 by the *Canadian Dairy Commission Act*. The Commission reports to Parliament through the Minister of Agriculture and Agri-Food to whom it serves as an advisor on matters related to the dairy industry. The CDC is part of the Agriculture and Agri-Food Portfolio along with Agriculture and Agri-Food Canada, the Canadian Grain Commission, Farm Credit Canada, the Farm Products Council of Canada, and the Canada Agricultural Review Tribunal. The CDC also works in partnership with the Canadian Food Inspection Agency, which joined Health Canada and the Public Health Agency of Canada in the reporting to the Minister of Health as of October 2013.

The federal government funds about half of the CDC's administrative costs. Other costs, including marketing activities, are funded by dairy producers and the marketplace. The CDC also borrows money from the Consolidated Revenue Fund and from a line of credit to finance the programs it administers on behalf of the dairy industry.

Since supply management was first applied to the dairy sector, the CDC has been in charge of two of the three pillars of the system: support prices[2] and industrial milk quota. Once a year, the CDC sets the support price of butter and skim milk powder based on consultations with industry stakeholders and a study on the cost of production. These prices are used as references by the provincial milk marketing boards to establish the price of industrial milk in each province. Through its many roles and central facilitating function in the dairy industry, the CDC ensures that Canadian dairy farmers receive sufficient revenues from the marketplace to achieve decent living standards and invest in their businesses.

The CDC also monitors national production and demand and recommends the necessary adjustments to the national production target for industrial milk. It ensures that milk production in Canada matches demand from Canadian consumers. It is important to avoid any shortage of dairy products and just as important to avoid production surpluses that are costly to handle, store and market.

To achieve its mandate, the CDC works with provincial governments and dairy industry stakeholders such as dairy producers, processors, further processors and consumers. On behalf of the dairy industry, it administers the pooling agreements and develops, implements, and administers major programs such as the Special Milk Class Permit Program, the Domestic Innovation Program, the Dairy Marketing Program, the Planned Export Program for Cheese and the Skim Milk Redirection Program[3].

The CDC chairs the Canadian Milk Supply Management Committee (CMSMC)[4]. In this capacity, it apprises the committee on matters of interest or concern that require resolution and, when necessary, proposes various solutions, alternatives or recommendations to enhance orderly and efficient marketing with an eye to avoiding deficit or surplus milk production. The CDC performs a similar role for the Eastern Canadian Milk Pool (P5) and the Western Milk Pool (WMP)[5].

CDC at a glance

Created in 1966

60 employees (as of July 31, 2014)

Location: Ottawa

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

Budget 2013-2014 (dairy year): $7.7 million

Dairy year: August 1 to July 31

Mission

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

Values

Excellence, integrity, leadership, and respect

2 Support prices are the prices at which the CDC buys and sells Canadian butter and skim milk powder under its Domestic Seasonality Programs.

3 A description of CDC's programs is presented in the section of this report entitled *Activities and Programs.*

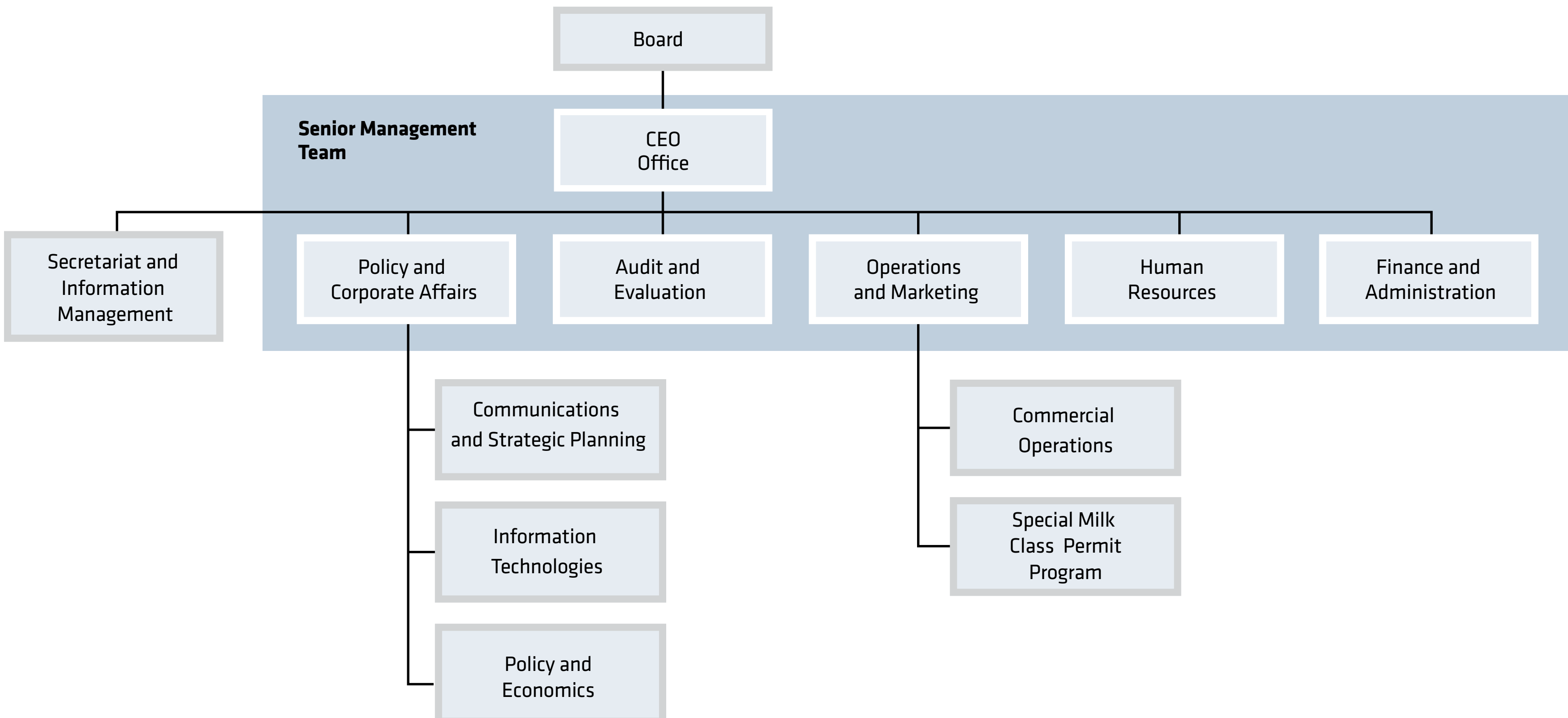
4 The CMSMC is the main national decision-making body of the dairy industry.

5 See p. 22 for more information on these pools.

Structure

The Chief Executive Officer, the Chief Operating Officer[6], the three directors, and the Human Resources Program Manager form the Senior Management Team (SMT). The SMT meets approximately every two weeks to discuss the daily operations of the CDC and to make the required decisions. It is supported by four advisory committees that develop plans and priorities, and advise management on human resources, internal audits and program evaluation, information technology, and occupational health and safety.

Structure of the Canadian Dairy Commission



[6] The role of the COO is still being developed therefore the organizational chart may change further. Currently, the incumbent of the COO position is assisting the CEO in the day-to-day operations and is the head of the Policy and Corporate affairs division.

The Canadian Dairy Industry

Farm receipts

As a key contributor to the Canadian economy in 2013, the dairy industry ranked second behind meat in terms of the value of its manufactured shipments, and it generated $5.92 billion in total farm receipts.

Number of farms and production per farm

In 2013, 12,234 dairy farms were shipping milk in Canada. The average farm had 78 cows and an average annual production of 6,391 hl of milk or 23,000 kg of butterfat[7], a production very similar to that of 2012. Based on official records for 2013, the average annual production of a dairy cow in Canada is 9,902 kg of milk. Quebec and Ontario had the greatest percentage of dairy farms at 82%, followed by 13% in the Western provinces, and 5% in the Atlantic provinces.

Milk processing

In 2013, the dairy processing industry generated $15.7 billion worth of products shipped from approximately 478 processing plants (278 of which are federally registered) accounting for 16% of all processing sales in the food and beverage industry. The dairy processing sector employed approximately 22,700 workers.

Milk markets

Canadian dairy producers supply two main markets:

- fluid milk, including creams and flavoured milks
- industrial milk used to make products such as butter, cheese, yogurt, ice cream, and milk powders.

In the 2013-2014 dairy year, the fluid milk market accounted for approximately 37% of total producer shipments, or 116.5 million kg of butterfat. The industrial milk market accounted for the remaining 63% of total producer shipments or 197.2 million kg of butterfat.

In most provinces, marketing boards and agencies purchase milk from producers and sell it to processors for the manufacture of dairy products. The milk sold to processors in Canada is classified according to its end use based on the Harmonized Milk Classification System[8]. The price paid for milk by processors varies according to the milk class. The following table shows how Canadian milk production was used in 2013-2014.

Milk utilization per class

Class	Million kg of butterfat	% of total milk
1	93.6*	29.9
2	23.7	7.5
3	107.5	34.4
4(a) and 4(a)1	51.4	16.4
4(b), 4(c), 4(d), 4(m)	2.7	0.9
5(a), 5(b), 5(c)	31.5	10.1
5(d)	2.5	0.8
TOTAL	**312.9****	**100.0**

* This figure is not equivalent to producer shipments (p. 11) because of skim-off.

** This figure cannot be compared to the data on page 66 because it excludes milk supplied to food banks, milk sold at fairs and losses.

7 Milk production in Canada is expressed in kg of butterfat.

8 Harmonized Milk Classification System (http://www.cdc-ccl.gc.ca/CDC/index-eng.php?id=3811)

Governance

The CDC is governed by the *Canadian Dairy Commission Act*, the *Financial Administration Act*, and the *Public Service Labour Relations Act*. It is also governed by the following regulations:

- the Dairy Products Marketing Regulations
- the EEC Aged Cheddar Cheese Export Regulations

It reports to Parliament through the Minister of Agriculture and Agri-Food.

Governing Board

The governing board for the CDC is made up of the chairperson, the commissioner, and the chief executive officer (CEO). The CDC board members are appointed by the Governor in Council and fulfill their mandates on a part-time basis. Members of the board have a lengthy and varied experience in the dairy industry and together, they bring a balanced approach to decision-making. They meet every six weeks.

The governing board is responsible for the overall stewardship of the organization. It approves the CDC's corporate plan, annual report, strategic plan, budget and financial statements. It develops policies and practices for the CDC, and ensures that the principal business risks are identified and that appropriate systems to manage these risks are in place. It also receives and addresses the annual audit and the special examination reports of the Auditor General.

Jacques Laforge, Chief Executive Officer; **Randy Williamson**, Chairman; **Henricus Bos**, Commissioner

Board Members

Chairman (reappointed on August 1, 2013 for a two-year term)

Randy Williamson

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).

Commissioner (appointed on October 7, 2013 for a three-year term)

Henricus Bos

Mr. Bos graduated with a B. Sc. in Dairy 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. He immigrated to Lacombe, Alberta in 1994, where he and his family established a successful dairy farm and in 1996, founded their natural yogurt business.

Mr. Bos has been a leader in Alberta's dairy industry for many years. He served at Alberta Milk between 2002 and 2013, where he became Vice-Chairman of the board of directors in 2008, and then Chairman from 2009 to 2013. From 2007 to 2013, Mr. Bos also served as Alberta's representative on the Dairy Farmers of Canada board, where he took an active role on various committees, including serving as chair of the Canadian Quality Milk Advisory Committee. From 1998 to 2002, Mr. Bos also served as a board member with organizations such as the Central Alberta Holstein Club and the Alberta Milk Producers Association.

Chief Executive Officer (appointed on February 7, 2012 for a three-year term)

Jacques Laforge

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 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.

Board Committees

Audit Committee

The Audit Committee ensures proper accountability over CDC operations as required by the *Financial Administration Act*. It reviews and approves the annual audit plan of the Auditor General and actively solicits the Auditor General's judgements regarding the corporation's accounting principles and financial reporting. The committee meets quarterly to review the financial statements and receive internal audit and program evaluation reports.

Members

- Commissioner (chair)
- Chairperson
- Chief Executive Officer

Senior Management Team

The Senior Management Team (SMT) provides a forum for discussion and decision making on the daily operations of the CDC. It creates and amends CDC policies and reviews the administrative budget before it is presented to the board. It also addresses issues relating to human resources, audit, evaluation, and governance, and acts as a sounding board for the CEO on industry-related matters and recommendations to be presented to the board.

Members

In addition to the CEO, the following people make up the SMT.

Chief Operating Officer

Gilles Froment

Mr. Froment is an economist and professional agrologist with a Bachelor of Science in Economics from the University of Montreal and a M.Sc. in Agricultural Economics from McGill University. After gaining some experience with Agriculture and Agri-food Canada in Montreal and as Market Analyst with the Canadian Turkey Marketing Agency in Mississauga, Mr. Froment joined the Canadian Dairy Commission in 1997 as a policy and program analyst.

From 2002 to 2013, he was Senior Director of Policy and Corporate Affairs, overseeing the work of the Policy and Economics, Communications and Strategic Planning, Human Resources and Corporate Secretariat services. In 2013, as a result of organizational changes, he was named Chief Operating Officer and IT services became his responsibility. While fulfilling his many duties in the day-to-day operations of the CDC, he acts as an advisor to the Canadian Milk Supply Management Committee, the P5 Supervisory Body and Western Milk Pool Coordinating Committee. He also chairs the CMSMC Secretariat. For the last decade, Mr. Froment has been the Canadian representative on the Standing Committee on Dairy Policies and Economics of the International Dairy Federation (IDF) and in March 2012, he was appointed deputy chair of that committee. He is currently vice-president of the Canadian FIL-IDF National Committee after serving four years as president.

Senior Director, Commercial Operations and Marketing

Gaëtan Paquette

Mr. Paquette holds a Bachelor of Science in Dairy Science from the University of Guelph and an M. Sc. in Food Science from the University of British Columbia. He started his career as an agrologist with the Ontario Ministry of Agriculture, Food, and Rural Affairs and subsequently worked for Agriculture and Agri-Food Canada in research and inspection before joining the CDC in 1987 as Assistant Director of Commercial Operations.

In 2013, following organization changes, Mr. Paquette became Senior Director of Commercial Operations and Marketing. Prior to that, he had been Senior Director of Finance and Operations since 2002. He has helped the Canadian dairy industry adapt to changes resulting from the 1994 World Trade Organization Agreement on Agriculture, the new export rules, and the constant challenges of disposing of structural surplus. Mr. Paquette is responsible for key programs such as the Special Milk Class Permit Program, the Dairy Marketing Program, the Domestic Seasonality Programs, the Surplus Removal Program and the Dairy Innovation Program. For the past 25 years, Mr. Paquette has chaired and been a member of various committees of the International Dairy Federation.

Chantal Laframboise, Director, Finance and Administration; **Hossein Behzadi**, Director, Audit and Evaluation; **Gilles Froment**, COO; **Gaëtan Paquette**, Senior Director, Commercial Operations and Marketing

Director, Audit and Evaluation

Hossein Behzadi

Mr. Behzadi holds an international Bachelor of Commerce degree in business and the Certified Internal Auditor (CIA) designation. Prior to joining the CDC in 1997, Mr. Behzadi worked several years in the private sector, with public accounting firms, and as an accounting manager and controller for manufacturing companies. At the CDC, he has led hundreds of dairy industry audits, and has audited milk plants in both Eastern and Western provinces.

Mr. Behzadi became Director of Audit and Evaluation in 2013. He has extensive experience and knowledge of the dairy industry, and is an expert in evaluating the internal controls exercised in milk deliveries and reporting in plants. He advises the provincial boards on technical issues and his opinion is solicited by other auditors working on new or emerging audit issues.

Director, Finance and Administration

Chantal Laframboise

Ms. Laframboise holds an Honours Bachelor in Accounting and a Masters in Business Administration (MBA) from the University of Ottawa. She joined the CDC in 1991 as a student and was hired in 1993 as a member of the Commercial Operations Division. In 2000, she was promoted to the position of Domestic Programs Manager where she was responsible for the administration of the Domestic Seasonality Programs, the Surplus Removal Program, and the Special Milk Class Permit Program. During that time, she implemented many changes as these programs evolved over the years. Ms. Laframboise then joined the Finance Service as Manager of Pooling and Administration in 2004. In 2013, Ms. Laframboise was appointed to the position of Director of Finance and Administration. She participates in many industry committees, where her understanding of the pooling mechanisms is greatly valued.

Manager, Human Resources Programs

Corinne Canuel-Jolicoeur

Mrs. Canuel-Jolicoeur graduated with distinction with an Art and Social Sciences Degree, and an Honours Degree in Social Work from the University of Windsor. She also holds a certificate in Human Resources (HR) from Concordia University. She is a certified HR advisor and social worker.

Mrs. Canuel-Jolicoeur began her career in the federal public service in 2002 at the Canada Border Services Agency. In 2008, she became Senior Policy Advisor and Chief, Official Languages and Recognition with Justice Canada. In 2011 and 2012, as Senior Strategic Advisor at Citizenship and Immigration Canada, she worked on strategic planning, the Integrated Corporate Plan, and the Management Accountability Framework.

Mrs. Canuel-Jolicoeur joined the CDC in 2012 as Manager of Human Resources Programs. She introduced the new Performance Management Directive, helped implement organizational changes and the annual employee survey, and ensured that the HR requirements of the federal spending reviews were met.

Management Committees

Human Resources Advisory Committee

The Human Resources Advisory Committee's mandate is to provide advice to the Senior Management Team on human resources priorities and initiatives which are determined by HR services. It reviews and provides input on human resources related matters. It meets three times a year and at the request of the chair.

Members

Chief Operating Officer (chair)

Manager, Human Resources Programs (secretary)

A representative of each service

Information Technology Advisory Committee

The Information Technology Advisory committee was created in 2013 to help prioritize the various information technology projects of the CDC. It has prepared an evaluation grid that is used to rank projects and it meets four times a year or as needed to review priorities.

Members

Chief, Communications and Strategic Planning (chair)

Chief Operating Officer

Director, Finance and Administration

Manager, Audit

Chief, Information Technology

Chief, Commercial Operations and Marketing Programs

Chief, Policy and Economics

Internal Audit and Programs Evaluation Advisory Committee

The mandate of the Internal Audit and Program Evaluation Advisory Committee is to develop internal audit and program evaluation plans for the review of the CDC's systems, programs, policies, and practices. It is also responsible for monitoring the progress of internal audits and program evaluations as per the approved plans and of the resulting management actions. It meets at least three times per year and at the request of the committee chair.

Members

- Chief Executive Officer (chair)
- Chief Operating Officer
- Senior Director, Commercial Operations and Marketing
- Director, Audit and Evaluation
- Director, Finance and Administration
- Manager, Audit

Occupational Safety and Health Committee

The Occupational Safety and Health Committee has two main mandates. The first is to oversee all occupational and health obligations of the CDC as mandated by the Canada Labour Code and associated regulations. The second is to assist the Senior Management Team and the Commission's Security Officer in meeting the security requirements of the Government of Canada as they relate to its employees, information, and assets. It meets every five weeks.

Members

- 1 employee representative and 1 management representative who is the CDC Security Officer (co-chairs)
- 3 management representatives appointed by the CEO
- 3 employee representatives

Governance at the CDC

In 2013-2014, the board approved the CDC's Corporate Plan for the period starting in 2014-2015 and ending in 2018-2019. The Corporate Plan contains all the major directions of the corporation as well as its forecasted budgets and borrowing plan. It was approved by Treasury Board on May 6, 2014. In the fall of 2013, the board also approved the Annual Report and Financial Statements of the CDC for the 2012-2013 dairy year.

The CDC updated its Corporate Risk Profile in January 2014. The profile defines each risk, describes the existing measures for managing the risk and the group responsible for implementing these strategies, and it is taken into account when performing the environmental analysis during the strategic planning process.

During its strategic planning process for the next dairy year, the CDC reviewed its mission statement and its values, which had been established 10 years earlier. The mission statement of the CDC is now to "provide leadership to enhance the vitality of the Canadian dairy industry for the benefit of Canadians". It better illustrates the leadership role that the CDC intends to play in the coming years.

In early 2014, an internal audit on Domestic Seasonality and imported butter activities was performed, in order to assess the adequacy of procedures surrounding governance, risk management and control practices, and to determine whether those activities were efficiently and effectively managed as per the established policies, procedures and program requirements.

At the end of the dairy year, an internal audit on the sampling and selection of participants to the cost of production study was also performed. This was done to assess the efficiency and effectiveness of the participant selection process through the reliability of the systems and controls design and the validity and completeness of the data. This audit work was still in progress at year-end.

The CDC held its annual public meeting in January 2014 in Ottawa. This meeting is open to the public but is generally attended by about 50 representatives of the dairy industry. It gives the CDC the opportunity to report on its financial statements and strategic objectives for the past and current dairy years and to answer any questions from participants. The CDC also published its quarterly financial statements within the deadlines required by the *Financial Administration Act*.

Activities and Programs

The Canadian Dairy Commission (CDC) monitors demand and adjusts the supply of milk, ensures a fair return to producers, encourages market development, provides auditing services, and supports the industry through the many technical and administrative services it provides, as well as the various programs to which it contributes.

David Jenkins, Elgin County producer, Ontario

The Canadian Milk Supply Management Committee (CMSMC) is a national body for policy development and discussions in the sectors of dairy production and processing. It includes representatives of producers and governments from all provinces and non-voting representatives of national consumer, processor and producer organizations. As chair of the CMSMC, the CDC provides ongoing leadership, advice, and analysis to the Canadian dairy industry, in close co-operation with national and provincial stakeholders.

Supply Management

Determining and Adjusting Quota

The CDC monitors trends in total demand[9] and milk production (supply) on a monthly basis. This allows it to adjust the production quota every two months to reflect changes in the domestic demand for milk products, as well as changes in planned exports. The objective when establishing production quota is to minimize the possibility of shortages or surpluses in the domestic market. Any surplus that occurs is managed by adjusting the quota, by temporarily storing surpluses at the expense of producers or by exporting dairy products within Canada's trade commitments.

9 The quantity of butterfat required to fulfill domestic demand and planned exports for dairy products.

From August 1, 2013 to July 31, 2014 total milk demand increased by 3.1% from the previous year, to reach 321.7 million kg of butterfat. During the same period, milk production remained relatively stable at 313.7 million kg of butterfat. Even though production was below demand overall, adequate stocks allowed the supply of all markets throughout the year.

For next year, the current gap between production and demand should be greatly reduced since growth in demand is expected to pause while quota and production will increase rapidly. As a consequence, butter stocks are expected to be rebuilt next year and return to their normal level.

Supplying Growth

In 2012, the CMSMC approved a 1% permanent growth allowance conditional on the implementation by the pools of a mechanism to supply this additional milk in priority for the growing yogurt and cheese markets. This growth allowance was implemented by the Western Milk Pool in the summer of 2012, and by Eastern provinces in the fall of 2013. During the 2013-2014 dairy year, a total of 1.5 million kg of butterfat was issued to the pools in addition to their quota to supply growth in these markets without impacting milk supply in other classes.

The CMSMC also adopted a motion whereby pools, provinces, or regions were to establish a growth reserve to be supplied by their respective share of the permanent growth allowance and any increases in quota occurring after August 1, 2013. Milk set aside into these reserves will be allocated in priority to plants that created growth in demand.

In 2013, the CMSMC continued to fine-tune how growth in yogurt and fine cheeses (Classes 2(a) and 3(a)) is supplied. It decided that demand would be fulfilled within each pool, that producer quota would continue to be shared among provinces and pools, and that milk would be moved from one pool to the other to satisfy any imbalance in the growth of butterfat utilization in Classes 2(a) and 3(a). At its meeting in July 2014, the CMSMC created the East-West Transportation Working Group to ensure the proper administration of these milk movements. Milk movement calculations will be performed every two months and the cost of transporting milk will be shared among all provinces except Newfoundland and Labrador.


The Verburg family, Athens, Ontario

The CMSMC has also put in place a Skim Milk Redirection Program to direct skim milk to growing markets instead of skim milk powder production for which there is little market. Details of the administration of the program are still being defined and processing plants had access to all the whole milk that they needed, therefore no skim milk has yet been redirected under this program. As a result of the delay in getting the CMSMC to approve the modalities of the program, the CDC offered to redirect skim milk for any use when a need is identified by processors. As a result, approximately 0.5 million litres were redirected to cheese production in 2013-2014.

Removing Surplus

The CMSMC directs the CDC in the operation of the Surplus Removal Program. The program ensures that milk surplus to the domestic market is removed in the appropriate region and in a timely fashion. The CDC buys the surplus of skim milk solids and sells it in marginal domestic markets such as the animal feed market, or on the export market. These export markets must fall under Canada's trade commitments and they yield lower returns to producers. These returns are shared among all Canadian producers through the Comprehensive Agreement on Pooling of Milk Revenues.

In 2013-2014, 61,100 tonnes of skim milk powder equivalent were removed from the market. This quantity is broken down as follows.

Product	Market	Tonnes of SMP equivalent ('000)
CDC purchases of skim milk powder	Export	23.7
CDC purchases of skim milk powder	Animal feed	12.3
Processor sales of skim milk powder	Animal feed	9.6
Dairy blends	Export	8.4
Milk protein concentrate	Export	4.3
Other products	Export	2.8
TOTAL		**61.1**

During the 2013-2014 dairy year, butter stocks were not entirely rebuilt, and a potential shortage of butterfat was reported by one marketing board. In most categories, exports of solids non fat were maximized. There was no surplus butterfat to export and only a small amount from the previous year was exported at the beginning of the dairy year.

Adjusting Supply

The Domestic Seasonality Programs allow the industry to cope with the seasonal demand for dairy products. The industry has mandated the Canadian Dairy Commission to operate these programs in cooperation with the private sector. Generally, the CDC buys and stores products when consumption is low and sells to processors when consumption rises. Except for imported butter and butteroil, these transactions take place at support prices.

Imports

Under the terms of the 1994 World Trade Organization (WTO) Agreement on Agriculture, Canada has established tariff rate quotas (TRQ) for a number of dairy products. TRQs are the quantities of products that can enter Canada with little or no tariff. With the support of the industry, the CDC has acted as the receiver of butter imports under federal permit since 1995 and has directed this product to the food sector through butter manufacturers. This year, the tariff rate quota for butter remained at 3,274 tonnes. Of this, approximately two thirds (2,000 tonnes) is specifically allocated to New Zealand.

Producer Revenues

Pricing

Each year, the CDC reviews and establishes support prices for butter and skim milk powder. These prices are used by the CDC when purchasing or selling these dairy products. Support prices also serve as a reference for provincial milk marketing boards and agencies when they establish the prices paid by processors for industrial milk.

Two elements of the CDC's mandate are taken into account in the pricing decision: providing efficient producers with an adequate return on their labour and investment, and providing Canadian consumers with an adequate supply of high quality dairy products. Each year, the CDC holds pricing consultations and the views of dairy industry stakeholders are carefully considered before making this decision. Commissioners also examine the results of the annual study on the cost of producing one hectolitre of milk in Canada which is conducted by data collection agencies under CDC supervision. In 2013-2014 the cost of production study manual was updated to better reflect the industry evolution and the technology changes. As part of the CDC budget reduction efforts, the CDC reduced its contribution to the cost of production study by $100,000 in 2014.

On December 17, 2013, the CDC announced increases in the support prices for butter and skim milk powder which came into effect on February 1, 2014. The support price for butter increased from $7.3379 to $7.4046 per kg, while the support price for skim milk powder increased from $6.4170 to $6.4754 per kg. CDC Chairman, Randy Williamson, explained that this 1% increase was in line with the 0.9% increase of the

Summary of transactions under the Domestic Seasonality Programs

	Opening inventory	Purchases	Sales	Closing inventory
	tonnes			
Butter	17,021	20,447	26,933	10,535
Skim milk powder	1,279	2,671	1,866	2,084

Data include imported butter and butteroil.

consumer price index and that the cost of producing milk had increased by 1.75%. He also reiterated the CDC's commitment to undertaking new initiatives to expand the market for Canadian dairy products.

The price paid by processors for fluid milk is established by the provinces using a formula. This formula was modified in 2011-2012 and will remain in place until February 1, 2016. It triggered an increase in the price of fluid milk of 1.3% as of February 1, 2014 when compared to February 1, 2013.

In October 2013, the CMSMC adopted a recommendation that the final East-West price adjustment be made at the same time as the support price adjustment in February 2014 to reduce the price gap between both regions to the level targeted by the CMSMC. The CDC will monitor differences between prices in the Western Milk Pool and prices in Quebec and Ontario to avoid any future widening of the gap and will submit a yearly report to the CMSMC. Since it had achieved its mandate of reducing the milk price gap between the Eastern and Western provinces, the East-West Pricing Committee was dismantled.

Pooling of Markets and Producer Returns

In its role as a national industry facilitator, the CDC administers the three federal-provincial agreements that frame the sharing of revenues and markets among Canadian milk producers on behalf of the dairy industry.

Comprehensive Agreement on Pooling of Milk Revenues (P10)

The Comprehensive Agreement on Pooling of Milk Revenues provides a means for the market returns from the sale of milk to processors under the Special Milk Class Permit Program (SMCPP) to be shared among the dairy producers of all ten provinces. On the basis of this agreement, the CDC administers the SMCPP on behalf of the industry.

Under the SMCPP implemented in 1995, competitively priced milk is made available for use in processed products containing dairy ingredients. Further processors access these dairy ingredients by means of a Special Class permit issued by the CDC.

Further processors used the equivalent of 31.48 million kg of butterfat in the 2013-2014 dairy year, an increase of 14.6% over the previous year. The average revenues obtained by producers from these three classes amounted to $48.99/hl compared to $39.08/hl for the previous year. Strong world dairy prices had a positive impact on producer revenues from these classes. A total of 2,006 permits were issued this dairy year for Classes 5(a), (b) and (c), most of which were Class 5(b) permits. The number of active participants registered in the program on July 31, 2014 amounted to 1,696. Of particular note, the use of Canadian butter and butteroil in Classes 5(b) and 5(c) increased by 26% to reach 19,163 tonnes and the use of evaporated and condensed milks increased by 27% to reach 13,865 tonnes.

SMCPP - Volume of milk sold (million kg butterfat) and average producer prices ($/hl)*

Class		2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
5(a) (cheese)	Volume	7.62	7.85	7.46	7.35	7.61
	Price	$29.76	$35.20	$40.73	$40.95	$48.24
5(b) (other ingredients)	Volume	11.91	12.96	13.59	14.97	17.50
	Price	$28.92	$38.87	$39.26	$38.59	$50.89
5(c) (confectionery)	Volume	4.64	4.81	4.95	5.15	6.37
	Price	$29.73	$37.58	$33.74	$36.87	$48.60
Total	**Volume**	**24.17**	**25.62**	**26.00**	**27.47**	**31.48**
	Price	**$29.36**	**$36.74**	**$38.24**	**$39.08**	**$48.99**

*Prices are calculated at 3.6 kg of butterfat per hl, using the latest compositional standards for all dairy years.

Agreement on the Eastern Canadian Milk Pooling (P5)

The Agreement on the Eastern Canadian Milk Pooling provides a means for revenues from all milk sales, transportation costs, markets, and the responsibility for skim-off[10] to be pooled among dairy producers in Ontario, Quebec, New Brunswick, Nova Scotia and Prince Edward Island. The CDC chairs the Supervisory Body of the pool, administers the pooling agreement, does the pooling calculations and provides technical expertise and secretariat services to the pool.

The trend towards the harmonization of policies and the integration of activities among P5 provinces continues. The P5 Milk Allocation Working Group is making good progress in defining the implementation of a harmonized milk allocation policy for Classes 2(a) and 3(a) (yogurt and fine cheeses) and P5 provinces are making changes to align provincial policies with this system. In addition, P5 provinces agreed to create a reserve of milk which will allow milk for growth in Classes 2(a) and 3(a) to be supplied on demand (within some limits) to processors across the pool. Members have approved the templates used to calculate the P5 growth reserve and interprovincial milk movement required to satisfy growth in yogurt and fine cheeses on a priority basis. In addition, provinces have started to report growth in Classes 2(a) and 3(a) to the CDC and to move milk among provinces on the basis of these templates. For dairy year 2013-2014, a total of 56 million litres were set aside in the P5 reserve, while the volume required to satisfy demand reached 51 million litres.

The P5 further harmonized its new entrant program by adopting the same conditions on the acquisition and loan of quota, active farms, future acquisition of quota and the return of loaned quota. The P5 is also harmonizing the administration of quota transfers that do not take place through the quota exchange.

Western Milk Pooling Agreement

Since 1997, Manitoba, Saskatchewan, Alberta and British Columbia form the Western Milk Pool (WMP) which shares revenues and markets for all milk classes. The CDC chairs the WMP Coordinating Committee, the WMP Members Committee, and other technical advisory committees, and administers the pooling agreement, performs the pooling calculations and provides technical expertise and secretariat services.

The WMP has been working towards further harmonization of provincial policies, and efforts of technical committees have focused on achieving this goal. In the past, an amount equivalent to $1.92/hl (usually called add-ons) was not pooled. It was used to finance and administer provincial programs such as inhibitor testing, environmental programs, etc. In 2013-2014, the WMP decided to pool the revenues generated from these add-ons and to replace provincial programs with WMP initiatives. With the exception of inhibitor testing, programs were harmonized and revenues are now pooled. Additionally, a harmonized WMP transportation model was developed and put in place. The WMP implemented a reserve to manage the additional quota issued relative to the 1% growth allowance. Processors are invited to submit proposals that would grow the cheese and yogurt markets and, if approved, they are entitled to receive milk.

Several unforeseen processing challenges have occurred over the last several months that have required milk movements to take place between the Western provinces. Additionally, as the WMP has seen no significant growth in the yogurt and fine cheese markets (Classes 2(a) and 3(a)), work is being done by both pools to ensure that milk allocated to the WMP as part of the 1% permanent growth allowance is moved to the P5 in order to satisfy the market growth there.

[10] Excess butterfat from the fluid milk market

Following a recommendation from the CDC, in July 2014, both the P5 Supervisory Body and the WMP Coordinating Committee agreed to have only joint meetings starting in 2015 to help further the harmonization efforts between the two regions.

Pools in numbers 2013-2014

	P5	WMP
Fluid milk production (million kg of butterfat)	79.31	35.64
Industrial milk production (million kg of butterfat)	158.43	38.35
Blend price* ($/hl)	$78.17	$80.57

* Prices are calculated at 3.6 kg of butterfat per hl, using the latest compositional standards.

Market Development

Class 3(d)

Class 3(d) was launched in June 2013 to encourage the use of mozzarella on fresh pizzas. In 2013-2014, more than 6,000 restaurants have been given access to this class, resulting in the use of 7 million kg of butterfat and 16.5 million kg of solids non fat (SNF), which is slightly below the forecasts for the first year. This is equivalent to approximately 30 million kg of mozzarella cheese. At the CMSMC meeting held in July 2014, it was recommended that other cheeses be made eligible for Class 3(d) and that its administration be modified. The CMSMC decided to consider this proposal in the fall, when the program will be evaluated against its objectives.

Dairy Marketing Program

The CDC is committed to promoting growth and innovation in the manufacture and use of dairy products and components. The Dairy Marketing Program facilitates access to the technical support and expertise required to develop innovative dairy and food products and to bring them to market, partnering with universities and industry associations. Through the MILKingredients.ca Web site, dairy processors and further processors can apply for programs, and find up to date information on milk prices and dairy ingredients.

In 2013-2014, the CDC participated in the Canadian Institute of Food Science and Technology Suppliers Night in Toronto and Montreal, and in the Canadian Restaurant and Foodservice Association Show in Toronto. Also, the CDC's Innovation Champion took part in an ingredient strategy workshop with the Western Milk Pool Innovation Working Group.

On-site visits with targeted companies took place across Canada to provide business advice and information on new opportunities that help grow the market for Canadian milk and dairy products. The CDC responds regularly to inquiries from Canadian dairy processors, further processors and Canadian exporting companies on a variety of topics including product development, industry support programs and new exporting opportunities for milk products to Asia and the Middle-East.

Dairy Innovation Program

The Domestic Dairy Product Innovation Program (DDPIP) was not renewed by the CMSMC in July 2013 which led the CDC to create the Dairy Innovation Program (DIP). The DIP started on August 1, 2013 and operates on a similar basis as the DDPIP by encouraging the manufacture of new and innovative products on the domestic market. It allows for the addition of specific volumes of milk to provincial quotas to ensure that the milk supply needed to produce innovative products is available to successful applicants.

During the 2013-2014 dairy year, firms in Quebec, Ontario, Manitoba, Alberta and British Columbia used 94.9 million litres of milk under the DIP compared to 111.5 million litres in 2012-2013.

This year, the DIP Selection Committee met in February and July 2014. It received 39 applications, most of which were for specialty cheeses. Of these 39 applications, 17 met the program criteria and were accepted, 13 were rejected, and 9 were deferred.

Matching Investment Fund

The Matching Investment Fund (MIF) is designed to help eligible companies and Food Technology Centres with product development initiatives that help stimulate demand for Canadian dairy products and ingredients. During the 2013-2014 dairy year, the MIF received 27 applications, and as of July 31, 2014, four projects received funding approval amounting to approximately $80,000. Approved projects include consultation services, recipe formulation and technology transfer activities. Cheese, skim milk powder, and fluid milk are the main ingredients involved in these projects.

Exports

During the 2013-2014 dairy year, the majority of dairy product exports were performed by private companies under permits issued by the CDC. The main role of the CDC was to dispose of the structural surplus of solids non fat mainly in the form of skim milk powder or blends containing skim milk solids. During the 2013-2014 dairy year, Canada exported 17,232 tonnes of skim milk powder.

In regard to cheese exports, the CDC's major responsibility is to deliver certificates to Canadian exporters that give them access to the aged cheddar market in the European Union when warranted. In 1980, Canada negotiated a special access quota with the European Union which amounts to 4,000 tonnes. In total, Canada exported 5,810 tonnes of cheese and 352 tonnes of butter in 2013-2014, within the limits of its WTO obligations.

Export limits and products exported

Category	Export limit (million $)	Product exported (million $)
Butter	11.025	1.54
Cheese	16.228	15.43
Skim milk powder	31.149	31.04
Others	22.505	18.06
Incorporated products	20.276	18.08

Planned Export Program for Cheese

In an effort to create long term export opportunities for Canadian cheeses, the CMSMC, following consultations with the industry, created the Planned Export Program for Cheese (PEPC) and launched it in February 2014. It aims to support the export of up to 3,000 tonnes of cheese per dairy year. Applicants must be federally licensed plants, they must export all the solid non fat in the milk used to make the cheese in order not to contribute to the structural surplus of solids non fat, and they must submit bids in relation to the minimum price established for the program upon a tender invitation by the CDC. During the 2013-2014 dairy year, 1,842 tonnes of cheese or the equivalent of approximately 17.2 million litres of milk were exported through this program. Signed contracts for 2014-2015 resulting from a first call for tenders already total 2,635 tonnes.

Auditing

The table below explains the various audit roles of the CDC.

Most external audits target companies participating in the Special Milk Class Permit Program. Risk assessment is used to identify high risk companies among program participants. The CDC audits the same companies for the Import for Re-export Program (IREP) if they also participate in this program, which is administered by the Department of Foreign Affairs, Trade and Development Canada (DFATD).

During the 2013-2014 dairy year, 67 companies were audited, including 4(m) permit holders and IREP participants, compared to 74 the previous year. Some audits were jointly conducted with provincial auditors in Ontario and British Columbia, and DFATD inspectors. The CDC also performs the milk plant utilization audits in Manitoba, Newfoundland and Labrador, Nova Scotia, Prince Edward Island, New Brunswick, and Saskatchewan (33 plants in 6 provinces) on a cost-recovery basis. Such audits cover procedures specific to each class as well as other CDC and provincial programs (i.e. DDPIP/DIP, School Milk Program, etc.).

Type of audit	Auditee	Purpose of audit
Revenue sharing	Provincial boards	Verify completeness of pooled revenues from all 10 provinces
Milk utilization	Processors	Verify accuracy and completeness of milk components reported in utilization classes and related programs (i.e. School Milk Program, Dairy Innovation Program, etc.) in 6 provinces (NL, PE, NB, NS, MB, SK)
Mozzarella used in fresh pizza	3(d) participants	Verify compliance with class requirements
Special Milk Class Permit Program	Distributors	Verify compliance with program requirements
Special Milk Class Permit Program Import for Re-export Program	Further processors	Verify compliance with program requirements

Audit approach and methodologies for Class 3(d) (mozzarella for fresh pizzas) were also created and five major pizza franchisors were audited.

As of July 31, 2014, overall recoveries totalled $571,000.

National Milk Utilization Audit Standards and Harmonization of Practices

In parallel with its auditing work, the CDC provides expertise and promotes the harmonization of procedures to the National Milk Audit Advisory Committee (NMAAC). This committee brings together CDC auditors, provincial auditors, as well as representatives from milk marketing boards and the dairy processing industry.

During the 2013-2014 dairy year, the CDC, through the NMAAC, developed and implemented audit procedures for the new Class 3(d) (mozzarella for fresh pizzas) and updated the definitions and procedures regarding Class 4(a)1, Class 4(m) MPC, and the DIP.

Industry Support

Secretariat, IT and Translation Services

In 2013-2014, the CDC completed a major project to allow participants in the Special Milk Class Permit Program to file their reports on line. This new portal, called the Milk Ingredient Reporting System (MIRS) was launched in January 2014. The CDC also computerized several steps of the calculation of the national cost of production.

At the request of some of the provincial boards, the CDC is creating a Record of Standing Policy which will constitute a historical record of decisions of the CMSMC and illustrate the evolution of the National Milk Marketing Plan and the Canadian dairy industry. A consultant was hired to prepare an up-to-date comprehensive and accurate electronic record of all the CMSMC's decisions which have led to the creation, modification, postponement or cancellation of any dairy related policy, program or initiative as they relate to the National Milk Marketing Plan and its Memorandum of Agreement, and the Comprehensive Agreement on the Pooling of Milk Revenues.

In support of the regional pools, the CMSMC, and several working groups and national committees, the CDC coordinated more than 60 meetings, 30 webinars or conference calls and the translation of approximately 200 documents.

Canadian Quality Milk Program

The CDC regularly supports a number of initiatives that benefit the entire dairy industry. One of these is the Canadian Quality Milk (CQM) Program which is administered by Dairy Farmers of Canada. This quality assurance programme is HACCP-based. In 2013-2014, the CDC contributed $100 for each Canadian dairy farm validation for a total of $190,100. This reduced the costs of the program for farmers and created an incentive for them to participate. CDC's contribution to the CQM program ended on July 31, 2014.

CDC Scholarship Program

The CDC helps introduce new people, as well as new products, technologies and markets to the dairy industry through its CDC Scholarship Program. Launched in the fall of 2006, this program promotes graduate studies in agricultural economics and policy, and food, dairy, or animal science as these fields relate to the dairy industry. It provides $20,000 per year for up to two years to full time M. Sc. students and $30,000 per year for up to three years to full time Ph. D. students. Between 2006 and 2014, the CDC funded 82 masters' projects and 31 doctorates. The program, which was initially due to end on July 31, 2016, was extended for an additional year to July 31, 2017. This was done to allow institutions to maximize their allocation of scholarships as the program will not be renewed further. All non-committed funds are to be returned to the CDC at the end of the program which has an envelope of three million dollars to be distributed to institutions across Canada as follows.

Nova Scotia Agricultural College	$200,000
Université Laval	$400,000
Novalait	$600,000
University of Guelph	$1,000,000
University of Manitoba	$200,000
University of Saskatchewan	$200,000
University of Alberta	$200,000
University of British Columbia	$200,000
Total	**$3,000,000**

Dairy Research Cluster

In 2010, the CDC partnered with Agriculture and Agri-Food Canada (AAFC), the Natural Sciences and Engineering Research Council of Canada and Dairy Farmers of Canada to fund a Dairy Research Cluster as part of AAFC's Growing Forward initiative. Forty-eight projects on the role of dairy products as key components of cardiovascular health, their impact on healthy weight and body composition, and their role in optimal nutrition, development and maintenance were completed, as well as studies on the environmental footprint of the dairy sector in Canada. From January 2010 to March 2013, the CDC contributed $1,435,915 to the dairy research cluster, supporting the work of over 100 scientists and 143 students and professionals in universities and institutions across Canada.

The second Dairy Research Cluster, part of AAFC's Growing Forward 2, was launched in 2013 and builds on these results, with a bigger investment. It focuses on three research priorities: sustainable milk production, human nutrition and health, and dairy genetics and genomics. Dairy Farmers of Canada will invest $5.3 million in addition to the $12 million announced by Agriculture and Agri-Food Canada, the Canadian Dairy Network will invest $669,000 and the Canadian Dairy Commission will provide $750,000, bringing the total to $18.8 million in funding to address the industry's research priorities from 2013 to 2018.

Performance and Goals

Glorybound Holsteins, Enderby, BC

ACHIEVEMENTS FOR 2013-2014

A) BUSINESS SEGMENT: PRODUCER REVENUE

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

Pricing of industrial and fluid milk

Expected result	Performance indicators	Achievements	% complete
Efficient producers of milk receive fair revenues.	Revenues from milk sales cover the cost of a reasonable percentage of the milk produced in Canada.	In December 2013, the CDC announced a 1% increase in support prices. This increase was effective February 1, 2014. With this increase, in 2013-2014, revenues from milk sales covered the cost of a reasonable percentage of the milk produced in Canada.	100

The CDC plays two roles when it comes to the pricing of milk at the farm level. One role is to establish support prices for butter and skim milk powder (SMP)[11]. Every year, the CDC coordinates a nationwide study on the cost of producing one hectolitre of milk (Cost of Production (COP) study). The results of this study are one of the main drivers of support prices.

Specific activities for 2013-2014	Performance indicators	Achievements	% complete
Review and implement the procedures contained in the updated manual for the COP study.	The COP data collection in the summer of 2013 follows the guidelines of the updated COP manual, ensuring uniform calculations across Canada.	The 2013 data collection followed the guidelines of the updated COP manual.	100
Implement measures to reduce the overall cost of the COP study.	The cost of the COP study is reduced from $882,000 in calendar year 2013 to $780,000 in 2014.	In January 2014, the CMSMC approved a budget of $770,000 for calendar year 2014.	100

[11] The other role of the CDC is to calculate the result of the formula used to establish the price of fluid milk.

Specific activities for 2013-2014	Performance indicators	Achievements	% complete
Evaluate the need to perform a new study on the processor margin and yields for butter and skim milk powder.	A recommendation is presented to the CDC board as to the need to perform a new study and if the board agrees, a mandate for the study is given to a private firm.	Following a recommendation from the CDC staff, the board mandated a private firm to perform a new study. The final report was presented to the CDC in March 2014. It will be reviewed with processors in the fall of 2014.	90
Continue discussions with the industry on the possibility of implementing a pricing formula for classes 2 (yogurt) and 3 (cheese).	A recommendation on a formula is brought to the CMSMC if the industry representatives can reach a consensus. Upon approval, the formula is implemented by the CDC.	The industry did not wish to pursue these discussions.	0

Market Development

Expected Result	Performance indicators	Achievements	% complete
Canadian demand for dairy products and components is sustained or increased.	• 5 new projects are accepted under the Matching Investment Fund (MIF) • Renewal of the MIF before the end of the dairy year[12] • Participation in 3 major dairy/ food trade shows across Canada and in the Atlantic Dairy Research Collaboration Summit in PEI	• 4 new projects received a total of $80,000 in approved funding. • On June 18, 2014, the CDC renewed the MIF for a 2-year period until July 31, 2016. • The CDC participated in 3 national trade shows held in Toronto and Montreal. It also participated in a dairy ingredients strategy workshop in Calgary, sponsored by the Western Milk Pool (WMP).	80 100 100
The structural surplus of milk solids non fat is reduced.	Structural surplus of milk solids non fat is reduced to 70,000 tonnes	At the end of the dairy year, the structural surplus reached 60,900 tonnes.	100

[12] 2013-2014 was the last year of the current edition of the Matching Investment Fund.

Specific activities for 2013-2014	Performance indicators	Achievements	% complete
Implement the decision of the CMSMC concerning the Domestic Dairy Product Innovation Program (DDPIP) (renewal or not, new criteria, etc.).	If the program is renewed, the CDC updates the guidelines as instructed by the CMSMC, publishes them and applies them in its administration of the program.	The CMSMC did not renew the DDPIP but agreed on the value of such a program. The CDC therefore initiated the Dairy Innovation Program (DIP) as of August 1, 2013, with similar requirements.	100
Encourage dairy producers and processors to develop profitable international markets for cheese.	• A strategy to develop exports of cheese made entirely from Canadian components is developed and implemented in collaboration with the industry.	• The strategy was developed and discussed with dairy producers and processors.	50
	• The remaining cheese export category subsidy room available over and above the cheese contracts signed in 2013-2014 is utilized to export solids non-fat in order to fill 90% of this category.	• Following consultations with the industry, the CDC created the Planned Export Program for Cheese (PEPC) and launched it in February 2014. With this new program, the cheese export category was filled at 95% for 2013-2014.	100
Implement the administration and audit requirements of the new Class 3(d) for Mozzarella cheese on fresh pizzas.	• The administrative requirements are written, approved by the CMSMC and communicated to the target audience (restaurants).	• Administrative requirements were approved, the new class was launched on June 1, 2013 and it was communicated to the target audience.	100
	• The audit requirements are adopted by the CMSMC and added to the National Milk Utilization Audit Standards.	• Audit requirements were adopted by the CMSMC and added to the National Milk Utilization Audit Standards in January 2014.	100

Specific activities for 2013-2014	Performance indicators	Achievements	% complete
Put in place incentives to increase the use of solids non fat in higher-value milk classes that are showing growth, such as yogurt and cheese.	50 million litres of liquid skim milk is redirected from skim milk powder production to yogurt and/or cheese production.	No liquid skim milk was redirected in 2013-2014 because the supply of whole milk was sufficient and the industry could not agree on technical details of such redirection.	0
Create a medium-term plan to develop the manufacturing of infant formula in Canada. This sector has the potential to use significant quantities of solids non fat, thereby reducing the structural surplus.	A plan is drafted and approved by the CDC board. Implementation follows the next year.	This initiative was approved by the CDC board. The CDC is working with some processors toward this objective. A mission to China related to this project took place in May 2014.	100

Pool administration

Expected results	Performance indicators	Achievements	% complete
Market and revenues are shared between pool partners in accordance with federal-provincial agreements.	• Pooling calculation is done within 3 working days of reception of all provincial data • Funds are transferred no later than 5 working days after calculations • No requests for recalculation of pooling transfers received from provincial marketing boards.	• Pooling calculations have been done within 3 working days of reception of all provincial data. • Funds were transferred no later than 5 working days after calculations. • No request for recalculation of pooling transfers received.	100

Specific activities for 2013-2014	Performance indicators	Achievements	% complete
Implement the recommendations from the P10 Negotiating Committee that are adopted by the CMSMC.	The recommendations are implemented following their adoption in accordance with the deadlines dictated by the CMSMC.	The recommendations from the P10 Negotiating Committee were all adopted by the CMSMC in October 2013 and implemented in the following months.	100

External audits

Expected results	Performance indicators	Achievements	% complete
Milk components are paid for in accordance with their end use and dairy products are used for their intended eligible use. Any audited company that does not comply with Import for Re-export Program (IREP) requirements is reported to the Department of Foreign Affairs, Trade and Development (DFATD).	• 50 audits of special class and Class 4(m) participants	• 61 audits have been completed or are in progress.	100
	• Milk plant utilization audits in 6 provinces	• Utilization audit work is complete in all 6 provinces.	100
	• Milk plant utilization audits are monitored and reported on twice a year in the other 4 provinces	• Milk plant utilization audits were monitored and reported on at CMSMC.	100
	• Audit assurance is obtained through specified procedures performed in all 10 provinces and data are accurately reported	• Revenue sharing work was performed and reports were received and completed for 9 of 10 provinces.	90
	• Risk-based audit approach and methodology for Class 3(d) is under way	• Audit approach and methodologies for Class 3(d) were created and 5 major pizza franchisors were audited	100
	• 6 audits of IREP participants	• 6 audits of IREP participants have been completed or are in progress.	100

Specific activities for 2013-2014	Performance indicators	Achievements	% complete
Report on progress of audit activities in all 10 provinces including the 4 provinces which are not audited by the CDC. Promote the continuity of services and the use of a common milk utilization audit software.	Present 2 reports per year to the CMSMC.	Progress reports for all provinces on audit activities were presented to CMSMC. Promotion of continuity of services and the use of a common milk utilization audit software is done at the National Milk Audit Advisory Committee and CMSMC meetings on an on-going basis.	100
Continue to encourage the reception of electronic data from Ontario and Quebec processors for the purpose of administering the program and auditing participants of the Special Milk Class Permit Program (SMCPP).	Follow-up with Quebec and Ontario auditors, marketing boards, and processor representatives to obtain their feedback on the proposed modalities for receiving data directly from utilization audit software.	During the latest discussions on this subject, Quebec and Ontario processor representatives did not show interest in further sharing information. This remains an objective for the CDC.	0

B) BUSINESS SEGMENT: SUPPLY OF DAIRY PRODUCTS

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

Manage the national industrial milk supply

Expected results	Performance indicators	Achievements	% complete
Canadian milk production matches demand.	• Milk production is between 99.5 and 100.5% of total quota	• In 2013-2014, milk production was at 99.1% of total quota. The market was still fully supplied thanks to adequate stocks.	98
Exports of solids non fat are maximized.	• Subsidized export categories of skim milk powder (SMP) and incorporated products are filled at least at 95%	• In 2013-2014, due to a significant reduction in structural surplus of SNF, these export categories were filled at 100% and 89%, respectively.	100

Specific activities for 2013-2014	Performance indicators	Achievements	% complete
Improve market information provided to the dairy industry.	Simplified calculations are proposed for total quota, MSQ and skim-off to simplify and improve decisions related to the milk supply.	A sub-group of the CMSMC Secretariat was created to develop recommendations to simplify and streamline certain calculations. This work is on-going.	50
Improve the tools used to forecast milk production.	• An improved model to forecast national milk production is developed. • Comparative reports on quota issuance and policies are issued quarterly.	This activity was delayed to the next dairy year, due to lack of resources.	0

Specific activities for 2013-2014	Performance indicators	Achievements	% complete
In consultation with milk producers, develop a mechanism aimed at maintaining the predictability and stability in the milk production system and the dairy industry.	The mechanism is developed and implemented.	In collaboration with the industry, the CDC analyzed the risks that would be created if additional imports were to destabilize the Canadian market as well as the opportunities for growing domestic markets for Canadian dairy products. Other priorities have prevented the CDC from further pursuing this initiative.	25
Hold discussions and consultations with the industry on the possibility of setting the price of the milk used to make skim milk powder at world price.	Scenarios are developed and presented to the CMSMC and if one is adopted, it is implemented.	No formal discussions or consultations have been held yet.	0

Seasonality programs

Expected results	Performance indicators	Achievements	% complete
Dairy products are available to Canadians all year.	• Provincial milk marketing boards report no seasonal shortages of dairy products	• Potential shortages of butter have been reported by one provincial milk marketing board.	90
	• CDC butter stocks never fall below 90% of normal level	• Butter stocks were below 90% of their normal level toward the end of the dairy year.	80

C) BUSINESS SEGMENT: IMPROVE THE CDC

Internal Services

Internal Services are activities that support the needs of programs and other corporate obligations of an organization. At the CDC, they include Corporate Services, Finance and Administration, Information Technologies and Information Management, Communications, Internal Audits and Program Evaluations.

Internal audits and Program evaluations

Specific activities for 2013-2014	Performance indicators	Achievements	% complete
Conduct internal audits and program evaluations based on the CDC internal audit and program evaluation guide.	• Internal audit and program evaluation reports are submitted to the Internal Audit and Program Evaluation Advisory Committee, including a management response and action plan. Corrective measures are taken where necessary. • An internal audit manual and an improved audit plan are developed in consultation with senior management in the coming year.	• Two internal audits were performed, one on Domestic Seasonality and imported butter activities and one on the sampling and selection of participants for the Cost of Production study. The audit reports will be presented once completed and signed. • An internal audit manual as well as an improved 3-year risk-based audit plan were developed and presented to the Internal Audit and Program Evaluation Advisory Committee in April 2014.	90 100

Governance

Specific activities for 2013-2014	Performance indicators	Achievements	% complete
Fully brief its new board members and provide them with the training opportunities that they need to fully participate in the orientation of the corporation.[13]	Briefing books are prepared and provided to new board members within one week of their appointment.	The new commissioner received documents within one week of his appointment and met with key staff members.	100

[13] When new board members are appointed.

Specific activities for 2013-2014	Performance indicators	Achievements	% complete
Recruit a person for the new position of Director of Finance and Administration and ensure a smooth transition from the current structure to this new structure.	The position is created and staffed.	The position was created and staffed as of August 1, 2013.	100
Implement the required budget restrictions throughout the year to respect its 10% reduction in appropriations.	The 2013-2014 administrative budget is reduced by $243,000. Further cuts are planned the following year to complete our 10% reduction.	The CDC implemented the necessary budget restrictions in 2013-2014.	100
Implement its succession plan, especially in view of the impending retirement of employees holding key positions.	In case of retirements, a smooth transition without service interruptions and minimal loss of knowledge	Smooth transitions were ensured as the incumbents of three key positions retired.	100

Increase the efficiency of CDC operations

Specific activities for 2013-2014	Performance indicators	Achievements	% complete
Automate and streamline the processes identified by the IT Advisory Committee as being priorities.	Two processes are automated.	The Milk Ingredients Reporting System (MIRS) allows Special Milk Class participants to update and review their program information online. The new Cost of Production (COP) system reduced the time needed to perform the calculations.	100
Implement a new computer system for the administration of the SMCPP, as recommended in the 2011-2012 business process analysis.	All SMCPP participants use the new system to file their reports to the CDC.	The new computer system was launched and program participants are being migrated gradually. Technical difficulties and other priorities have caused delays in the achievement of this objective.	20

Specific activities for 2013-2014	Performance indicators	Achievements	% complete
Develop an information management strategy in response to Library and Archives Canada's (LAC) announced limitations to the acceptance of records.	The strategy is developed, adopted by the Senior Management Team and communicated to the staff. Implementation will follow.	The CDC increased its in-house storage capacity to handle all of its current and future record storage needs. LAC no longer stores CDC records. Retention periods and disposition schedules have been established and are being monitored.	100

Maintain employee engagement in a cost-reduction environment

Specific activities for 2013-2014	Performance indicators	Achievements	% complete
Foster cooperation, the exchange of ideas and the sharing of resources within the CDC to produce efficiency gains and reduce costs.	• Representatives from all sections participate in the IT Advisory Committee and the HR Advisory Committee. • Four managers' forums are held during the year. • Some staff members are invited to quarterly brainstorming sessions to exchange ideas.	• Three new members joined the HR Advisory Committee in order for all sections to be represented. • Three managers' forums were held during the year. • Some staff members participated in a consultation which was added to the strategic planning process.	100 75 100
Continue to ensure good communication with its staff members about the potential changes in the workplace.	The CEO makes quarterly presentations to the staff on both the potential changes in the workplace and the state of the dairy industry.	The CEO has made four quarterly presentations to staff during which changes in workplace (HR initiatives) and industry orientations were discussed.	100

Performance Goals for 2014-2015

The CDC's performance objectives for 2014-2015 are based on the strategic themes and 5-year objectives identified in its corporate plan.

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.	• Review 3 programs and propose modifications, if needed[14].
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.	• Implement mechanisms to better supply growth in milk Classes 5(a), (b) and (c)[15] .

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.	• 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.	• Perform 50 audits of the Special Milk Class Permit Program (SMCPP). • Perform 6 audits of the Import for Re-export program[16] . • Audit 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.	• 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.

14 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.

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

16 A program administered by the Department of Foreign Affairs, Trade and Development (DFATD).

5-year objective	Activities	Performance measure for 2014-2015
Ensure that Canadian milk production meets demand.	Measure demand and calculate related quota adjustments.	• 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 in Class 4(m).	• CDC butter stocks never fall below 90% of their target level. • Achieve a target of 14,300 t for skim milk powder stocks.
Ensure the respect of interprovincial and international agreements.	Administer the interprovincial pooling agreements (sharing of markets and producer revenues among provinces).	• 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 World Trade Organization (WTO) Agreement on Agriculture.	• 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.	• 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.	• Regional pools 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.	• Use Web services to send program data to Dairy Farmers of Ontario (DFO). • 80% of participants in the SMCPP submit their data to the CDC using the new Web portal.

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.	• Explore ways to maintain the stability and predictability of the dairy industry while stimulating market growth.
	Improve access to market intelligence.	• Explore the export potential of the Comprehensive Economic Trade Agreement (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.
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.	• 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.	• Use up-to-date data in the calculation of the assumed processor margin.
	Ensure that producer cost of production calculations capture efficiency gains.	• Use up-to-date data in the calculation of the cost of producing milk.

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.	• Improve overall employee satisfaction score from 70% to 75%, as measured by an annual survey.
	Improve process efficiency.	• 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.	• Draft guidelines on allocation of resources to priority services and circulate them to managers.
	Implement the new Public Service Directive on Performance Management.	• Measure 100% of staff performance using the Public Service Performance Agreement.

Daena and Doug Selan, West of Olds, Alberta

Financial Report

Dykstra Farm Salisbury, NB

Management Discussion and Analysis

The following discussion and analysis of the operating results and financial position of the Canadian Dairy Commission (CDC) for the year ending July 31, 2014 should be read in conjunction with the financial statements of the CDC enclosed herein and the annual report.

Selected Key Results of Operations

Domestic activities

The CDC purchases and sells butter and skim milk powder (SMP) for the domestic market. The 2013-2014 profit on domestic sales increased by $13.3 million compared to the previous year. This is mainly due to better returns obtained on skim milk powder sales to animal feed manufacturers.

SMP sold to the animal feed sector under Class 4(m) amounted to 23,171 t in 2013-2014, a decrease of 742 t compared to the previous year. Although the quantity sold decreased, this activity generated additional domestic revenues of $7.3 million because the average sale price was higher than in the previous year. Over 80% of the domestic gross profit before transport, carrying charges and finance costs is due to activities in the animal feed market.

The CDC purchases Plan A bulk butter to be resold to processors when seasonal demand increases in the domestic market. A quantity of 3,537 t was sold this year compared to 2,246 t in the previous year, which increased revenues by $9.5 million. As a result of a slight decrease in milk production and the strong demand for butter, the CDC sold more Plan A butter on the domestic market to meet demand. Plan A butter revenues are normally equal to the cost of goods sold because the CDC purchases and sells this product at the prevailing support price. This year, the cost of goods sold was lower than the revenues because a portion of the butter originally destined for the export market was purchased at world prices, and subsequently sold on the domestic market at the Canadian support price.

The CDC also purchases Plan B butter and skim milk powder from processors with the requirement that processors repurchase their product within a predetermined period. A quantity of 20,256 t of butter was sold this year compared to 22,726 t last year. This decreased revenues by $16.7 million. As for Plan B skim milk powder, sales decreased by 142 t, which reduced revenues by $0.8 million. The cost of butter and skim milk powder sold under Plan B was almost equal to the selling prices obtained during the year because these products were purchased and sold at prevailing support prices.

The CDC continues to import butter as part of Canada's obligations under the World Trade Organization (WTO) Agreement on Agriculture. Imported butter sales increased by 31%, which increased revenues by $4.7 million compared to the previous year. This butter is purchased at prevailing world prices and is directed to the further processing industry through butter manufacturers.

Domestic activities

(in thousands)	Year ended July 31 2014	 2013	 $ change
Domestic sales revenues	$ 256,645	$ 252,686	$ 3,959
Cost of goods sold - domestic	$ 226,539	$ 234,423	$ (7,884)
Transport and carrying charges	$ 4,255	$ 5,330	$ (1,075)
Finance costs	$ 757	$ 1,126	$ (369)
Gross profit on domestic sales	**$ 25,094**	**$ 11,807**	**$ 13,287**

Export activities

Export sales revenues for 2013-2014 increased substantially compared to the previous year due to larger volumes of skim milk powder being exported at higher selling prices. World prices for skim milk powder were strong this year, which enabled the CDC to export larger quantities while respecting Canada's export subsidy limits. The CDC purchases surplus dairy products destined for export at prices that reflect the prevailing world market conditions with the intent of breaking even over the course of each dairy year. Because these markets are very difficult to predict, the CDC may sometimes finish the year with minimal gains or losses that reflect this price volatility.

Export activities

(in thousands)	2014	2013	$ change
	Year ended July 31		
Export sales revenue	$ 92,832	$ 51,131	$ 41,701
Cost of goods sold - exports	$ 90,862	$ 49,266	$ 41,596
Transport and carrying charges	$ 2,189	$ 1,336	$ 853
Finance costs	$ 1	$ 21	$ (20)
Gross profit (loss) on export sales	**$ (220)**	**$ 508**	**$ (728)**

The quantity of skim milk powder sold in 2013-2014 amounted to 20,654 t compared to 12,572 t for the previous dairy year. This increased revenues by $49.2 million.

Butter sales for export amounted to 275 t compared to 2,437 t for the previous year. This decreased revenues by $7.5 million. The CDC only exports butter when there is surplus production on the market. The butter exported this year was produced in 2012-2013.

Transport, carrying, and finance costs

"Transport, carrying, and finance costs" are mostly comprised of transportation expenses, interest expenses on loans, handling and storage charges, and insurance. Transport and carrying costs for domestic activities decreased by $1.1 million compared to those of 2012-2013 as a result of lower inventory and lower sales quantity. On the export side, the costs increased by $0.9 as a result of higher sales volumes.

Finance costs for both the domestic and export activities were $0.8 million compared to $1.1 million in the previous year. This decrease is due to lower average inventory and a slight decrease in borrowing rates.

After several years of low interest rates, the CDC expects to see similar rates in 2014-2015. Interest rates are expected to increase slightly starting in the 2015-2016 dairy year.

Other income

(in thousands)	2014	2013	$ change
	Year ended July 31		
Funding from milk pools	$ 5,697	$ 6,418	$ (721)
Funding from the Government of Canada	$ 4,025	$ 4,496	$ (471)
Audit Services	$ 155	$ 178	$ (23)
Total Other Revenues	**$ 9,877**	**$ 11,092**	**$ (1,215)**

Other income

Funding from milk pools represents the revenues obtained from producers and the marketplace to finance a portion of the CDC's administrative expenses, the cost of production study, as well as the carrying charges associated with the CDC butter stocks. The 2013-2014 funding is lower compared to the previous year's. This is due to a decrease in the butter carrying costs charged to the pool as a result of lower levels of butter inventories compared to the previous year.

Parliamentary appropriations are used to partially fund the CDC's administrative expenses. The remainder of the CDC's administrative expenses are funded by dairy producers, commercial operations, and the market place. Funding from the Government of Canada is recognized in the Statement of Operations and Comprehensive Loss and is based on eligible government-funded administrative expenses. The Government announced funding reductions in its 2012 Federal Budget which partly explain the reduction in funding this year compared to the previous year. The remainder of the difference is explained by the timing of some expenses compared to the previous year.

Revenues obtained for audit services relate to the milk plant utilization audits performed by the CDC in 6 provinces on a cost-recovery basis.

Operating and administrative expenses

Operating expenses:

"Industry initiatives" includes expenses relating to various CDC programs such as the Matching Investment Fund, the Scholarship Program, the Canadian Quality Milk Program, and the Dairy Research Cluster. In 2013-2014, funding for these programs increased slightly by $0.2 million.

The cost of production study is an annual survey. The CDC uses the results of this survey when it sets support prices. The cost of this study has not changed much over the last dairy year.

"Other charges / (recoveries)" includes amounts representing unrealized gains or losses on outstanding foreign exchange contracts as of the Statement of Financial Position date. Other amounts in this category are comprised of credits from CDC's contribution to the cost of production study, charges incurred by the CDC on behalf of the milk pools, and bank charges for the milk pool accounts. The most volatile amount in "other charges / (recoveries)" is the gain or loss on outstanding foreign exchange contracts. These gains or losses are determined using the difference

Operating and administrative expenses

	Year ended July 31		
(in thousands)	**2014**	**2013**	**$ change**
Operating expenses			
Industry initiatives	$ 1,788	$ 1,597	$ 191
Cost of production study	$ 801	$ 862	$ (61)
Other charges / (recoveries)	$ 294	$ (406)	$ 700
Total operating expenses	**$ 2,883**	**$ 2,053**	**$ 830**
Administrative expenses			
Salaries and employee benefits	$ 5,591	$ 5,912	$ (321)
Other administrative expenses	$ 1,803	$ 1,766	$ 37
Total administrative expenses	**$ 7,394**	**$ 7,678**	**$ (284)**
Total operating and administrative expenses	**$ 10,277**	**$ 9,731**	**$ 546**

between the contracted rates and exchange rates as of the Statement of Financial Position date, applied to the contract amount. Therefore, they vary with exchange rates as well as with the value of outstanding foreign exchange contracts at the end of the year.

Administration expenses

The 2013-2014 administrative budget was $7.7 million. Actual administrative expenses for the year totalled $7.4 million. Salaries and employee benefits of $5.6 million make up the bulk of these expenses. The remaining significant expense groupings are for rent, travel and administrative support.

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. 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 government funding 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.

Distribution to provincial boards and agencies

The distribution to provincial boards and agencies represents a refund of surplus generated from the Domestic Seasonality and Surplus Removal Programs. As milk producers are responsible to finance these programs, any surpluses are reimbursed to provincial milk marketing boards and agencies. The 2013-2014 refund for these programs amounted to $27.4 million. This represents an increase of $12.9 million compared to the previous year which was mainly the result of obtaining a better return for the skim milk powder sold to animal feed manufacturers.

Inventories and loans

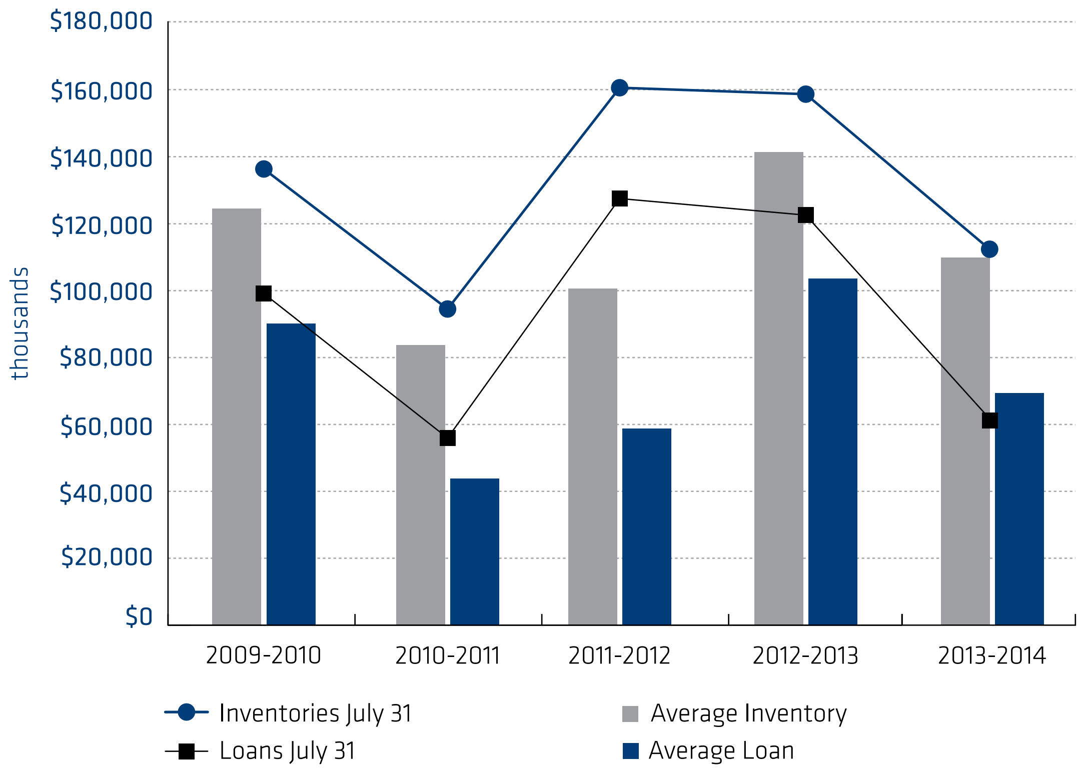
Average inventory values for 2013-2014 were down by 23% compared to the previous year, resulting in a decrease in our average loan requirements.

Butter stocks were lower by 6,700 t compared to last year. Because of a slight decrease in milk production and the strong demand for butter, the CDC butter stocks were drawn upon to fill the market. It is expected that milk production will return to more normal levels in the coming year. The overall skim milk powder stocks were also lower by 7,300 t, which contributed to this year's decrease in total inventory value.

Because there is usually a direct correlation between stock levels and outstanding loans, the loan from the Government at the end of the year was $58.4 million compared to $122.3 million at the end of the previous year. Higher retained earnings combined with lower inventory value resulted in lower loan requirements.

The CDC, in consultation with the Minister of Finance, has retained its loan limit for 2013-2014 of $165 million. The CDC determined that this limit would be sufficient to maintain its capacity to respond to unforeseen circumstances brought on by changing market conditions.

Inventories and loans



Risk management

All business enterprises are subject to risks in their ongoing operations. The CDC has identified the major risk factors and has established policies and procedures to manage these risks.

The CDC has prepared a Corporate Risk Profile which is reviewed and updated at least once per year by management. The latest review was done in January 2014. It identifies the key risks associated with its business and operating activities. It also evaluates the probability and potential impact of risk occurrences and defines mitigation measures to avoid or reduce risk. The Profile is linked to the organization's annual planning process to ensure that higher-risk program areas and activities receive special consideration. The board and the Senior Management Team share the responsibility for risk management. Each plays an integral role in the risk management process at the CDC. The board ensures that management identifies, monitors, and manages CDC's corporate risks. It is responsible for providing clear direction of risk attitude, and approving the Corporate Risk Profile. The board is kept apprised of any changes to the risk profile through quarterly briefings. The Senior Management Team is responsible for assessing CDC's key risks, and ensuring that appropriate controls and mitigation strategies are carried out to effectively manage these risks. The role includes supporting risk awareness and communicating risks throughout the organization.

Credit risk is the exposure to financial loss due to a customer failing to meet his financial obligations to the CDC. The CDC manages this risk by selling product on a "payment first" basis, securing bank guarantees and obtaining letters of credit. Other strategies include carrying out business with credit-worthy customers only.

Foreign currency risk is the potential for financial loss due to unfavourable changes in foreign currency exchange rates. The CDC has a policy of zero tolerance for foreign currency risk and therefore uses derivatives to hedge its sales and purchases in foreign currencies. No derivatives are entered into for speculative reasons and the CDC only deals with Canadian chartered banks in this regard.

Market risk is the most difficult to manage due to its unpredictability. The operations of the CDC are affected by many external factors such as world market conditions, developments in the World Trade Organization negotiations on agriculture, domestic market trends and fluctuations of supply and demand. The CDC addresses these risks by instituting sound management practices, hiring and maintaining competent staff and staying abreast of any market or political development that may affect its operations. Because the CDC deals with supply-managed products such as SMP and butter, the export activity is a relatively small percentage of its overall revenues. Nonetheless, the CDC manages the volatility of world markets by strategically selling its products mostly by tenders to reliable exporters who seek value-added products, ensuring best returns for its commercial operations.

Future accounting changes

The International Accounting Standards Board has several projects underway, some of which may affect IFRS standards relative to the CDC. Management will continue to monitor all proposed and continuing projects, giving consideration to any changes expected to impact the CDC. A more detailed discussion of the future accounting changes can be found in Note 3 of the financial statements.

Challenges for the future

As in the past, the main factor that could affect the financial results of the CDC in the coming year is the fluctuations in world prices for dairy products. 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. World prices were high for most of the 2013-2014 dairy year but have rapidly declined in the last few months. As a result, it is expected that in the coming dairy year, due to our export subsidy limitation, the CDC will not be able to dispose of as much surplus SMP in the export market as it did in 2013-2014. This will require more SMP to be marketed domestically in the animal feed market which will have a negative impact on producer revenues and reduce CDC's profit from sales of SMP to that market. The CDC will continue to monitor world prices closely, to choose niche markets and to strategically take advantage of periods in which prices allow the CDC to maximize its revenues from these markets.

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. The CDC is preparing for a possible elimination of subsidized exports of dairy products once a formal agreement is reached. WTO members had agreed to this elimination but it was never implemented and the exact timeline has not been finalized. The CDC's three-year strategy includes the gradual reduction of the structural surplus of solids non-fat. Part of this surplus is currently being exported and considered as subsidized exports, as per Canada's export subsidy commitments under the WTO Agreement on Agriculture. Significant parts of the strategy have been achieved in the 2012-2013 dairy year. The CDC is looking at other initiatives to increase the utilization of skim milk solids in value-added products which will require close partnership with the industry.

Canada and the European Union reached an agreement in principle towards a Comprehensive Economic and Trade Agreement (CETA) in the fall of 2013. Although this agreement gives the EU increased access to the Canadian cheese market, it should not impact the financial results of the CDC.

Canada also joined the Trans-Pacific Partnership negotiations in October 2012, set to enhance the trade, innovation and investment for the 12-member countries. The CDC is monitoring the development of these negotiations.

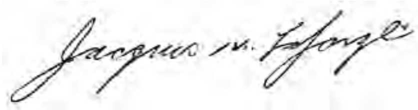
Management Responsibility for Financial Statements

The financial statements of the Canadian Dairy Commission and all information in this Annual Report are the responsibility of management. Those statements have been prepared in accordance with International Financial Reporting Standards, using management's best estimates and judgments where appropriate. Financial information presented elsewhere in the Annual Report is consistent with the statements provided.

In discharging its responsibility for financial reporting, management maintains and relies on financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. These controls and practices ensure the orderly conduct of business, the accuracy of accounting records, the timely preparation of reliable financial information and the adherence to CDC policies and statutory requirements. This process includes the communication and ongoing practice of the CDC's Code of Ethics.

The Audit Committee of the Canadian Dairy Commission, made up of the commissioners, oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting. The CDC's internal and external auditors have free access to the Audit Committee to discuss the results of their work and to express their concerns and opinions.

The financial statements of the CDC have been audited by the Auditor General of Canada, the independent auditor for the Government of Canada.



Jacques Laforge, CEO

Chantal Laframboise,
Director of Finance

Ottawa, Canada
September 24, 2014

Auditor General of Canada
Vérificateur général du Canada

Independent Auditor's Report

To the Minister of Agriculture and Agri-Food

Report on the Financial Statements

I have audited the accompanying financial statements of the Canadian Dairy Commission, which comprise the statement of financial position as at July 31, 2014, and the statement of operations and comprehensive loss, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Dairy Commission as at July 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Canadian Dairy Commission that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Dairy Commission Act* and regulations and the by-laws of the Canadian Dairy Commission.

Lissa Lamarche, CPA, CA
Principal
for the Auditor General of Canada

September 24, 2014
Ottawa, Canada

Canadian Dairy Commission

Statement of Financial Position

(in thousands of Canadian dollars)

	As of July 31, 2014	As of July 31, 2013
Assets		
Current		
Cash	$ 859	$ 1,266
Trade and other receivables		
Trade receivables	2,385	4,167
Advance to provincial milk boards and agencies	1,264	71
Milk pools	904	1,121
Derivative asset – foreign exchange contracts	103	361
Inventory (Note 4)	111,444	157,691
	116,959	164,677
Non-Current		
Equipment (Note 5)	40	48
Intangible asset (Note 6)	284	183
	$ 117,283	$ 164,908
Liabilities		
Current		
Bank overdraft (Note 7)	$ 1,264	$ 71
Trade and other payables		
Trade payables	19,924	14,459
Distribution to provincial milk boards and agencies	27,388	14,531
Other liabilities	2,017	2,399
Derivative liability – foreign exchange contracts	67	–
Loans from the Government of Canada (Note 8)	58,404	122,323
	109,064	153,783
Non-Current		
Post-employment benefits (Note 13)	148	140
Equity		
Retained earnings	8,071	10,985
	$ 117,283	$ 164,908

Commitments (Note 15)

The accompanying notes are an integral part of these financial statements.

These financial statements were approved and authorized for issue on September 24, 2014

Jacques Laforge
Chief Executive Officer

Randy Williamson
Chairman

Chantal Laframboise
Director, Finance and Administration

Canadian Dairy Commission

Statement of Operations and Comprehensive Loss

(in thousands of Canadian dollars)

	For the year ended July 31, 2014	For the year ended July 31, 2013
Sales and cost of sales		
Domestic sales revenue	$ 256,645	$ 252,686
Cost of goods sold – domestic	226,539	234,423
Transport and carrying charges	4,255	5,330
Finance costs	757	1,126
Gross profit on domestic sales	25,094	11,807
Export sales revenue	92,832	51,131
Cost of goods sold – exports	90,862	49,266
Transport and carrying charges	2,189	1,336
Finance costs	1	21
Gross profit (loss) on export sales	(220)	508
Total gross profit	24,874	12,315
Other income		
Funding from milk pools (Note 11)	5,697	6,418
Funding from the Government of Canada (Note 12)	4,025	4,496
Audit services	155	178
	9,877	11,092
Total gross profit and other income	34,751	23,407
Operating expenses		
Industry initiatives	1,788	1,597
Cost of Production study	801	862
Other charges (recoveries)	294	(406)
	2,883	2,053
Administrative expenses		
Salaries and employee benefits (Note 13)	5,591	5,912
Other administrative expenses	1,803	1,766
	7,394	7,678
Total operating and administrative expenses	10,277	9,731
Profit before distribution to provincial milk boards and agencies	24,474	13,676
Distribution to provincial milk boards and agencies	27,388	14,531
Total comprehensive loss	$ (2,914)	$ (855)

The accompanying notes are an integral part of these financial statements.

Canadian Dairy Commission

Statement of Changes in Equity

(in thousands of Canadian dollars)

	For the year ended July 31, 2014	For the year ended July 31, 2013
Retained earnings, beginning of the year	$ 10,985	$ 11,840
Total comprehensive loss for the year	(2,914)	(855)
Retained earnings, end of the year	$ 8,071	$ 10,985

The accompanying notes are an integral part of these financial statements.

Canadian Dairy Commission

Statement of Cash Flows

(in thousands of Canadian dollars)

	For the year ended July 31, 2014	For the year ended July 31, 2013
Cash flows from (used in) operating activities		
Cash receipts from sales of goods	$ 351,414	$ 302,701
Cash paid to suppliers and others	(282,288)	(297,662)
Cash receipts from provincial milk boards and agencies (pooling)	4,721	8,013
Cash paid to provincial milk boards and agencies (operating surplus)	(14,531)	(8,672)
Cash receipts from the Government of Canada	4,025	4,496
Interest paid on loans	(1,021)	(1,067)
Net cash flows from (used in) operating activities	62,320	7,809
Cash flows (used in) from financing activities		
New loans from the Government of Canada	180,574	243,825
Loan repayments to the Government of Canada	(244,494)	(248,779)
Net cash flows (used in) from financing activities	(63,920)	(4,954)
Net increase in cash (bank overdraft)	(1,600)	2,855
Net bank overdraft at beginning of year	1,195	(1,660)
Net cash (bank overdraft) at end of year	$ (405)	$ 1,195
Components:		
Cash	$ 859	$ 1,266
Bank overdraft	(1,264)	(71)
Net cash (bank overdraft)	$ (405)	$ 1,195

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

July 31, 2014

(In thousands of Canadian dollars unless otherwise indicated)

1. Authority and objectives

The Canadian Dairy Commission (CDC) was established in 1966 through the *Canadian Dairy Commission Act.* It is a federal Crown corporation named in Part I, Schedule III and Schedule IV to the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act.* It is an agent of Her Majesty the Queen in right of Canada and reports to Parliament through the Minister of Agriculture and Agri-Food.

The objectives of the CDC are to provide efficient producers of milk with the opportunity to obtain a fair return for their labour and investment and to provide consumers with a continuous and adequate supply of dairy products. To achieve its objectives, the CDC works closely with the Canadian Milk Supply Management Committee (CMSMC), which it chairs, as well as with provincial governments and provincial milk marketing boards. This collaboration is framed by federal-provincial agreements.

The CDC is partly funded by parliamentary appropriations. This is supplemented by funding from milk producers and the market, as well as by the CDC's own commercial operations.

2. Basis of preparation

Statement of compliance

The CDC prepared these financial statements in accordance with International Financial Reporting Standards (IFRS).

The financial statements were approved and authorized for issue by the CDC board on September 24, 2014.

Basis of presentation

The financial statements have been prepared on a historical cost basis, as set out in the accounting policies below, except as permitted by IFRS and otherwise indicated within these notes.

Reporting period

The CDC reports on a dairy year basis which starts August 1 and ends July 31.

Key sources of estimation uncertainty

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the year. Valuation of inventories is the most significant item where estimates are used. Actual amounts could differ significantly from the current estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements of the period in which they become known.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional and presentation currency of the CDC.

3. Significant accounting policies

Cash

Cash includes funds on deposit at financial institutions.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value. Their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the CDC's designation of such instruments.

Classifications:

Trade and other receivables	Loans and receivables
Bank overdraft	Financial liabilities measured at amortized cost
Trade and other payables	Financial liabilities measured at amortized cost
Loans from the Government of Canada	Financial liabilities measured at amortized cost
Derivative assets and liabilities	Financial assets or liabilities measured at fair value through profit or loss (FVTPL)

Loans and receivables

Loans and receivables are recorded at amortized cost using the effective interest method.

Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are measured using the effective interest method.

Financial assets or liabilities measured at FVTPL

Financial assets or liabilities classified as FVTPL are measured at fair value at the Statement of Financial Position date with changes in fair value recorded in profit or loss on the Statement of Operations and Comprehensive Loss.

Transaction costs

All transaction costs in respect of financial instruments classified as loans and receivables or financial liabilities measured at amortized cost are capitalized in the period in which they are incurred. All transaction costs in respect of financial instruments classified as financial assets or liabilities measured at FVTPL are expensed in the period in which they are incurred.

Derivative financial instruments

The CDC uses derivative financial instruments such as forward contracts to counter the adverse movements in foreign exchange related to purchases and sales denominated in foreign currencies, including anticipated transactions, as well as to manage its cash balances and requirements. The CDC's policy is not to utilize freestanding derivative financial instruments for trading or speculative purposes.

The CDC does not designate its foreign exchange forward contracts as hedges of underlying assets, liabilities, firm commitments or anticipated transactions and accordingly does not apply hedge accounting. As a result, foreign exchange forward contracts are recorded on the Statement of Financial Position at fair value as an asset when the contracts are in a gain position and as a liability when the contracts are in a loss position. Changes in fair value of these contracts are recognized as gains or losses within "Other charges (recoveries)" on the Statement of Operations and Comprehensive Loss.

Inventory

Inventory is recorded at the lower of cost, which is purchase cost, or estimated net realizable value. Cost is determined on a first-in, first-out basis except for Plan B inventories where cost is determined based on specific identification. Write-downs to net realizable value are reversed when there is a subsequent increase in the value of inventory up to a maximum of the purchase cost. The reversal is recognized as a reduction to cost of sales and an increase to the net value of inventory in the year in which it occurs.

Equipment

Equipment is recorded at cost less accumulated depreciation. Cost includes all measurable expenditures directly attributable to the acquisition and installation of the equipment.

Depreciation is charged to "Other charges (recoveries)" on the Statement of Operations and Comprehensive Loss and begins when the equipment is available for use by the CDC. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset less estimated residual value as follows:

Generator	10 years
Computer equipment	3-5 years

Equipment is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such impairment or change exists, the carrying value would be adjusted accordingly.

Intangible asset

Software

Internally developed application software is stated at cost less accumulated amortization. Cost includes all measurable expenditures directly attributable to the development of the software including employees' salaries, consultant fees and other identifiable costs specific to the project.

Amortization begins when the software is available for use by the CDC. Amortization of the intangible asset is charged to "Other charges (recoveries)" on the Statement of Operations and Comprehensive Loss on a straight-line basis over its estimated useful life of ten years.

Software is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such impairment or change exists, the carrying value would be adjusted accordingly.

Distributions to (recoveries from) provincial milk boards and agencies

Distributions to (recoveries from) provincial milk boards and agencies represent gross profit (loss) on sales excluding imported butter. Distributions to (recoveries from) provincial boards and agencies are recorded as expense (revenue) in the year that they are determined.

Revenues

Sales revenues

Domestic and export sales revenues are recognized when product is shipped.

Funding from milk pools

Funding from milk pools is recognized as revenue in the period the services are rendered.

Funding from the Government of Canada

Funding from the Government of Canada is recognized as revenue in the period the expenses are incurred.

Audit services

Revenues from audit services are recognized in the period the services are rendered.

Cost of sales

The CDC purchases all butter and skim milk powder tendered to it at either the Canadian support price or at other prices established by the CDC, depending on the intended resale markets, except for a portion of butter imported by the CDC at international market price. These costs are charged to cost of sales when the goods are shipped to customers.

Foreign currency translation

All foreign currency transactions are translated into Canadian dollars at the exchange rate in effect on the transaction date.

Trade receivables and payables in foreign currencies are adjusted to reflect the exchange rate in effect at the Statement of Financial Position date. Any corresponding gains or losses are recognized in "Export sales revenue" for receivables and "Cost of goods sold – domestic" for payables on the Statement of Operations and Comprehensive Loss.

Most sales and purchases in foreign currencies have corresponding foreign exchange forward contracts (see "Derivative financial instruments" above and Note 14: *Financial Instruments – Currency risk*).

Employee benefits

Pension benefits

Substantially all of the employees of the CDC are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the CDC to cover current service cost. Pursuant to legislation currently in place, the CDC has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the CDC.

Post-employment benefits

Eligible employees are entitled to post-employment benefits as provided for under labour contracts and conditions of employment. The cost of these benefits is accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated by management.

Scholarship program

Scholarship program monies are expensed in the year in which educational institutions meet specified eligibility criteria and the agreements are approved.

(In thousands of Canadian dollars unless otherwise indicated)

Application of new and revised accounting standards

A number of new standards, interpretations, amendments and improvements were issued by the International Accounting Standards Board (IASB). The following standards relevant to the CDC were adopted for the annual period beginning August 1, 2013:

- IFRS 13 – *Fair Value Measurement:* this new standard provides a consistent definition and framework for measuring fair value. The adoption of IFRS 13 did not require any adjustments to valuation techniques. Note 14 was enhanced to include additional disclosures for our financial instruments measured at FVTPL to meet the new disclosure requirements.

- IAS 19 – *Employee Benefits*: in June 2011, the IASB issued amendments that outlined enhanced disclosure requirements for defined benefit plans. There were no changes introduced as a result of this amendment.

- IFRS 7 – *Financial Instruments: Disclosure:* the standard was amended to include specific disclosure requirements related to the offsetting of financial assets and financial liabilities presented on a net basis on the Statement of Financial Position. There were no changes introduced as a result of this amendment.

Future accounting standards (accounting standards issued but not yet applied)

A number of new accounting standards and amendments effective on or after August 1, 2014 have been issued by the IASB. As of the date of these financial statements, the following applicable standards and amendments have been assessed as having a possible impact on the CDC:

- IFRS 15 – *Revenue from Contracts with Customers* was recently issued to provide guidance on the recognition of contract revenues. This new standard will be effective for annual periods beginning on or after January 1, 2017. The CDC has not yet determined the impact of the adoption of IFRS 15.

- IFRS 9 – *Financial Instruments* provides requirements for classifying and measuring financial assets and liabilities. This standard is the first in a three-phase project in progress by the IASB to replace IAS 39 – *Financial Instruments: Recognition and Measurement* in its entirety. The new standard is effective for annual periods beginning on or after January 1, 2018. The CDC has not yet determined the impact of the adoption of IFRS 9.

Other amendments and improvements issued but not yet effective are not expected to have a significant impact on future financial results of the CDC.

4. Inventory

Under section 9(1) of the *Canadian Dairy Commission Act*, the CDC operates domestic seasonality programs, which include the purchase and sale of Plan B inventory (butter and skim milk powder). Under Plan B, as set out in agreements with manufacturers, the CDC purchases products from manufacturers. While manufacturers are contractually obligated to repurchase Plan B inventory within the course of the next dairy year at the prevailing support prices, the CDC is not contractually bound to sell to the manufacturers. However, the CDC has customarily honoured all manufacturers' requests.

Inventory in dollars:

	July 31, 2014	July 31, 2013
Plan B:		
Butter	$ 60,375	$ 96,645
Skim milk powder	13,492	8,158
Other butter	13,781	23,950
Other skim milk powder	28,784	29,662
	116,432	158,415
Less: allowance for inventory write-down	(4,988)	(724)
Total net realizable value	$ 111,444	$ 157,691

(In thousands of Canadian dollars unless otherwise indicated)

Inventory in tonnes:

	July 31, 2014	July 31, 2013
Plan B:		
Butter	8,159	13,207
Skim milk powder	2,084	1,278
Other butter	2,376	4,098
Other skim milk powder	14,003	22,139

Inventory expensed in the current year was $317.40 million (July 31, 2013: $283.69 million) and is presented on the Statement of Operations and Comprehensive Loss in cost of goods sold (domestic and exports).

5. Equipment

The carrying value of equipment is determined as follows:

	Balance July 31, 2013	Additions	Disposals	Balance July 31, 2014
Cost	$ 67	–	–	$ 67
Accumulated depreciation	$ 19	8	–	$ 27
Carrying amount	$ 48			$ 40

6. Intangible asset

The carrying value of the intangible asset is determined as follows:

	Balance July 31, 2013	Additions	Disposals	Balance July 31, 2014
Cost	$ 183	111	–	$ 294
Accumulated amortization	$ –	10	–	$ 10
Carrying amount	$ 183			$ 284

Intangible asset represents a software developed in-house to meet specific operational needs unique to the CDC. The new software was made operational in April 2014 at which time amortization charges to profit and loss began.

Notes to Financial Statements

July 31, 2014

(In thousands of Canadian dollars unless otherwise indicated)

7. Bank overdraft

The CDC has established a line of credit with a member of the Canadian Payments Association. The CDC has been granted the authority to establish this line of credit by the Minister of Finance up to a maximum of $50 million for advancing funds to the provincial milk marketing boards and agencies. On July 31, 2014 the available line of credit was $5 million (July 31, 2013: $5 million).

The bank overdraft incurred under the CDC's line of credit is due on demand and bears interest at prime, which as at July 31, 2014 was 3.00 % per annum (July 31, 2013: 3.00%).

8. Loans from the Government of Canada (Consolidated Revenue Fund)

Loans from the Government of Canada's Consolidated Revenue Fund, to a maximum of $165 million (July 31, 2013: $165 million), are available to finance operations. Individual loans are repayable within one year from the date the loan is advanced. Principal and accrued interest is repaid regularly during the year when funds are available.

Interest on the loans is at the normal rates established for Crown corporations by the government and based on the latest available yields of comparable Treasury bills plus one-eighth of one percent at simple interest. Interest rates and interest expense were as follows:

	July 31, 2014	July 31, 2013
Interest rates		
Low	0.95%	1.05%
High	1.18%	1.25%
Interest expense	$ 758	$ 1,147

9. Capital disclosures

The CDC's capital consists of its loans from the Government of Canada (see Note 8) and retained earnings. As of July 31, 2014 these accounts totaled $58.40 million (July 31, 2013: $122.32 million) and $8.07 million (July 31, 2013: $10.99 million) respectively. The CDC is not subject to any externally imposed capital requirements.

The CDC's primary objective in managing capital is to ensure that it has sufficient liquidity in order to settle its financial obligations as they become due and to fund programs for the benefit of the dairy industry. The CDC adjusts its capital management approach on an ongoing basis as the amounts fluctuate during the course of the year. The CDC does not utilize any quantitative measures to monitor its capital. There were no changes in the CDC's approach to capital management or the definition thereof as compared to the previous year.

10. Foreign exchange gains and losses

Export sales include amounts representing realized net gains or net losses arising from currency translation relating to transactions incurred in foreign currencies.

As well, domestic cost of sales include amounts representing realized net gains or net losses arising from currency translation relating to import purchase transactions incurred in foreign currencies.

	July 31, 2014	July 31, 2013
Net gain (loss) on:		
Export sales	$ (524)	$ (782)
Domestic cost of sales	$ (78)	$ 61

11. Funding from milk pools

As acting agent in carrying out administrative functions of the Comprehensive Agreement on Pooling of Milk Revenues (a federal-provincial agreement), the CDC collects and redistributes producer market returns. For these services, the CDC receives from producers an annual fixed fee which offsets its cost for the administration of the agreement as well as the estimated carrying charges for normal levels of butter inventory. Furthermore, the CDC is reimbursed for other direct costs as set out in the agreement including carrying charges for surplus butter inventories.

(In thousands of Canadian dollars unless otherwise indicated)

12. Funding from the Government of Canada

Funding of the CDC's administrative expenses is shared among the federal government, dairy producers, commercial operations and the market place.

Government of Canada funding of total administrative expenses is as follows:

	July 31, 2014	July 31, 2013
Funded by Government	$ 4,025	$ 4,496
Total administrative expenses	$ 7,394	$ 7,678

13. Salaries and employee benefits

Salaries and employee benefits includes:

	July 31, 2014	July 31, 2013
Salaries expense	$ 4,610	$ 4,846
Pension contributions	626	682
Medical insurance expense	199	225
Others	156	159
Total	$ 5,591	$ 5,912

Pension plan

Substantially all of the employees of the CDC are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the CDC. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate effective for the year ended July 31, 2014 was on average 1.53 times the employee's rate (1.68 times for the prior year).

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2% of pensionable service multiplied by the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

14. Financial instruments

In the course of carrying out its ongoing operations, the CDC faces risks to its financial assets and financial liabilities. The CDC's exposure to risk from its use of financial instruments is presented below along with the CDC's objectives, policies and processes for managing risk.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the CDC's income or the value of its holding of financial instruments.

Currency risk

The CDC operates internationally, exposing itself to market risks from changes in foreign exchange rates. The CDC partially manages these exposures by contracting only in US dollars or Canadian dollars. The CDC's foreign exchange risk management includes the use of foreign currency forward contracts to fix the exchange rates on certain foreign currency exposures. The CDC periodically enters into foreign exchange forward contracts to manage exposure to exchange rate fluctuations between Canadian and US dollars for future sales and purchases on existing contracts.

The fair value of the CDC's derivative financial instruments is determined using the Bank of Canada's published foreign exchange rates as of the Statement of Financial Position date. This rate was 1.0904 at July 31, 2014 (1.0530 at July 31, 2013).The CDC's foreign exchange forward contracts as of the Statement of Financial Position date were as follows:

		July 31, 2014		July 31, 2013	
Currency sold	**Currency purchased**	In USD	In CAD	In USD	In CAD
USD	CAD	$ 6,958	$ 7,587	$ 16,730	$ 17,185
CAD	USD	$ 6,272	$ 7,018	$ 2,973	$ 3,144

(In thousands of Canadian dollars unless otherwise indicated)

These contracts will mature over the period ending October 15, 2014. The maturity dates of the forward exchange contracts correspond to the estimated dates when the CDC expects to receive the foreign currency proceeds arising from export sales contracts or when payment for purchases in foreign currencies are due.

"Other charges (recoveries)" under operating expenses on the Statement of Operations and Comprehensive Loss include $0.33 million representing net losses incurred during the current year (July 31, 2013: net gains of $0.37 million) arising from the determination of unrealized fair value remeasurements of the CDC's derivative financial instruments.

The CDC's exposure to foreign currency risk was as follows, based on Canadian dollar equivalent amounts:

In CAD	July 31, 2014	July 31, 2013
Trade receivable	$ 1,877	$ 2,688
Trade payable	(3,831)	(343)
Net derivative asset (liability)	36	361
Net exposure	$ (1,918)	$ 2,706

Based on the net exposure as of July 31, 2014, and assuming that all other variables remained constant, had the Canadian dollar appreciated 10% against the US dollar, net income for the year ended July 31, 2014 would have decreased by $0.25 million (July 31, 2013: decreased by $1.17 million). Conversely, a 10% weakening in the Canadian dollar against the US dollar would have had the equal but opposite effect for the same period.

Interest rate risk

Interest rate risk is the risk that a financial asset containing a fixed interest rate component decreases in fair value with a rise in interest rates or that a financial liability with a floating interest rate component results in increased cash outflow requirements as a result of an increase in interest rates. Other than the line of credit, for which interest expense varies as a function of prime, and loans from the Government of Canada, which vary as a function of the yield on comparable Treasury bills, the CDC does not have any other such financial assets or liabilities exposed to this risk. The CDC's exposure to interest rate risk is not significant given its low interest bearing loans.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk. The CDC is not significantly exposed to this type of risk.

Liquidity risk

Liquidity risk is the risk that the CDC will not be able to meet its financial obligations as they fall due. As of the Statement of Financial Position date, virtually all of the CDC's assets and liabilities were current and the CDC had a current ratio equal to 1.07 (July 31, 2013: 1.07). In managing liquidity risk, the CDC has access to additional borrowings for commercial operations from the Government of Canada in the amount of $106.60 million as of July 31, 2014 (July 31, 2013: $42.68 million) as well as $3.74 million (July 31, 2013: $4.93 million) on its line of credit for the pooling of market returns.

Credit risk

Credit risk is the risk of loss due to a customer failing to meet its financial obligations to the CDC. Maximum credit exposure is the carrying amount of the pooling and trade receivable balances, net of any allowance for losses. The CDC manages this risk using several strategies which include selling product on a "payment first" basis, securing of bank guarantees and obtaining letters of credit. As of July 31, 2014 and July 31, 2013 the CDC did not have an allowance for doubtful accounts and all trade receivables were current.

The CDC is exposed to credit risk when entering into foreign exchange contracts wherein the counterparty fails to perform an obligation as agreed upon, causing a financial loss. Maximum credit exposure is the notional amount of the derivative asset. The CDC manages this exposure to credit risk by entering into foreign exchange contracts only with major Canadian financial institutions. To date, no such counterparty has failed to meet its financial obligation to the CDC.

Fair values

The carrying value of cash, trade and other receivables, bank overdraft, and trade and other payables approximates their fair values due to the immediate or short-term maturity of these financial instruments. As of the Statement of Financial Position date, no amounts representing changes in fair value of these financial instruments have been recorded on the Statement of Operations and Comprehensive Loss.

(In thousands of Canadian dollars unless otherwise indicated)

Fair value hierarchy

Financial instruments recorded at fair value on the Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy, which for the CDC is only relevant in the context of derivative financial instruments, has the following levels:

Level 1: valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value measurement of the CDC's derivative financial instruments is classified as level 2 (July 31, 2013: level 2) in the fair value hierarchy. Changes in valuation methods may result in transfers into or out of levels 1, 2, and 3. For the reporting periods ended July 31, 2014 and July 31, 2013, there were no transfers between levels.

15. Commitments

a) Industry Initiatives

Summary:	July 31, 2014
Dairy Research Cluster	$ 750
Matching Investment Fund	140
Scholarship Program	200
Total commitments for industry initiatives	$ 1,090

Dairy Research Cluster

The Dairy Farmers of Canada initiative enables key industry-led agricultural organizations to mobilize a critical mass of scientific and technical resources to support innovation strategies for enhanced profitability and competitiveness in their sector. The CDC has agreed to partially fund this project under an agreement that commenced April 1, 2014 and expires March 31, 2018. Under the terms of this agreement the CDC will contribute $0.75 million. Payment will be made in 3 installments, $0.25 million in March 2015, $0.25 million in March 2016 and the balance will be paid at the end of the agreement.

Matching Investment Fund

The CDC funds and administers the Matching Investment Fund which provides non-repayable contributions to Canadian-registered companies or food technology centres for product development, on a matching investment basis. The program expired on July 31, 2014. It has been renewed until July 31, 2016. As of July 31, 2014, CDC has outstanding commitments of $0.14 million.

Scholarship Program

As of August 1, 2011, the CDC funds a graduate Scholarship Program. The CDC grants $3 million in scholarships over five years to participating institutions across Canada. As of July 31, 2014, the CDC has agreements totalling $3 million with participating institutions, of which $0.20 million remains to be paid by July 31, 2016.

b) Purchase Commitments

As of July 31, 2014, the CDC was committed to purchase certain quantities of butter and skim milk powder. These commitments amounted to approximately $1.26 million (July 31, 2013: $0.77 million) and were fulfilled in August 2014.

c) WTO Tariff Rate Quotas for Butter

Under the terms of the 1994 WTO Agreement, Canada has established tariff rate quotas (TRQ) for a number of dairy products. TRQs are the quantities of products that can enter Canada with little or no tariff. With the support of the industry, the CDC has acted as the receiver of imports of butter under federal permit since 1995 and has directed this product through butter manufacturers to the food sector. The 2014 TRQ for butter remains at 3,274 tonnes. World prices at the time of purchase will determine the total financial commitment.

The total cost to purchase imported butter under the WTO requirements for the year ended July 31, 2014 was $14.76 million (July 31, 2013: $10.93 million).

(In thousands of Canadian dollars unless otherwise indicated)

d) Operating Lease

The CDC is committed under a long term lease with Agriculture and Agri-Food Canada for office accommodation ending in March 31, 2017. The lease contains escalation clauses regarding maintenance costs and taxes. This lease may be automatically renewed at the CDC's option for another period of five years with rates possibly revised in order to reflect the rental market value pursuant to Treasury Board's Policy on Real Property.

The minimum lease payments are as follows:

	July 31, 2014	July 31, 2013
Less than one year	$ 351	$ 351
Greater than one year and less than five years	$ 587	$ 938

16. Related party transactions

Government of Canada entities

The CDC, as per the *Canadian Dairy Commission Act*, is an agent of Her Majesty the Queen in right of Canada. This effectively makes the Government of Canada owner of the CDC, having significant influence over its activities.

The CDC is related in terms of common ownership to all other Government of Canada departments, agencies and Crown corporations. The CDC enters into transactions with these entities in the normal course of business and at normal trade terms. These related party transactions are recorded at their exchange amounts.

In accordance with the disclosure exemption regarding "government related entities", the CDC is exempt from certain disclosure requirements of IAS 24 – *Related Party Disclosures,* relating to its transactions and outstanding balances with:

- a government that has control, joint control or significant influence over the reporting entity; and
- another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Based on this exemption, the CDC has not disclosed any further details of its transactions with the Government of Canada and departments thereof, and all federal Crown corporations not considered to be individually or collectively significant, entered into in the normal course of operations.

Loans from the Government of Canada at terms available to Crown corporations (Note 8), which are recorded at the transaction price, represent the CDC's largest related party transaction.

Significant transactions, excluding loans, were with the following related parties:

Government entity	July 31, 2014	July 31, 2013
Public Works and Government Services Canada	$ 1,015	$ 1,068
Agriculture and Agri-Food Canada (mainly operating lease – Note 15)	449	436
Other related Government entities	227	369
Total	$ 1,691	$ 1,873

Key management personnel

The CDC's key management personnel are the CEO, the Chairman, the Commissioner, the COO and the 3 directors.

No loans or other such transactions with key management personnel were outstanding as of July 31, 2014 or July 31, 2013, or occurred at any time during either year.

The post-employment benefit liability for key management personnel as of July 31, 2014 was $0.09 million (July 31, 2013: $0.21 million) and is divided between "Post-employment benefits" and "Other liabilities" on the Statement of Financial Position.

Compensation of key management personnel for the year ended July 31, 2014 was $0.93 million (July 31, 2013: $0.79 million).

Tables and Data (unaudited)

Jeremy Wiebe, Chilliwack, BC

Industrial Milk Production, Canadian Requirements and MSQ (million kg butterfat)

	Production	MSQ*	Canadian requirements
2009-2010	183.39	181.80	183.82
2010-2011	186.87	188.73	189.49
2011-2012	196.18	193.78	187.86
2012-2013	198.85	193.35	191.13
2013-2014	197.16	197.89	200.84

* Weighted average MSQ, including the Domestic Dairy Product Innovation Program (DDPIP) and the Dairy Innovation Program (DIP)

Production of Milk* (million kg butterfat)

Province	2012-2013			2013-2014		
	Fluid	Industrial	Total	Fluid	Industrial	Total
Newfoundland and Labrador	1.41	0.38	1.79	1.56	0.39	1.95
Prince Edward Island	0.54	3.61	4.15	0.53	3.50	4.03
Nova Scotia	3.99	3.09	7.08	3.80	3.06	6.86
New Brunswick	2.46	3.04	5.50	2.55	2.79	5.34
Quebec	26.44	94.09	120.53	25.80	93.17	118.97
Ontario	46.11	56.98	103.09	46.63	55.91	102.54
Manitoba	4.99	7.65	12.64	4.76	7.78	12.54
Saskatchewan	2.56	6.39	8.95	2.47	6.72	9.19
Alberta	15.03	10.87	25.90	15.26	10.65	25.91
British Columbia	13.13	12.75	25.88	13.15	13.19	26.34
Total	**116.66**	**198.85**	**315.51**	**116.51**	**197.16**	**313.67**

* Before pooling

David Sévigny,
Ferme Jovigny, Québec

Number of Farms and Cows, and Total Production

	Number of farms	Number of cows (thousands)	Total production (million kg BF)
2009-2010	13,214	981.0	300.82
2010-2011	12,965	987.0	305.67
2011-2012	12,746	985.3	314.12
2012-2013	12,529	960.6	315.51
2013-2014	12,234	959.1	313.67