

ANNUAL

Good Business *Great Chicken*



REPORT

Chicken Farmers of Canada 2007 Annual Report

*For presentation to the Minister of Agriculture
and Agri-Food, the Honourable Gerry Ritz, and
the National Farm Products Council.*



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Designed by Bull's Eye Design
Printed by Gilmore Printing Services

Who We Are and What We Do

Our Mission: To build an evidence-based, consumer-driven Canadian chicken industry that provides opportunities for profitable growth for all stakeholders.

Chicken Farmers of Canada (CFC) is a national organization, funded completely through farmer levies paid according to the amount of chicken marketed. We were established in 1978 under the *Farm Products Agencies Act*. CFC operates within a regulatory environment pursuant to the Federal-Provincial Agreement for chicken signed by federal and provincial governments and the provincial marketing boards in July 2001.

CFC's main responsibility is to ensure that our 2,800 farmers produce the right amount of fresh, safe, high quality chicken to meet consumer needs. To do so, farmers, processors, further processors and members of the restaurant trade from across the country meet every eight weeks to determine anticipated market requirements and set production levels accordingly.

This evolving risk management system that we operate under is commonly known as "supply management". As part of the system, CFC also monitors compliance with provincial quota allocations and the inter-provincial or market development trade of chicken.

Another CFC responsibility is to represent the interests of chicken farmers and the Canadian chicken industry. CFC plays a key role in developing, partnering or managing programs for Canada's chicken farmers that prove that farmers continue to grow the high quality chicken that consumers trust.

Through on-farm programs such as the food safety program, *Safe, Safer, Safest*, the animal care program and biosecurity initiatives, CFC

works closely with government partners and industry stakeholders to keep the industry innovative and responsive.

CFC strives to ensure that key decision makers in government fully understand the views of Canada's chicken farmers and that these are taken into account when important agriculture and trade policy decisions are made.

Our directions and policies are determined by a 15-member Board of Directors. The Board is comprised of farmers appointed by provincial chicken marketing boards. Non-farmer directors—one from the restaurant industry, another from the further processing industry, and two representing the processing industry—are appointed by their respective national associations.

CFC and its stakeholders work together on behalf Canada's chicken industry, from farmer to consumer. Ours has long been a Canadian success story, known for its responsiveness and leadership within an evolving supply management system. Strong leadership and proactive strategies will always play an integral role in our ongoing success. 🇨🇦

CFC Organizational Structure



Chairman's Message: Great Chicken

One of the most critical issues in 2007 was the ongoing agriculture negotiations at the World Trade Organization.



Throughout 2007, Chicken Farmers of Canada (CFC) continued its efforts on a number of key issues that face our industry while continuing to plan for the future.

The World Trade Organization, the tariff rate quota, import to re-export supplementary imports, supplying the domestic market, communications, food safety, animal care and achieving CFC's Strategic Goals are just some of the issues you will read about in the 2007 annual report.

One of the most critical issues in 2007 was the ongoing agriculture negotiations at the World Trade Organization (WTO); we need to realize that the negotiators are moving forward on all fronts. There will be a deal – but the question remains as to when that deal will be concluded.

We must also be aware that these negotiations have the potential to damage or destroy supply management in Canada. We need to continue working collectively to promote a valuable and evolving chicken industry with our own local, provincial and federal government representatives, as we move closer to the end of the negotiations.

In early October, CFC held our annual strategic planning session to set direction and prioritize the issues for CFC in 2008. CFC also launched its 3rd Strategic Planning Renewal Committee in mid-October of 2007, with the intent of bringing a new 5-year Strategic Plan to the CFC Board of Directors that will set a clear direction from 2009 to 2013.

The Board has been extremely busy throughout 2007 dealing with a number of other issues that continue to influence our industry. The board has worked tirelessly on these issues and in the best interest of the whole chicken industry.

Even though Canada's chicken industry continues to face internal and external challenges, I would be remiss if I did not mention that 2007 was one of the best years on record for the industry.

I would like to express my appreciation to Agriculture and Agri-Food Minister, **Gerry Ritz**, for his pro-active role, for his cooperation and his collaborative approach to the issues facing our industry. I would be neglectful if I did not also express gratitude to Canada's chief negotiator for agriculture at the WTO, **Steve Verheul**.

On behalf of CFC's Board of Directors, I would like to convey our gratitude to **Cynthia Currie**, who served as Chairperson of the National Farm Products Council for 10 years, for her continued assistance, cooperation and support and wish Cynthia well in her new endeavours.

CFC would like to thank the Members and Staff of the National Farm Products Council for their guidance and support over 2007, and a special thank you to **Gordon Hunter**, Acting Chair of National Farm Products Council. We also look forward to working with the incoming Chairperson, **William Smirle**, in 2008 and into the future.

At this time, I would like to express my gratitude to the CFC Board of Directors for their vigour in facing the wide-ranging issues, and to the members of the Executive Committee for their ongoing effort and passion for the Canadian chicken industry and for their support of me as Chairman.

Recognition must also go to the General Manager, **Mike Dungeat**, and CFC's energetic staff for their perseverance and support of the Canadian chicken industry.

We will continue to face challenges that will require us to work together with all our industry partners to maintain an industry that benefits the entire value chain, from producer to consumer, and everyone in between.

I am confident, as Chairman, that we at CFC have the knowledge, people, skills and the passion to work effectively on behalf of Canada's chicken farmers in the present and into the future. 🐔

David Fuller, Chairman

General Manager's Message: Good Business

2007 marked a milestone for the Canadian chicken industry.



Back in 1978, when Chicken Farmers of Canada was created, chicken production was one-third, and per capita consumption was one-half of what they are today, trailing both beef and pork. In 1998, CFC set an ambitious goal to reach 30 kg per capita consumption and to become Canada's #1 meat. In 2000, chicken surpassed pork. In 2001, chicken reached 30 kg per capita consumption. In 2002, chicken trumped beef as Canada's favourite meat.

And in 2007, the chicken industry crossed the threshold of 1 billion kilograms of production!

The industry has come a long way from simply providing whole birds at the grocery counter – now, great Canadian chicken is offered in a vast array of cuts, convenient packaging and nutritious meal options for the whole family.

This has not been just growth for growth's sake. True to our mission, CFC has built a consumer-driven Canadian chicken industry that provides opportunities for profitable growth for all stakeholders. And like any good business, we are not resting on the laurels of our past successes and our great chicken – we are planning and investing for the future.

CFC is investing heavily to be a competitive and innovative sector.

In November, CFC invested \$630,000 in its National Research Fund. The Fund, created in 2002 to foster innovation, science and education within the poultry industry through research, has reached \$5 million. At its current level, it will generate approximately \$200,000 annually to support priority research projects and initiatives through the Canadian Poultry Research Council.

CFC and Canadian chicken farmers are investing heavily in contributing to society's priorities.

Chicken farmers recognize that they have obligations beyond just the bottom line.

They have responded positively and with leadership to minimize the impact of their operations on the environment, reduce food safety risks, and protect human and animal health. In developing and implementing food

safety, animal care, biosecurity and environment programs on their farms, they have not only provided benefits to their industry, they are delivering “public goods” to all Canadians.

CFC is investing heavily in managing and mitigating risk.

The Canadian chicken industry operates under a system known as supply management. This form of marketing matches production to Canadian demand, allows farmers to receive a fair price from the marketplace without relying on taxpayer dollars, eliminates major fluctuations in prices, and ensures a secure food supply that respects high Canadian standards. CFC applauds federal and provincial governments for recognizing supply management as a business risk management program, and for actively negotiating to preserve supply management at the WTO. For its part, CFC has invested in the development of animal disease prevention, preparedness, and response and recovery programs.

Good business and great chicken are the result of a supportive value chain partnership. As we deliver on more and more of society's priorities, we need to enhance our partnership with government based on the concept of shared responsibility/shared cost.

The Canadian chicken industry has taken action to reduce the financial risk of government and has taken on additional costs in delivering on society's priorities; the government needs to recognize its responsibilities and share the ongoing cost of delivering these “public goods” programs.

The government also needs to ensure that imported chicken meets the same high demands placed on Canadian chicken to ensure that neither the competitiveness of the Canadian chicken industry, nor the confidence of Canadian consumers is undermined.

Partnership = growing forward with success. 

Mike Dungate, General Manager

CFC Board of Directors



Group 1 (left to right): Keith Fuller (*British Columbia*), Erna Ference (*Alberta*), Yvon Cyr (*New Brunswick*), Todd Grierson (*FPPAC – Further Poultry Processors Association of Canada*), Martin Dufresne (*Quebec*), Luc Gagnon (*CPEPC – Canadian Poultry and Egg Processors Council*), David Fuller (*Nova Scotia*) – *Chairman*,



Group 2 (left to right): Urs Kressibucher (*Ontario*), David MacKenzie (*Prince Edward Island*), Ruth Noseworthy (*Newfoundland & Labrador*), Matthew Harvie (*Nova Scotia*), Brian Payne (*CRFA – Canadian Restaurant and Foodservices Association*), Tony Tavares (*CPEPC*), Diane Pastoor (*Saskatchewan*) Danny Wiebe (*Manitoba*)

CFC Committees

Executive Committee

Chair:
David Fuller
(Nova Scotia)

1st Vice-Chair:
Martin Dufresne
(Quebec)

2nd Vice-Chair:
Urs Kressibucher
(Ontario)

Member-at-large:
Keith Fuller
(British Columbia)

Animal Care Committee

Chair:
Danny Wiebe
(Manitoba)

Yves Campeau
(Quebec alternate)

Marc Cormier
(New Brunswick alternate)

Production Policy Committee

Chair:
Urs Kressibucher
(Ontario)

Yvon Cyr
(New Brunswick)

Martin Dufresne
(Quebec)

Keith Fuller
(British Columbia)

Todd Grierson
(FPPAC)

Brian Payne
(CRFA)

Tony Tavares
(CPEPC)

Promotions Committee

Chair:
Jake Wiebe
(Manitoba alternate)

Reg Cliche
(CPEPC alternate)

Tom Posthuma
(Ontario alternate)

Food Safety Committee

Chair:
Matthew Harvie
(Nova Scotia)

Yves Campeau
(Quebec alternate)

Luc Gagnon
(CPEPC)

Dave Janzen
(B.C. alternate)

Tom Posthuma
(Ontario alternate)

Finance Committee

Chair:
David MacKenzie
(P.E.I.)

Erna Ference
(Alberta)

Brian Payne
(CRFA)

Canadian Poultry Research Council Representative

Jacob Middelkamp
(Alberta alternate)

Canadian Federation of Agriculture Delegates

David Fuller
(CFC Chairman,
Nova Scotia)

Erna Ference
(Alberta)

National Farm Animal Care Council Representative

Danny Wiebe
(Manitoba)

Managing Change: Staff, HR & Administration



Mike Dugate
General Manager



Stéphanie Turple
Executive Assistant



Janet Noseworthy
Senior Government
Relations Officer



Michael Laliberté
Manager of Finance



Philippe Gravel
Auditor



Jae Yung Chung
Bookkeeper



Paula Doucette
Manager of Administration
& Human Resources



Tracy Oliver
Administration Coordinator



Elyse Ferland
Meeting and Recording
Coordinator



Steve Leech
National Program Manager
(Food Safety, Animal
Care & Research)



Jennifer Gardner
Animal Care &
Research Coordinator



Caroline Wilson
OFFSAP Coordinator



Lisa Bishop-Spencer
Manager of
Communications



Marty Brett
Senior Communications
Officer



Johanne Neeteson
Promotion/Education
Officer



Marie Murphy
Graphic Design/
Web Administrator



Sanita Fejzic
Jr. Communications
Officer



Jan Rus
Manager of Market
Information & Systems



Lori Piché
Market Information
Officer



Yves Ruel
Manager of Trade
& Policy



Mihai Lupescu
Senior Trade Analyst

2007 saw the retirement of a 20 year CFC veteran, **Juliet Marvin**. Juliet joined CFC in 1986 (when it was known as the Canadian Chicken Marketing Agency), as the Executive Assistant to the General Manager and continued in that position until her retirement. Juliet was honoured by her peers prior to her departure in April.

Another long standing employee, **Johanne Neeteson**, Promotion & Education Officer, celebrated 15 years with CFC this year.

2007 was a year of transition from an HR perspective as a number of new staff, including a former staff member, joined CFC.

In the meantime, a lengthy search (since late 2006) took place for a bilingual On-Farm Food Safety Coordinator. **Kathleen Thompson** filled the role on a contract basis for three months to assist the Food Safety unit while the search continued. **Caroline Wilson** joined CFC in early December. 🍁

New to the Roost

Matthew Rae (February)
Lori Piché (April)
Sanita Fejzic (May)
Elyse Ferland (May)
Stéphanie Turple (September)
Jae Yung Chung (October)
Caroline Wilson (December)

Flew the Coop

James Kelley (February)
Stéphanie Turple (February)
Jennifer Johnson (April)
Kim Garamvolgyi (September)
Nathalie Fortin (December)
Matthew Rae (December)

Better Business Through Strategic Planning

Chicken Farmers of Canada adheres to a rigorous strategic planning process to provide the Canadian chicken industry with clear, common goals for the coming year – and for the future – ensuring a solid direction and purpose for all industry stakeholders.

Future Planning

2008 marks the last year of CFC's current five-year strategic plan. A Strategic Plan Renewal Committee comprised of eight members representing various sectors of the industry, from farm to processing to retail, was formed to develop the next five-year plan, spanning 2009-2013.

The Renewal Committee's first meeting was held in Toronto on October 10-11, 2007 where Committee members discussed their outlook for the industry in the next five years, as well as key trends which are currently influencing or will impact the industry in the future, and began the process of shaping the next five-year plan.

A second meeting, also held in Toronto on November 22-23, 2007 included a panel of experts from the fields of demographics and consumer attitudes, restaurants and foodservice, finance and business, and environmental trends and drivers. This forum was held to give Renewal Committee members a well-rounded, overall view of the current direction of the chicken industry, and future

trends that may have a considerable impact on industry stakeholders.

In 2008, the Renewal Committee will meet in February to clarify an overall objective, and set specific goals for each Key Result Area. An industry stakeholder consultation will then be held in April to test the validity of the proposed strategic priorities. Renewal Committee members will present a draft of the new five-year strategic plan to the CFC Board of Directors in June 2008.

Year-to-Year Planning

Each year, CFC's Board of Directors and Executive Management Team take the opportunity to celebrate successes of the previous year and set priorities for the next. The 2008 Strategic Planning meeting was held in London, Ontario on October 3-4, 2007.

Two guest speakers were invited to the meeting: **Dr. Bruce Archibald**, Deputy Minister of the Ontario Ministry of Agriculture, Food and Rural Affairs, and **Dr. Jeffrey Gandz**, Professor at the Richard Ivey School of Business.

Dr. Archibald spoke to the next generation of the Agriculture Policy Framework (APF) – "Growing Forward" as the primary federal-provincial tool to shape the Canadian agricultural policy environment for several years to come. All sectors will need to be engaged in this process, and in contributing to the achievement of APF priorities.

Critical Priorities for 2008

Allocation Setting and Market Information

- Provide accurate and timely statistics and thorough analysis of all available export data, international chicken markets, and further processed chicken storage stock data. Provide a "report card" concept that evaluates and analyses a period "after the fact".

Import to Re-Export Program

- Ensure that the administration of the Department of Foreign Affairs and International Trade's Import to Re-Export Program and the Canada Border Services Agency's duty deferral program does not create distortions on the domestic market.

Tariff Rate Quota Administration and 13% Rule

- Determine a long-term allocation methodology for TRQ administration. Work with industry and federal government partners to ensure that Canada makes full use of international trade policies and procedures while not undermining the stability of supply management.

WTO Agriculture Negotiations

- Work with industry, provincial and federal government to maintain support for supply management, both through the SM-5 coalition (dairy, poultry and egg industries) and through industry-wide representation in the face of a changing trade environment and a critical period of WTO agriculture negotiations.

Dr. Gandz stated that boards need to ensure that their organizations are performing in the present, while building for the future. In this regard, CFC staff executes in the present, whereas the CFC Board is responsible for taking a broader and more diverse perspective.

The remainder of the meeting was focused on designing strategies for 2008 that correspond with the priorities stated in CFC's current five-year strategic plan. CFC Directors agreed upon the following priorities for 2008.

Other Priorities

Animal Care

Refine and implement an improved and endorsed CFC animal care program, based on science and practical goals. Raise awareness of CFC's program and participate in National Farm Animal Care Council Activities.

Animal Disease Strategy

Develop an effective animal disease prevention and containment strategy that can be adapted to other diseases through development and training exercises.

Animal Disease Strategy Communications

Create and implement communications strategies for various animal disease scenarios.

Animal Disease Strategy Supply Protocol

Develop a protocol for reduced/increased supply during a disease outbreak.

Antimicrobial Resistance

Develop an integrated antimicrobial resistance strategy to reduce the use of or seek alternatives to antimicrobials in the chicken industry. Ensure CFC's strategy is coordinated with future government policy.

Growing Forward: Toward a New Agriculture Policy Framework

Participate in ongoing consultations to ensure that a renewed federal agriculture policy incorporates appropriate disaster coverage for chicken farmers, an animal health component, a cost-effective production insurance program and an operational traceability system.

Improved CFC Decision Making

Enhance the capacity of CFC Directors to make quality decisions in a timely manner, and align CFC's committee structure with strategic business requirements.

Marketing Channels Survey

Develop a detailed profile of chicken marketing from farm to retail.

OFFSAP

Mandatory OFFSAP regulations in all provinces/ All farms certified under OFFSAP. Consistent delivery of the *Safe, Safer, Safest* manual and the OFFSAP management manual across the country.

Online Business Initiative

Amended interprovincial movement (IPM) module that enables provincial boards to report interprovincial movement of live chickens. Modified Market Development Program (MDP) module that enables MDP license holders to report market development transactions. Increased messaging and promotion of CFC's private portal.


Promotion Education Campaign

Develop and implement initiatives to inform consumers about the health benefits of chicken through health and nutrition professionals, educators and CFC Ambassadors. Conduct regional workshops on presentation skills development and media training. Develop communications initiatives surrounding environmental messaging.

Provincial Promotions Program

Support promotion initiatives within each province, enhance existing promotions plans in provinces where they exist, and assist others in developing their own initiatives.

Traceability

Representation on traceability committees and incorporation of CFC's position into government programming. Industry decision and action plan to meet government traceability standards. 



Market Watch

(Note: In cooperation with CPEPC, CFC started publishing the Express Markets Inc. (EMI) wholesale price series in July 2005. The weekly series consists of one market composite and four market complexes (breasts, wings, whole bird and legs). The series is based on actual invoice data from initially six and now nine Canadian processors, and covers a significant percentage of the total Canadian wholesale volume).

The Canadian chicken industry enjoyed a good year in 2007, despite an unprecedented increase in feed costs during the year due to a surge in corn, soybean and grain prices. Frozen inventories increased substantially in the first four months of the year, but wholesale prices remained stable and at profitable levels.

Allocations for the first few periods of the year were set conservatively but much more aggressively for the summer periods. The allocated production increase in period A-79, however,

did not fully materialize as a result of mostly a heat-related underproduction of more than four million kg (Mkg).

Although wholesale prices remained high and stable, the overall trend was a slightly downward one. The average market composite for the entire year was \$3.15, up 37 cents (13%) from 2006 and the highest on record (data available since 2002). Wholesale prices for breast meat, wings, whole birds and dark meat were all higher than in 2006 and the highest since 2002.

The only exception is breast meat that was higher in 2004.

The EMI breast complex averaged

\$5.17, 74 cents (17%) higher than in 2006, but 50 cents lower than in 2004. The EMI whole bird complex increased from \$2.78 in 2006 to \$3.05 in 2007, a 27 cent (10%) increase.

Dark meat prices were higher than in previous years for most of the year, but experienced a steady decrease in 2007. The EMI leg complex started the year at \$2.45 and ended at \$2.01. Overall, the EMI leg complex averaged \$2.26, 26 cents (13%) higher than in 2006. Wing prices

started off the year 2007 at record-high prices, but lost some ground during the summer months and then recovered during the last four months of the year. The average EMI wing complex in 2007 was \$4.62, 66 cents (17%) higher than in 2006.

Per capita chicken consumption in 2007 is estimated to be 31.9 kg, a slight increase over 2006. Preliminary numbers indicate that beef consumption increased by 1 to 1.5% in 2007, while pork consumption per person is expected to remain unchanged from the year before. Per capita beef and pork consumption in 2007 are therefore estimated at 32.1 kg and 23.3 kg. Turkey consumption experienced a small increase in 2007 while veal and lamb remained stable. Official per capita consumption figures will be released by Statistics Canada in June.

Provincial Production

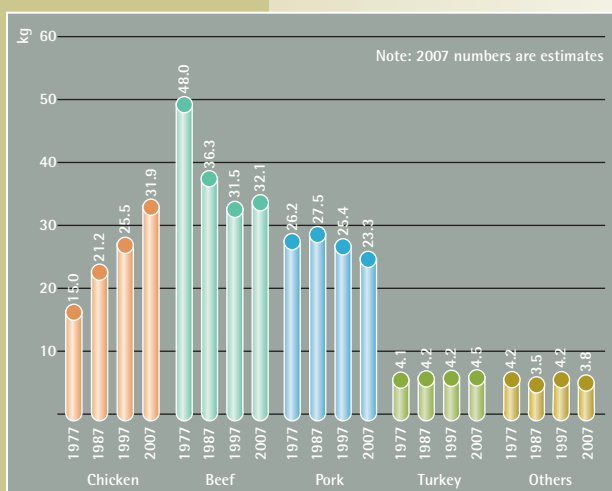
Canadian chicken production surpassed the one billion mark in 2007, reaching 1,003.4 Mkg, a 3.0% (29.7 Mkg) increase compared to 2006. While most (20.2 Mkg) of the production increase was for the domestic market, production under CFC's market development program increased by an estimated 9.5 Mkg, compared to 2006.

Production in Western Canada increased 3.9% relative to 2006. British Columbia's produced 5.3% more chicken than in 2006, partly due to a significant increase in production under the market development program. Production in Alberta, Saskatchewan and Manitoba grew by 2.8%, 1.5% and 3.4%, respectively.

In Central Canada, production increased by 2.5% over 2006. Ontario saw its production go up by 2.3%, while Quebec's production was 2.8% higher than in the year before. Production in Eastern Canada went up by 3.9%. Both Nova Scotia and Newfoundland & Labrador increased their production by 4.0%, while New Brunswick saw its production increase by 4.2%. Prince Edward Island's production grew by 1.7%.

Producer Prices

The average Canadian producer price in 2007 was \$1.278 per kg, 13.3 cents higher than in 2006, 8.3 cents higher than in 2005, and the highest in CFC



Per Capita
Consumption –
Various Meats (kg)

Quota Periods				
	from	to	Allocation (Mkg evs)	Production (Mkg evs)
A-76	January 7, 2007	March 3, 2007	152.2	152.6
A-77	March 4, 2007	April 28, 2007	152.8	151.8
A-78	April 29, 2007	June 23, 2007	160.8	160.2
A-79	June 24, 2007	August 18, 2007	159.9	155.8
A-80	August 19, 2007	October 13, 2007	153.1	153.4
A-81	October 14, 2007	December 8, 2007	155.9	158.0
				Quota utilization
				100.3%
				99.4%
				99.7%
				97.4%
				100.2%
				101.3%

2007 Provincial Production of Chicken (’000 kg eviscerated)

Province	2007	2006	% change
British Columbia	154,405	146,598	5.3%
Alberta	88,156	85,767	2.8%
Saskatchewan	38,519	37,968	1.5%
Manitoba	41,839	40,473	3.4%
West	322,919	310,805	3.9%
Ontario	328,604	321,369	2.3%
Quebec	273,186	265,833	2.8%
Central	601,789	587,202	2.5%
New Brunswick	27,545	26,442	4.2%
Nova Scotia	34,257	32,941	4.0%
Prince Edward Island	3,532	3,472	1.7%
Newfoundland	13,327	12,820	4.0%
Atlantic	78,661	75,676	3.9%
CANADA	1,003,369	973,684	3.0%

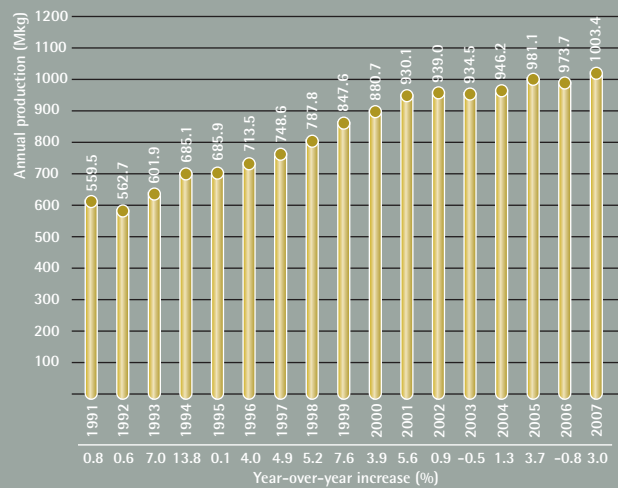
history. The significant increase in producer prices in 2007 was largely driven by the sharp increase in feed prices. The average live price in the first period of 2007, A-76, was \$1.223. The live price increased sharply to \$1.268 in period A-77 and reached its peak in period A-78 at \$1.305. The live price in the following period fell by 2.1 cents and stabilized at slightly higher levels over the next two periods (\$1.284 in period A-79, \$1.298 in period A-80 and \$1.292 in period A-81).

Retail Prices

After two years of very small increases, the Consumer Price Index (CPI) as reported by Statistics Canada for fresh and frozen chicken – the only national indicator for national chicken retail prices – showed a substantial increase in 2007. The CPI for chicken in 2007 was 122.9 compared to 114.6 in 2006, an increase of 8.3 (7.2%).

In comparison, the consumer price index for all items combined, better known as “the cost of living index”, in 2007 was 2.1% higher than last year and the one for all food items was 2.6% higher. The chicken prices at the retail level increased sharply during the first four months of the year, reaching a high in April, but then decreased somewhat and remained fairly stable for the remainder of the year.

All other competing meats also experienced price increases at the retail level in 2007, but not nearly as significant. Retail beef prices increased by 2.7%, turkey prices increased by

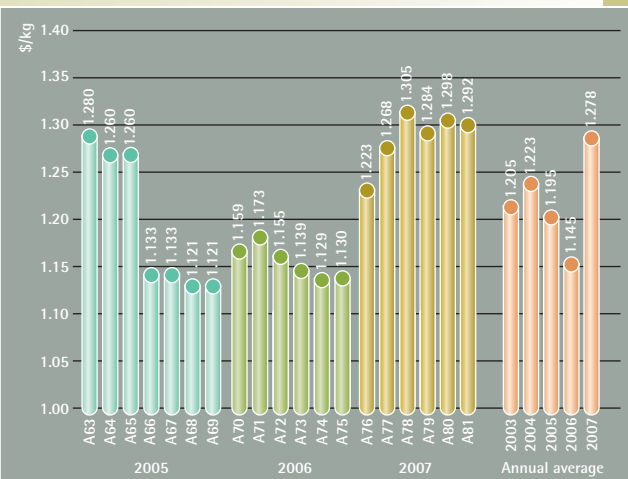


(Note: Statistics Canada monitors retail prices for fresh whole chicken, boneless skinless breast and legs and calculates a monthly price index based on the prices for these products).

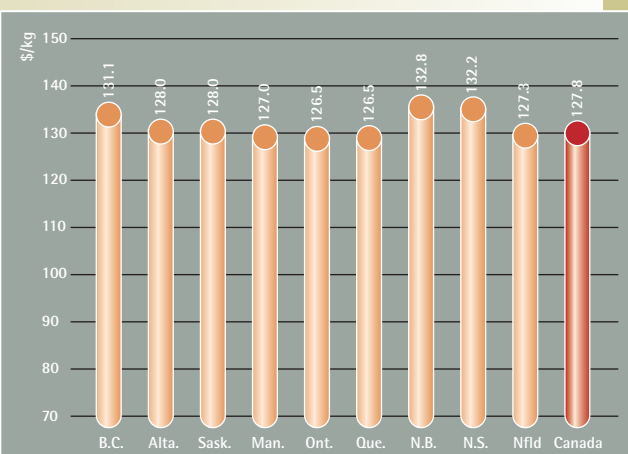
Annual Production
(Mkg eviscerated weight)

2.5%, fish and seafood prices by 2.1%, while retail pork prices were 0.6% higher than 2006.

Compared to ten years ago (1997), retail chicken prices are 31.6% higher. Beef prices increased 41.6% and turkey prices 34.4% over the same timeframe, Consumers also paid more for fish and than ten years ago (14.2%), while retail prices for pork were 1.6% lower in 2007 than they were in 1997.

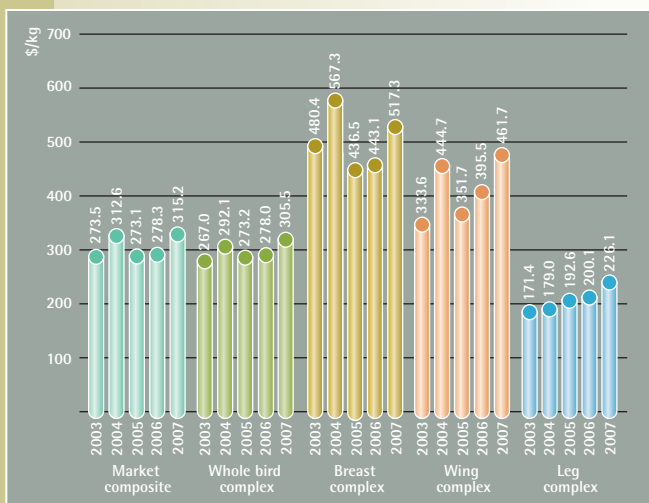


**Canadian Weighted
Average Producer
Price (kg)**



**2007 Provincial
Average Producer
Price (kg)**

**Annual Average
Wholesale
Price (\$/kg)**



Imports

According to reports from International Trade Canada (ITCan), a total of 152.3 Mkg of chicken was imported into Canada during 2007. ITCan is responsible for issuing import permits for chicken and products made primarily from

26.6% of the TRQ was imported. Above pro-rata imports continued in the second and third quarter of the year at 27.0% and 28.7%, respectively, and slowed down in the final quarter of 2007 when the remaining 18.9% of the annual TRQ was imported.

In 2007, chicken parts (bone-in and boneless) accounted for 82.0% of all TRQ imports, the same as last year. Further processed chicken and live chicken imports accounted for 17.9% and 0.14% of all TRQ imports, respectively. Only a very small amount of whole eviscerated chicken was imported.

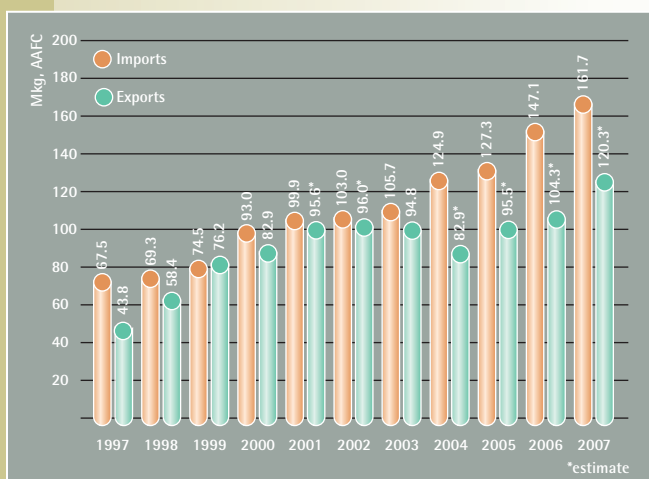
As in the past, the U.S. was the most important supplier of chicken products imported under the TRQ at a total of 45.1 Mkg (59.2%) with a total value of \$120.8 million. Global imports from Brazil totalled 27.7 Mkg (36.4%) for a value of \$46.7 million. The other countries of origin in 2007 were Thailand at 3.4 Mkg (\$8.5 million) and Chile at 0.04 Mkg (\$0.1 million). The total value of all products imported under the TRQ was \$176.0 million, \$31.5 million (21.8%) more than last year.

ITCan also issued additional import permits under the "import-to-re-export" and "import-to-compete" programs. The "import-to-re-export" program allows imports of chicken and chicken products into Canada to be further processed. All imports under this program must be exported within a six month period. In 2007, a total of 74.3 Mkg was imported under this program, 19.2 Mkg (34.9%) more than in 2006, and almost three times the amount that was imported under this program in 2003.

The "import-to-compete" program allows chicken imports for Canadian manufacturers to produce processed chicken products that are not on Canada's Import Control List. This list includes specialized products such as chicken dinners. A total of 1.4 Mkg was imported under this program in 2007, 0.9 Mkg less than in 2006.

In 2007, CFC received six requests, for a total of 474,500 kg, for supplementary imports for market shortages, mostly for wings. No supplementary import permits were issued. CFC received an additional five sourcing requests from non-ICL manufacturers for dark meat that could not be supplied by CFC's Market Development Policy.

**Canadian Chicken
Imports and Exports
(Mkg, AAFC)**



chicken. Under Canada's NAFTA obligations, the tariff rate quota (TRQ, also known as global imports) is automatically set at 7.5% of chicken production in the previous year.

The TRQ for 2007 was calculated as 72,798,525 kg — 493,190 kg less than in 2006. According to preliminary year-end statistics, a total of 76,183,732 kg of chicken and chicken products was imported under the TRQ, a fill rate of 104.7%. The TRQ for 2008 is to be 75.4 Mkg.

Global imports started 2007 above pro-rata (pro-rata is the expected rate). In the first quarter,

Exports

Based on a combination of AAFC export data and an estimate for Canadian exports to the U.S. (based on USDA import data) approximately 120.4 Mkg of Canadian chicken was exported in 2007, up 13% compared to 2006.


The most significant destination for Canadian chicken in 2007 was the U.S with 51.1 Mkg, 9.3 Mkg (22%) more than in 2006. The second was the Philippines where 13.4 Mkg was shipped, 3.3 Mkg more than in 2006. Other important export markets were the South Africa, Hong Kong, Russia, Macedonia, Armenia and Jamaica.

According to Statistics Canada, the value of Canadian chicken exports in 2007 was \$260 million, 39% higher than in 2005. Exports to the U.S. alone in 2007 are estimated at \$176 million, 26% higher than in 2006 and accounting for more than two-thirds of the total export value in 2007.

Storage Stocks

Frozen chicken inventories increased significantly during the year 2007. Most of the increase occurred in the first four months and in the last month of the year, while remaining relatively stable in the other months of 2007. Storage stocks started the year at 28.1 Mkg and increased rapidly to 33.6 Mkg on May 1st. Stocks then declined somewhat during the summer months and started going up in the fall and reached 36.6 Mkg on December 31st, 8.4 Mkg (30%) more than at the beginning of the year.

Inventories of all main categories (whole bird, cut-up, further processed and miscellaneous) increased over the course of the year, but the 4.9 Mkg (49.3%) increase in cut-up chicken inventories was by far the largest. Frozen inventories of further processed chicken also increased significantly with 3.1 Mkg (21.0%), while stocks of miscellaneous chicken (such as MSM, giblets, skin, feet) and whole birds in cold storage showed moderate increases of 0.3 Mkg (13.9%) and 0.04 Mkg (4.7%), respectively. Further processed chicken accounted for roughly half of all chicken products in cold storage in 2007.

Within the cut-up chicken category, both the leg quarter and wing categories increased sharply in 2007. Leg quarter inventories ended the year 2.9 Mkg (78.1%) higher than at the beginning, and wing inventories more than doubled over the course of the year. Within the further processed category, stocks of further processed boneless breasts grew by 1.3 Mkg (49.0%) in 2007, while frozen inventories of other further processed products (including tenders, strips, nuggets, patties and cooked wings) saw larger increase in terms of volume (1.9 Mkg), but smaller percentage-wise (15.2%). 

Record Breaking Times for Chicken Industry!

The Canadian chicken industry is celebrating two big milestones: 2007 marked the year that the industry achieved 1 billion kilograms in production and 2008 is the 30th Anniversary year of CFC!

In 1978, when Chicken Farmers of Canada was created, chicken production was three times less than it is now, scarcely making a dent in meat consumption at 355 million kilograms. Now, chicken is Canada's favourite meat, with per capita consumption at 31.9 kilograms and an over 30% share of all meats on the market today. Production has increased in response, with farmers now producing over 175% more chicken now than they did in 1978.

Support for our industry is high and continues to grow. 86% of Canadians feel that it is important that the chicken they buy is from Canada. 92% agree that it is important that the Canadian Government actively defend the interests of the Canadian chicken farmers.

That support is justified: The chicken industry is a major force within the Canadian economy, with a farm gate value of \$1.5 billion and retail sales of \$9.5 billion. There are roughly 19,000 jobs directly related to the Canadian chicken industry, on chicken farms and in processing plants across the country. There are also thousands of other spin-off jobs that depend on our industry – employees in hatcheries and feed mills, transportation, equipment manufacturers, jobs in the foodservice and retail sectors.



WTO: Pushing Hard to Finish the Doha Round

WTO MODALITIES:

The modalities are a greater level of specification from the framework. They stipulate precisely the percentages of cuts or increases that WTO Members must perform over a defined number of years.

Although negotiations had been officially suspended since July 2006 under the multilateral structure of the WTO, this did not prevent the major players from attempting to reinvigorate the talks. It was at the World Economic Forum's annual meeting in Davos, Switzerland that a small group of ministers agreed to re-engage in the negotiations.

How the Year Began

On January 31, 2007 World Trade Organization (WTO) Director General **Pascal Lamy** announced the official resumption of "full-scale" negotiations in Geneva with the expectation that a breakthrough package could be developed within three to four months. His announcement was viewed by the 150 WTO Members (nations) as a sign that the talks would push ahead.

Negotiations had been officially suspended since July 2006, after the unsuccessful ministerial gathering in Geneva where ministers were expected to agree on modalities for the main areas of the negotiations such as agriculture and non-agriculture market access (NAMA).

The first months following the Lamy announcement instead saw a slow start where the majority of the focus was on the group of four (G-4) composed of the United States, European Union, India and Brazil. Instead of making Lamy's announcement come true by re-launching an intensive negotiating process in Geneva, countries were waiting and closely watching the G-4 efforts to find a consensus that would lead to an agreement on agriculture modalities.

The G-4 pursued a "reverse-engineering approach" where, after identifying the desired outcome of the negotiations, they worked backwards to develop a methodology in order to produce those outcomes. Many Members thought that if the big four could find a compromise, the path to the completion of the negotiations would be drawn.

At the same time, there were many other Members of the WTO who wanted a truly multilateral negotiation to take place in Geneva where all Members could fully participate in the process. Some smaller groups were also formed to provide different perspectives on the negotiations. Canada was a member of the Oslo group along with Chile, Indonesia, Kenya, New-Zealand and Norway. In Geneva, **Crawford Falconer**, Chairman of the Agriculture Negotiations was holding "fireside chats" with a small group of countries that were trying to focus on specific issues.

The Results are in!

The first concrete result of these parallel processes was realized on April 30th when Falconer circulated the first part of his "challenges" paper, which contained his initial ideas on where there might be common points in the Members' positions. This 28-page paper was designed to stimulate discussion, and to challenge Members to further narrow their differences and achieve consensus, Falconer said.

His paper was certainly challenging for the Canadian chicken industry and for the entire Canadian supply management sector, as Falconer was suggesting that sensitive products should not represent more than 1 to 5 percent of each country's total number of tariff lines – Canada uses 8 percent for the supply management sectors. In addition, Falconer was proposing that sensitive products should face a minimum tariff cut ranging from 20 to 28 percent while also increasing market access.

The G-4 came close to a consensus, but their talks completely collapsed after three days of intensive negotiations in Potsdam, Germany on June 22. Brazil and India accused the U.S. and EU of asking for too many concessions on developing countries industrial tariffs while offering little in return in the areas of agricultural market access and domestic support. The G-4 failure did not bode well for the Doha round and left it with only the multilateral process to save it from a potential collapse.

After reviewing the G-4 process and its collapse, the Chairs of the Agriculture and NAMA negotiations each released a modalities text for their respective area of the negotiations on July 17. In terms of impact for the chicken industry, the draft modalities were not significantly different from the April 30th challenges paper. The maximum number of tariff lines for sensitive products was now 4 to 6 percent, while a minimum tariff cut of 22 to 24 percent was still proposed with an increase in market access ranging from 4 to 6% of domestic consumption.

The initial goal from the start of the year to conclude modalities by the end of July in order to finalize the agreement by the end of December was no longer realistic with only a couple of weeks to react to the draft modalities and get the ministers involved to conclude the modalities. Ministerial involvement in the negotiations was then expected for the end of September or the beginning of October to conclude the modalities. Again, this was an optimistic scenario.

A Last Ditch Effort

From September 3rd to December 7th, ten intensive weeks of agriculture negotiations took place in Geneva and some key issues, such as the developing countries' provision to be entitled to designate special products and to implement a special safeguard mechanism, still required significant discussions. The bulk of those ten weeks was devoted to the development of a methodology to calculate domestic consumption for the products that will be declared as sensitive products. The advancement of the negotiations requires a greater level of details to address all the technical issues.

As a result of the many missed deadlines, the revision of the July draft modalities that was expected for September has been postponed to February 2008, and negotiations will likely be dragged even deeper into 2008.

In collaboration with the dairy, poultry and egg producers, commonly referred to as the SM-5, CFC maintained a permanent presence in Geneva to keep farmers and the industries well informed of any developments in the negotiations. The weekly publication *Geneva Watch* provides all the

necessary information to everyone who wishes to be well informed on the state of the negotiations.

Meanwhile, Back in Canada

Throughout the year, CFC continued to closely monitor the WTO negotiations and assess the potential implications on the entire industry.

CFC was very active domestically to ensure strong federal and provincial government support. In the late spring, CFC attended the Federal, Provincial and Territorial Agriculture Ministers Meeting in Whistler, British Columbia, to advocate the need to get Canada back at the negotiating table on behalf of supply management.

With other representatives from the SM-5, CFC met with then Agriculture and Agri-Food Minister **Chuck Strahl** and later in the year, with newly-appointed **Gerry Ritz**. CFC also appeared before the House of Commons Standing Committee on Agriculture and before the Senate Agriculture and Agri-Food Committee to present our views on the WTO negotiations and to highlight the importance of supply management as a strong and sustainable asset in the rural economy.

Imports and Market Access

Minister of International Trade, **David Emerson**, in 2007 decided to accept all requests for supplementary imports to accommodate the demands on the tariff rate quota (TRQ). This resulted in the greatest level of access that was ever allowed for chicken imports into Canada.

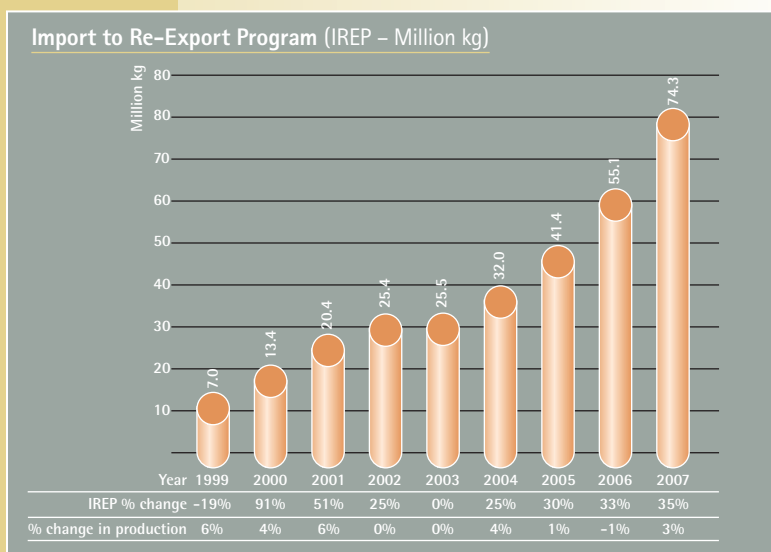
Contrary to the trend of the last three years, where the excess demand on the TRQ was supplied 61 percent from special supplementary imports and 39 percent from a claw back from the traditional, processor, distributor and foodservice pools, the 2007 allocation decision was a real setback for CFC.

Although Canada's international market access obligation is to provide 7.5 percent of the previous year's production, the 2007 TRQ allocation decision brought our access level up to 8.4 percent. This represented an allocation of 6.2 Mkg of special supplementary imports

The drastic increase in special supplementary imports for Non-TCL products highlights the importance of modifying Canada's generous 13% rule.

and 2.5 Mkg of expected supplementary imports-to-compete, above and beyond the 72.8 Mkg that represents Canada's international trade commitment.

Fortunately, the volume allocated by Minister Emerson was not completely utilized by the import quota holders and, by the end of the year, a total of 3.4 Mkg was imported as special supplementary imports and a further 1.4 Mkg as supplementary imports-to-compete. Therefore, the total access volume for 2007 was 78 Mkg, representing an access level of 8.04 percent that was shared amongst 552 quota holders. The difference between the annual allocation and the actual level of imports results from verifications on import quota holders performed by the Department of Foreign Affairs and International Trade Canada during the course of the year.



The import volume for the manufacturers of meat-on-meat products, such as tournedos, was still limited to 5.7 Mkg, based on applications for 7.5 Mkg. The applicants received 76 percent of their eligible requests. The demand for dark meat to be used by manufacturers of products not subject to the import controls (Non-ICL) dropped from 2.1 to 1.9 Mkg in 2007. The dark meat is supplied through CFC's market development policy to reduce the pressure on the TRQ allocation.

The drastic increase in special supplementary imports for Non-ICL products highlights the importance of modifying Canada's generous

13% rule. This rule stipulates that any product containing at least 13% of any ingredient other than chicken is no longer considered as chicken for import control purposes. In a meeting with then Agriculture and Agri-Food Minister Chuck Strahl, CFC officially asked the Minister to invoke Canada's WTO right to request a modification of its international commitments through the Article XXVIII, in order stop the erosion of the chicken market from products containing chicken but not subject to import controls. No action has been taken to that effect at this point but CFC, in collaboration with industry stakeholders, is still pursuing that change.

In order to improve the TRQ allocation methodology, CFC participated on the informal working group of the Chicken and Turkey Tariff Rate Quota Advisory Committee (TQAC) to explore administrative changes. As a result of these consultations, Minister Emerson agreed to implement some changes that will ensure that all Non-ICL applicants are federally registered establishments with federal HACCP recognition starting in 2009. It was also decided to implement a competitive test, to maintain the existing volume cap for the meat-on-meat products which should be limited to tournedos and *coq au porc*, and to re-evaluate product formulations of existing Non-ICL products.

Finally, the issue that attracted the most attention was the phenomenal growth of the Import to Re-Export Program (IREP) that reached 74.3 Mkg, representing a 35 percent growth over 2006. As the program is supposed to be market neutral because all imported products need to be re-exported, its popularity should not raise any concerns for the Canadian chicken market. However, many industry observers are having doubts that leakages into the Canadian market may occur. Tighter regulations on conversion factors and on the description of what constitutes a bone-in product have been agreed to by the TQAC. CFC and other industry stakeholders are actively monitoring this issue to stamp out any abuse. 🇨🇦

Animal Care is Our Business

Public and farmer attitudes about animal care have evolved significantly over the past 25 years. Changes in these attitudes, as well as industry developments and enhancements, have resulted in ongoing developments in farm animal care practices. Farmers take pride in the measures and precautions that the industry takes to ensure the safety, health and well-being of its flocks. Protecting flocks is an investment in a sustainable industry – it makes good economic sense as well as common sense for the industry to take excellent care of its birds.

CFC has worked diligently with its partners in order to create the best possible Animal Care Program for Canada's chicken farmers. CFC's Animal Care Committee has been charged with developing an auditable Animal Care Program which will demonstrate the high level of care given to chickens on Canadian farms.

The Animal Care Program is based on the *Canadian Recommended Code of Practice for the Care and Handling of Chickens, Turkeys and Breeders from Hatchery to Processing Plant*, standards that CFC was involved in first developing and in keeping up-to-date since the early 1980s. This was done in conjunction with industry and animal care stakeholders.

The Animal Care Committee consulted over forty Canadian stakeholders representing farmers, industry, academia, farm animal councils, catching companies, humane organizations, federal and provincial governments, the veterinary profession, as well as restaurants and grocers on the content of the Animal Care Program. CFC looks forward to continuing its work with industry partners, including the Canadian Federation of Humane Societies, poultry welfare specialists and the Canadian Veterinary Medical Association, to ensure that the highest standards of animal care are being followed.

In 2007, the Animal Care Committee continued its efforts in finalizing the Animal Care Program. The Committee worked closely with provincial boards as the final details of the program were worked out. Further steps were also taken toward

integrating the Animal Care and Food Safety programs with the objective of making the two programs easy for the farmers to implement simultaneously. The Program has been piloted on chicken farms across Canada and remains a priority for CFC.

The National Farm Animal Care Council


In 2006, CFC became a member of the National Farm Animal Care Council (NFACC). The council, established in 2005, is striving to achieve a national, coordinated approach to responsible farm animal care in Canada with one of its key activities being to establish a process for developing and revising the Canadian Codes of Practice for the Care and Handling of Farm Animals.

Currently, 23 organizations are represented on the council.

Danny Wiebe, chair of CFC's Animal Care Committee, is CFC's representative at NFACC.

2007 was a year of transition for NFACC.

The council had been operating under start up funding received through the Agriculture and Agri-Food Canada's Advancing Canadian Agriculture and Food Program (ACAAF). This funding came to an end, with the exception of supplementary funding received through the ACAAF program to sustain two of NFACC's activities – those of conducting a pilot project on developing the Canadian Code of Practice documents and developing an Animal Care Assessment Framework document. In response to the termination of ACAAF funding, the NFACC membership has been working toward securing enough funding to make NFACC a sustainable organization.

CFC is optimistic that this goal will be reached and has played a leadership role in developing a sustainable budget and membership fee structure. Interim funding was put in place in October. 



Avian Influenza Update 2007

The CFIA has removed all quarantine measures. Canada will be considered free of highly pathogenic avian influenza on April 17, 2008.

AI in Silton, Saskatchewan

On September 27, 2007, the Canadian Food Inspection Agency (CFIA) confirmed that samples taken from a broiler breeder farm near Silton, Saskatchewan had tested positive for the H7N3 strain of avian influenza (AI).

The National Poultry Group (NPG) comprising the four national poultry agencies and the Canadian Poultry and Egg Processors Council, was in constant communications throughout the incident and communicated with a united voice to government and the media. The provincial industry was as coordinated and, with the CFIA, led the ground-level emergency response. Protocols and plans that the industry had put in place since the 2004 AI outbreak in British Columbia were tested in depth and have since been further refined.

The collaborative effort to contain this outbreak to a single farm, by all levels of the industry and the federal and provincial governments demonstrates how much work has been done since 2004 and confirms that we are on the same page and moving forward together.

Depopulation and Movement Restrictions

The affected farm (the index farm) was immediately quarantined and the birds were humanely depopulated in a manner that kills the virus.

The depopulation was completed on October 3rd. A 3 km "Infected Area" and a larger (10 km) "Restricted Area" were established around the farm to reduce the risk of spread of the disease.

Poultry, poultry products, vehicles, equipment and workers became subject to movement controls and there was restricted interaction with quarantined premises in order to limit the risk of

spread. Provincial movement restrictions were lifted at the end of October but remained in place on the index farm until after the cleaning and disinfecting is completed and assessed.

Due to the excessive costs associated with the cleanup, emergency ad-hoc funding was provided by the provincial poultry industry. Under current regulations, compensation for flocks ordered depopulated is covered by the *Health of Animals Act*, but is restricted to the market value of the birds and some limited funding for culling and disposal expenses. There is no provincial or federal funding accessible for cleaning and disinfecting.

The cleaning and disinfecting process, critical to completing the process of disease eradication, was stymied for the remainder of the year and was carried through into January 2008.

Media and Consumer Interest

Significant effort was put into making sure the media were kept up to date with the situation and were thus able to report clearly and concisely on the incident and the subsequent steps the government and industry were taking to eradicate the disease. Preliminary survey results found that consumers demonstrated a higher awareness of the situation but indicated that consumption patterns would not be affected by news of the isolated incident. Overall, Canadians felt that the Canadian poultry industry and the government were doing all they could to contain the disease and prevent future outbreaks.

Trade Action

Predictably, some countries chose to either take trade action against Canada as a whole, or specifically restricted shipments from Saskatchewan. The following is a short list of countries that placed trade restrictions: China (Canada), European Union (10 km Restricted Zone), Russia (Saskatchewan), South Africa (Canada), and the U.S. (Saskatchewan). Some of the bans were relaxed before the end of 2007 but the remainder will be in effect until the situation in Saskatchewan is concluded.

Avian Influenza Background

AI is a viral infection that can affect birds. Experts believe wild waterfowl are a natural 'reservoir' for avian influenza viruses. Although many wild birds carry influenza viruses without becoming ill (due to a natural resistance), the disease can have severe effects on domestic poultry. The virus can appear in either low pathogenic or highly pathogenic forms. This refers to the impact the virus has on birds, not on the degree of threat to human health.

National and provincial poultry organizations have worked with federal and provincial governments to establish protocols outlining actions that will take place once a virus is detected on a poultry farm in Canada. Canada's poultry and egg farmers worked with the CFIA, as well as with provincial health and agriculture departments, to take active measures to prevent the spread of the virus to outlying farms.

Canada has one of the most stringent food production systems in the world. In the Canadian poultry industry, farmers follow science-based biosecurity protocols focused on prevention, cleaning and disinfecting, as well as limiting access to their flocks.

Emergency Response Preparedness

The NPG and each provincial board have worked judiciously to develop plans and protocols since the 2004 outbreak in B.C. The handling of the AI case in Saskatchewan by both industry and government is proof of the large strides that have been made in emergency preparedness.

Building on these successes, 2007 presented a year whereby the NPG and many provincial boards finalized drafts and held simulation exercises with industry and government

representatives in order to ensure all players understood their roles and responsibilities. This type of preparation and teamwork will put the poultry industry in good standing for the next AI case.

As part of these emergency response plans, the NPG worked closely with government on the areas of biosecurity, AI surveillance, traceability and indemnification (compensation) options.

Prevention, Monitoring and Traceability

The Canadian poultry industry participates on the CFIA Avian Biosecurity Advisory Council (ABAC). ABAC was established by government with the objective of developing industry-wide biosecurity standards. In 2007, the Council focused on developing key biosecurity and guiding principles for these standards. While not new ideas, these standards are being developed from a disease management perspective. Consultations on the content of these guiding principles will occur in 2008 and any additions will be incorporated into existing food safety programs, instead of creating a separate program.

An integral part of disease prevention is a surveillance program. Early disease detection will limit the impact on the industry and can help prevent a large outbreak scenario. To date, a surveillance program in Canada has not been able to move forward, due to the lack of appropriate compensation for those farmers who participate and are found to have an infection that requires depopulation. To this end, CFC is working alongside industry partners to establish a different mechanism to cover costs associated with depopulation with the hopes that the surveillance program can be initiated in early 2008.

Stemming from hitches with implementing the surveillance program and the costs associated with a disease outbreak, the NPG has been pursuing an indemnification program for avian influenza. The objective of this work, which is being performed in conjunction with the Ontario Livestock and Poultry Council with support funding from Agriculture and Agri-Food Canada, is to develop an industry-government solution to address the current lack of appropriate compensation. Initial feasibility reports, due in early 2008, will demonstrate the effectiveness of such a tool in the poultry industry's arsenal against avian influenza.

CFC has also been participating on the Industry-Government Advisory Council (IGAC) for traceability. Federal, provincial and territorial agriculture ministers have indicated the need for animal traceability and have requested that the industry (animal agriculture) and government develop a system. While not as effective for poultry due to the nature of animal movement within the industry, the wealth of traceability knowledge already collected as a result of supply management regulations and monitoring provides a baseline for future research.

The NPG held a wrap-up meeting with **Bob Burden** on January 9, 2008 as a final step in his role as Avian Influenza Coordinator. Bob has worked with the poultry industry for the last three years, working to improve and formalize our industry's preparedness for avian influenza. Bob has done a terrific job and his hard work and dedication to the industry are greatly appreciated. As part of the meeting, the NPG assigned leads to issues around AI to ensure that the momentum that Bob has created is not lost. 🐾

On-Farm Food Safety

*CFC's on-farm food safety program, called **Safe, Safer, Safest**, ensures that top-notch safety procedures and standardized safety systems will be found on each Canadian chicken farm.*

This will ensure that Canadian chicken farmers continue raising quality chicken Canadians trust, as they have been doing for generations.

Consumers are becoming increasingly concerned about the safety of their food supply, domestic or imported. Canada's chicken farmers work diligently to provide them with the quality chicken they can trust and we are trying to get that message out.

CFC's On-Farm Food Safety Assurance Program (OFFSAP or *Safe, Safer, Safest* as it is also known) represents an excellent tool to communicate the proactive nature of the industry and which demonstrates the good production practices being used by Canada's chicken farmers.

Safe, Safer, Safest takes a comprehensive look at on-farm food safety hazards and employs methods which reduce these hazards to an acceptable level. A key element of the program is the record keeping and documentation that provides the proof of the industry's good production practices, subsequently differentiating between Canadian and international practices.

Consumers and industry stakeholders can also be reassured by the credible government recognition system, the implementation of *Safe, Safer, Safest* on farms across Canada and ongoing renewal of the program elements.

Credible Recognition System

Based on the decision taken by the Federal, Provincial and Territorial Agriculture Ministers at their 2001 meeting in Whitehorse, CFIA, in conjunction with the provinces and territories, has been developing a recognition system for on-farm food safety programs.

The recognition system that has been developed, in conjunction with the national commodity associations, uses internationally-accepted standards as a framework – resulting in an ISO-based and HACCP-based framework upon which on-farm food safety assurance programs are evaluated. HACCP (or Hazard Analysis Critical Control Points) is an internationally recognized food safety system that identifies points in the food production process where control measures should be in place.

As part of the recognition system, CFIA, along with the provinces and territories,

has developed a systematic approach to full government recognition.

The first phase is technical review, whereby both the HACCP-based Producer Manual (Phase I Technical Review) and the ISO-based OFFSAP Management Manual (Phase II Technical Review) are evaluated from a technical standpoint to determine if they meet government requirements.

The management manual is a tool used by the national and provincial offices that will help ensure consistency of application across the country and prove to CFIA that CFC's food safety system is proceeding as planned.

The second phase is full implementation followed by a 3rd party audit to evaluate this implementation – again to ensure that government requirements are being met.

CFC completed the Part I technical review in 2002 and the Part II technical review in 2006. Currently, CFC is in the midst of the second phase of recognition and is concentrating on fully implementing the management system and ensuring full implementation at the farm level.

This recognition system provides the credibility that CFC requires in order to promote the program and to demonstrate that the program is being fully implemented.

OFFSAP Implementation

In 2002, the CFC Board of Directors approved the motion that the OFFSAP be made mandatory by provincial boards as soon as the management system was functional.

Prior to 2006, five provincial boards had made certification on the food safety program a qualification to raise chickens. Those provinces include British Columbia, Alberta, Saskatchewan, Manitoba and Ontario.

In 2007, three more provinces – Nova Scotia, Prince Edward Island and New Brunswick – have all begun drafting mandatory regulations or have submitted regulations to their supervisory councils. These activities bring country-wide mandatory regulations closer to reality.

100% of chicken farmers in those eight provinces are now certified on the program, while 67% and 31% are certified in Nova Scotia and Quebec respectively. New farmers are audited after collecting three periods worth of records – this is an on-going process that will ensure that all farmers are involved with implementing the program.

These statistics represent huge steps towards CFC's goal of having 100% of chicken farmers certified on the program. Overall, approximately 80% of chicken farmers across Canada are certified on the program.

To aid with the implementation and certification of farms, CFC has initiated several activities to help provinces with the delivery of the programs.

CFC set up a program to provide \$100 per certified farmer to each provincial board for farms that were certified prior to December 31, 2007.

This program was funded through the money awarded to CFC through the Lysine Vitamin Class Action Lawsuit – a total of over \$225,000 has been provided to provinces through this means.

In the last instance, CFC was able to provide access to funds through the Agriculture and Agri-Food Policy Framework of the Canadian Food Safety and Quality program. These funds are for provinces without provincial funding for food safety programs to assist with the implementation stage. To date, \$125,000 have been obtained through this program for Quebec.

Moving Along with the Recognition System

Having completed the two technical review phases, CFC continues toward full recognition of the food safety program. In 2007, CFC conducted internal audits at each of the provincial board offices to gauge implementation of the OFFSAP Management Manual. In addition, CFC began performing witness audits on auditors in order to ensure consistency in auditing across the country.

In May of 2007, a meeting of the provincial board OFFSAP personnel was held, with the help of a funding grant from Agriculture and Agri-Food

Canada's Food Safety and Quality program, to provide an education session on the management manual and its application.

Looking forward to 2008, CFC will continue performing internal audits and witness audits and will be making an assessment on when the CFC program will be ready to move forward to a 3rd party assessment for full government recognition.

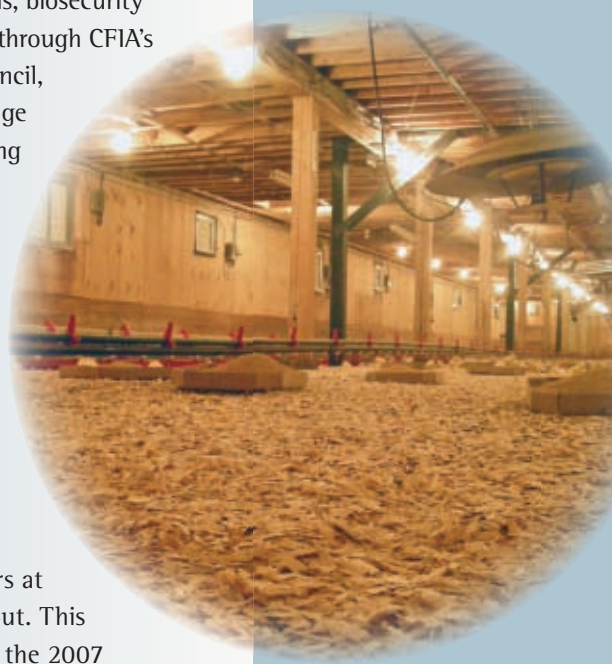
Renewal of the Program

The CFC Food Safety Committee has a mandate to develop policy recommendations regarding food safety, poultry diseases and emergency management preparedness for the consideration of the Board of Directors. In 2007, the committee was involved several food safety related issues including on-farm feed mixing regulations, biosecurity requirements on poultry farms through CFIA's Avian Biosecurity Advisory Council, implementation of the Free Range OFFSAP and as well as examining antimicrobial resistance. These activities are essential in order to ensure that the food safety program remains up to date and practical for Canadian chicken farmers.

CFC's Free Range OFFSAP was developed for the small number of supply-managed operations who allow their chickens access to the outdoors at some point during the grow-out. This new program was released for the 2007 growing season and a review is to be performed after the first year of implementation.

CFC, and the rest of the Canadian chicken industry, continues to work proactively to review and renew on-farm food safety programs.

Being able to demonstrate the good production practices being followed on farm proves to consumers and industry stakeholders that chicken is a quality product. 



Politics and Policy Implications

Government Relations is an area of great significance for CFC. Our industry is faced daily with meeting the challenges presented by changes in government, legislation and policies. Our mandate is to ensure that the voices of our farmers are heard, both domestically and internationally, when important agriculture and trade policy decisions are made.

We strive to keep the chicken industry in the minds of those who directly affect both legislation and our supply management system:

By working with government to develop sound policies for Canadian chicken farmers;

By enhancing policy-makers' attitudes towards the Canadian chicken industry;

By cooperating with agricultural partners on initiatives that are of mutual benefit;

By providing farmers with tools to effectively and personally lobby for their collective best interests.

On the Policy Front

"Growing Forward: Toward a New Agriculture Policy Framework" was officially launched in 2007 with three rounds of consultations. It followed on from where the old APF left off and will serve as the action plan that will guide the creation of a new national agriculture policy.

An overarching discussion paper was released and used for the first round of broad consultations. The meetings were based on the six key thematic areas: Food Safety and Quality, Markets and Trade, Environment, Renewal, Science and Innovation and Business Risk Management (BRM).

Following the first round, a cross-Canada consultation was launched with meetings in each province. CFC Directors and staff were present at all sessions. The third round, which occurred in the spring, was for a smaller, select group of industry stakeholders, who were given an opportunity to review the direction of the policy following the broader public consultation.

CFC took the opportunity in the spring to appear before the House of Commons Standing Committee on Agriculture to discuss

Growing Forward and some of our priority areas. CFC's focus was on the recognition of supply management as a BRM program, the increase in Canada's imports of chicken from our negotiated level of 7.5% to 8.4%, inadequate disaster coverage and government/industry cost-sharing for those numerous on-farm programs that provide both an industry benefit and a public good, such as food safety, biosecurity and traceability.

CFC also pursued the inclusion of an animal health pillar to ensure that government and industry could move away from the silo approach to animal health concerns, to a more comprehensive perspective. The House of Commons Agriculture Committee supported this industry idea with a recommendation in their report on Canada's Agriculture and Agri-Food policy in June.

In the late spring, CFC continued its work on Growing Forward by attending the Federal, Provincial and Territorial Agriculture Ministers Meeting in Whistler, British Columbia with two goals: to participate in Canadian Federation of Agriculture's (CFA) roundtable with the federal Agriculture Minister on Growing Forward and to impress upon all Ministers of the need to get Canada back at the negotiating table on behalf of supply management. Both goals were achieved as Canada has since been seen to play a stronger role at the WTO.

At the end of the meeting, much progress had been made and Ministers came to an agreement in principle on Growing Forward, as a policy guide on the direction of agriculture, which included agreement on a new suite of programs to help farmers manage risk. In December, the Standing Committee on Agriculture called us before them yet again to discuss the agreement in principle and to assess how we felt it met our needs and how we felt that it fell short.

CFC is pleased to report that after many years the policy framework now recognizes supply management as a BRM program. However, there are still areas that need a lot of work, such as the disaster program (Agri-Recovery) within the suite of BRM programming.

While CFC was pursuing these policy initiatives, the organization was also faced with registering all Directors and Alternates as consultant lobbyists as required by the *Lobbyist Registration Act*. This means that rather than being a part of the CFC office registration, each individual must be registered separately. Ensuring that Directors understand their new responsibility and completing this task was a significant undertaking.

On the Political Front

2007 started off with **Stéphane Dion** assuming the reins as the newly elected Liberal leader. First elected in 1996, Dion, who holds the seat for Saint-Laurent—Cartierville, was Minister of the Environment and prior to that, Minister of Intergovernmental Affairs.

On the Government side of the House, Prime Minister **Stephen Harper** ordered two Cabinet shuffles. The first came in January, where both Ministers Strahl and Emerson remained in their portfolios and **Christian Paradis** was appointed Secretary of State for Agriculture.

In May, which is earlier than usual, CFC held its annual reception for parliamentarians. The event was held at the Chateau Laurier and we received an excellent turnout with over 40 MPs and Senators in attendance. Directors, Alternates, Provincial Board Managers and CFC staff were present to help communicate key messages to the Parliamentarians. The evening was a good icebreaker for new directors as well as new MPs in a less formal setting whereby they could exchange perspectives on the Canadian chicken industry.

On August 14th, the Prime Minister revamped his Cabinet further by shuffling some key positions including **Gerry Ritz** as the new Minister of Agriculture and moving **Chuck Strahl** to Indian Affairs. Prior to his appointment, Minister Ritz was Secretary of State (Small Business and Tourism), but was no stranger to agriculture. For many years, he had chaired the House of Commons Agriculture Committee and had been an agriculture critic during the previous Liberal government. CFC was pleased with Minister Ritz's appointment

as we have always had a good working relationship with him. Since his appointment the relationship has continued to be positive.

Just before the House was scheduled to return from its summer recess, the Prime Minister prorogued Parliament until October 16th when the Governor General commenced a new session with a Speech from the Throne. The most significant part of the Throne Speech for chicken farmers was the government's commitment to supply management which read: "Together with our Government's strong support for Canada's supply-managed system, these approaches will deliver stable, predictable and bankable support for farm families."

It is an achievement to be acknowledged in the Speech from the Throne, a result of tireless efforts by Canada's dairy, poultry and egg farmers, also known as the SM-5, who worked throughout the year with the Minister of Agriculture, and in particular with Minister Ritz in the second half of the year, to ensure that our message was heard, both domestically and on the international scene.

As talks progressed in Geneva at the WTO, it was important to maintain a political and technical presence. The national agencies took turns at being available to Canada's trade negotiator, **Steve Verheul**, and his staff for technical consultations. The SM-5 also updated the content and messages on the www.farmsandfood.ca website to provide producers and consumers with tools to assist with promoting supply management to key audiences. The farmsandfood.ca website will also get a new look and feel which is expected to launch in early January. 🍷

Canada's dairy, poultry and egg sectors are vibrant, strong industries that contribute greatly to the social and economic fabric of rural Canada.

The maintenance of the Canadian supply management system is key to ensuring that farmers remain a viable part of the rural economy.



*Chicken is Canada's
Number One
Protein Choice
— 2007 Usage &
Attitude Survey*

In early 2007, Chicken Farmers of Canada (CFC) commissioned Leger Marketing to conduct CFC's 2007 Usage and Attitudes Survey, which takes place every three years. The survey, conducted between April and May, confirms that chicken is Canada's favourite protein and reveals that nearly a third of Canadians list chicken as their favourite.

Some Key Findings of the 2007 Usage & Attitudes Survey

97% of the survey respondents say they buy poultry and eat chicken an average of 8.6 times per month.

82% of the survey respondents say they prepare or cook meals with chicken at home at least once per week, up from 75% in 2004.

Boneless, skinless chicken breasts are the most popular type of chicken purchased with 78% of respondents saying they purchase them. Regular chicken breasts are the second most popular type of chicken purchased (71%), followed by whole chickens (64%), and chicken legs (53%).

When compared to other meats, chicken received higher agreement for "it tastes good" (72%), "is a popular choice" (70%), "is good value for the money" (50%), and "is not expensive" (33%).

Nearly all respondents (92%) agree that it is important that the Canadian government actively defend the interests of Canadian chicken farmers.

CFC is pleased with the key findings that stem from this latest survey, particularly the fact that chicken is the most popular menu inclusion and it is given top honours for its taste and popularity. Per capita consumption of chicken mirrors the results of the survey as consumers ate 31.9 kg per person in 2007.

Unfortunately, there remain some preconceived notions about our country's chicken industry that need to be addressed by informing Canadians about the demanding guidelines farmers obey to ensure their product meets or exceeds industry standards.

For example, only 52% of Canadians feel that they know enough about how chickens are raised.

As much as Canadians love chicken, 71% wrongly believe that hormone supplements are fed to chickens, an increase since 2004 when that number was 65%. But in fact, this assumption is false, as the use of hormones in chicken feed has been banned since the 1960s.

Farmer Profiles

Canada's farmers are recognized by consumers as being trusted authorities in their fields of expertise. Farmers have been top 3 in Leger Marketing's annual survey of the most trusted occupations for years. They follow only firefighters and nurses.

To leverage that support and credibility, CFC is building a content and image databank that personalizes the Canadian chicken industry. "Putting a face on the industry" is effective for both consumer and government relations by providing a different perspective on the role that Canada's chicken farmers have to play in Canada's agricultural landscape.

The 2007 Farmer Profiles have been posted on the CFC website and could be used later for a media or government relations campaign to promote the industry.

We will continue to offer new profiles in 2008.



Farmer Survey

Chicken Farmers of Canada has completed its 2007 Farmer Survey. Over a period of nearly two months, calls were placed to all farmers in order to obtain this important information. Thank you to all who participated.

The Farmer Survey is an opportunity for CFC to better understand its farmers, so that strategic considerations can be made for CFC's growth and development, as well as its public and government relations, which are very important – especially in light of the ongoing WTO negotiations. CFC also uses this information to review its current level of service and to establish benchmarks for quality and quantity of information.

Key Findings

The majority of chicken farmers are "established and planning to maintain current operations" (63%). Having said that, chicken is not the only source of income for the majority of farmers (77%).

23% of farmers are planning to increase their operations while 8% are scaling them down.

On average the production cycle is 8 weeks, yielding 65,000 kg of chicken.

The World Trade Organization (WTO) negotiations are expected to impact the industry; and slightly less than half the farmers say they are optimistic about the negotiations.

Slightly less than half believe that the Canadian government is fairly representing their interests in these negotiations.

Domestic support is the most important issue for more than half of the farmers.

The 15th Annual Great Canadian Chicken BBQ

Thousands of people thronged to the Canada Day celebrations and many stopped by the Great Canadian Chicken BBQ tent for a sandwich (or Caesar salad); even Canadian Idol winner **Eva Avila**, on break from the Parliament Hill main stage, stopped in for a bite.

This year, CFC brought back the award-winning "Grilled Chicken with Cajun Mayonnaise" sandwich – chosen by a panel of four judges as the best recipe in the event's 15-year history.

Fifty cents from the price of each chicken item sold at the BBQ was donated to The Ottawa Food Bank, helping needy families and individuals across the National Capital Region. The Ottawa Food Bank distributes over twelve tons of food from their warehouse each and every working day. Donations collected on Canada Day, as raffle ticket sales drove the one-day proceeds up to nearly \$6,000. During the rest of the year, we also raise funds and provide in-kind services supporting the cause.

Conferences/Trade Shows

Over the course of 2007, CFC participated in many industry conferences and trade shows. From the Dietitians of Canada conference to the Canadian Diabetes Association Professional Conference, CFC has worked to ensure that key nutritional information; messages on the Canadian industry and facts on maintaining a healthy lifestyle are distributed to key health professionals.

Health professionals are on the front lines in the promotion of healthy eating and active lifestyles. CFC works diligently to ensure that they have the tools they need to inform their patients and clients.

The CFC Nutritional Fact Series, launched in 2006, includes fact sheets that focus on kids, healthy eating, diabetes and the glycemic index, as well as a food journal to assist with monitoring consumption patterns. All of these fact sheets and the food journal are available online at www.chicken.ca under Health and Nutrition. Information and patients can also directly input their diet information in the interactive food journal that is available on the site.

CFC also participated for the first time at the Canadian Cardiovascular Congress in Quebec City. The Congress is the premier venue for Canada's cardiovascular community to meet and learn. It was attended by over 3,000 health professionals from

Nearly all respondents (92%) agree that it is important that the Canadian Government actively defend the interests of Canadian chicken farmers.



across the country. Surgeons, doctors, cardiologists, dietitians, nutritionists, nurses, and pharmaceutical representatives comprised the bulk of the delegates. CFC had a booth in the Community Forum (exhibition hall) and was one of only two organizations at the Congress not representing pharmaceutical companies and manufacturers of surgical equipment.

The CFC booth featured a preventative approach to heart problems, obesity, and hypertension by promoting healthy eating and chicken consumption. Given such a setting, the CFC booth garnered much attention and delegates were very interested in the messages and tools to aid their patients with healthy eating.

Supply Management Video

In response to a request from the Board of Directors, CFC, in conjunction with provincial marketing boards, created a video on the subject of supply management. The message of the video speaks to the benefits of our system to a core audience of government representatives, with additional application to other audiences. The goal of the video is to elevate awareness and generate a positive attitude towards the supply management system for chicken.

CFC worked with provincial chicken boards to produce both a national video and a specific video for each province. With messaging from each area in the chicken value chain, viewers are reminded that supply management allows the chicken industry to contribute to the economy and participate as leaders in the areas of business

risk management, product quality and safety, animal health and environmental stewardship.

The video is just over seven minutes long and is available in both English and French in the national version. It will be made available in a variety of formats and is suitable as a briefing piece at meetings and presentations as well as a stand-alone piece viewable by a wider, public audience.


Fun Farm

One of our main target audiences for promotion and education related activities are children, who represent our next generation of consumers. With so many circulating myths and urban legends regarding our industry, students are susceptible to believing what they may hear. In response, CFC has furthered the growth of the student online component of the chicken.ca website to include older children.

This new addition provides students, teachers and parents with an accurate picture of the chicken industry in an effort to dispel myths and misconceptions. The site also responds to questions on where food comes from and helps viewers better understand our commitment to animal care, food safety and nutrition.

The site is fun and educational and provides students with the information they need to make more informed decisions about the food they eat.

The “Teacher’s Corner” portion of the site was developed by teachers and is based on school curricula used across the country. It includes nine lesson plans, a student information sheet on chicken, a teacher information sheet on chicken and a link to the kid’s video that shows the chicken industry from gate to plate.

The site has many new features, games and puzzles to tempt all ages. Visit the Fun Farm by clicking on the CFC website at www.chicken.ca and the button on the left to join the fun! 

Poultry Research Continues to be a Priority

CFC's commitment to research and innovation is one of the keys to the success of the chicken industry in Canada and remains a priority. Research allows our sector to grow, both domestically and internationally, as we look for ways to make our quality product even better in response to evolving consumer preferences.

Avian Gut Microbiology

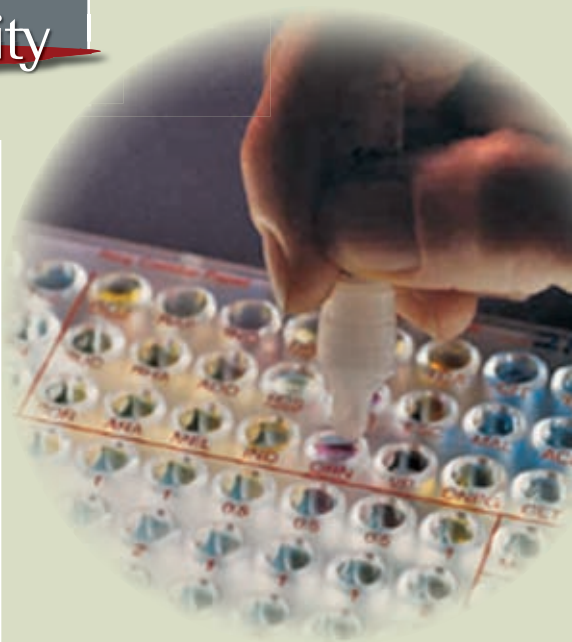
In 2007 the CPRC Board of Directors approved (up to) \$334,626 in funding for six research projects; (up to) \$200,775 will be contributed by CFC. These six projects have been submitted to various funding partners for consideration for matching funding. Decisions are expected by spring 2008.

- ① Title: *Investigation into cell-cell signalling in Clostridium perfringens infection for developing a novel disease-control strategy.* Lead Researcher: J. Gong, Agriculture and Agri-Food Canada (AAFC)
- ② Title: *Preventing Campylobacter jejuni colonization in chickens using an attenuated Salmonella vaccine vector.* Lead Researcher: J. Prescott, University of Guelph

- ③ Title: *Elucidation of critical characteristics of Clostridium perfringens and pathogen-host-environment interactions defining susceptibility of poultry to necrotic enteritis.* Lead Researcher: A. Olkowski, University of Saskatchewan
- ④ Title: *Impact of glutamine supplementation on intestinal integrity, bacterial translocation and live shrinkage in feed-deprived transportation-stressed broiler chickens.* Lead Researcher: A. Van Kessel, University of Saskatchewan
- ⑤ Title: *Engineered antibodies and phage products for food safety applications.* Lead Researcher: C. Szymanski, NRC
- ⑥ Title: *The use of cyclic-di-GMP, a novel immunotherapeutic and antibacterial molecule in chickens.* Lead Researcher: M. Diarra, AAFC

Canadian Virtual Centre for Poultry Welfare Research

In 2007, CPRC and AAFC jointly put out a call for proposals to universities across Canada with the intent of selecting an establishment to coordinate research efforts in poultry welfare across Canada and provide an extension role to ensure that research results are disseminated effectively as there




has been an erosion of both human and physical resources with respect to research, education and technology transfer related to the poultry sector. The initiative would be one step toward filling that void.

Following a comprehensive selection process, the University of Guelph was selected to fill this role. AAFC has agreed to support this initiative by providing a scientist and program support. This support is conditional on commitments from the University of Guelph, provincial governments and industry. CFC and the other CPRC members are currently considering a request to support the Centre.

CFC's Funding Contributions in 2007

In 2007, CFC made a contribution of \$630,000 to its research fund bringing it to a total of \$5 million. This demonstrates CFC's ongoing commitment to research. Interest earned by the Research Fund is the source of CFC's annual support for poultry research projects.

CFC will continue to work closely with CPRC and other industry stakeholders to ensure that the industry remains responsive to the needs of the industry, competitive on the world stage and state-of-the-art through ongoing support of poultry research. 

Poultry Research Priorities

The Canadian Poultry Research Council (CPRC), established in 2001 by the five national poultry organizations in Canada, has been successful in its endeavour to foster poultry research in Canada. To date, CPRC has allocated \$1,010,271 to poultry research and these funds have been leveraged to over \$4.8 million. Furthermore, CPRC has committed an additional \$334,626 to poultry research for projects that are currently under consideration for matching funding and which could be leveraged for another \$2.1 million.

The research priority areas targeted by CPRC are:

- | | |
|------------------------------|--|
| ■ Animal Welfare | ■ Antibiotic Replacement |
| ■ Environmental Concerns | ■ Food Safety |
| ■ Poultry Health and Disease | ■ Product Development/Value-Added Products |

In addition, CPRC has also solicited research in the area of novel feeds. Research into alternatives to conventional grains (especially corn) for use in poultry rations has become an emerging priority due to the increasing demand for those grains from the energy sector (ethanol).

Summaries of all research priority projects are available on the CPRC website (www.cp-rc.ca).

Monitoring & Enforcement

Auditing the system

In 2007, staff audited provincial commodity boards and processing facilities for compliance with CFC policies from periods A-70 to A-77. The report for periods A-70 to A-73 was approved by the Board in 2007, and the report for A-74 to A-77 will be presented in early 2008.

CFC staff and its external auditors conducted a review of the audit program to ensure that it continues to adequately meet our monitoring and enforcement objectives. A report of the recommended changes to the audit program will also be presented to the Board in early 2008.

Overmarketing Assessment

During the audit period A-70 and A-71, one provincial commodity board was assessed overmarketing levies totalling \$9,769. The report was approved by the Board in May 2007 and the levies were received in June 2007. During the audit period A-74 and A-75, a provincial board was assessed overmarketing levies of \$180,724. The report was approved by the Board in November and the levies were received in December 2007.

In 2006, CFC assessed overmarketing levies of \$2,204,578 against Chicken Farmers of Ontario (CFO) for audit periods A-68 and A-69. Although CFO

had filed an application for judicial review in Federal Court in 2007, CFC and CFO signed a memorandum of understanding in September 2007 to pay the overmarketing levies over five years in five equal payments with interest charged at 3% per annum. CFO also agreed to withdraw its application for judicial review. The first installment of \$440,916 was received in October 2007.

Market Development

Between periods A-74 and A-78, three primary processors marketed production that was not in accordance with the CFC Market Development Policy (MDP) and were assessed levies totalling \$682,989. CFC received these levies during 2007.

In 2005, a primary processor was assessed market development levies of \$163,066 for periods A-63 and A-64. A show cause hearing was held in January 2007 and the Board determined that failure to remit the levies owed would result in the suspension of the processor's license. The levies were paid in March 2007.

In 2006, a primary processor that was assessed market development levies in period A-68 of \$680,000 had filed an application for judicial review in the Federal Court. In 2007, the processor provided additional documentation which resulted in a reduced levy

assessment of \$625,344. In April 2007, the processor paid the full amount of the reduced levies and withdrew its application for judicial review.

In 2006, a primary processor was assessed market development levies of \$228,450 for periods A-66, A-67 and A-68. A show cause hearing was scheduled for 2007 to address the unpaid levies. In 2007, the processor requested an adjournment of the show cause hearing pending a future provincial appeal. The processor also signed an undertaking where it agreed not to market any chicken pursuant to the CFC Market Development Policy throughout the period of adjournment. The CFC Board of Directors granted the processor's request and the case is still pending.


Finally, a primary processor that was assessed market development levies of \$59,549 in 2005 had filed an application for judicial review in the Federal Court. The case was heard in January 2007 and dismissed by the Court in February. In March, the primary processor filed a Notice of Appeal to Federal Court. The case is expected to be heard in February 2008.

Interprovincial Movement

CFC monitors the number of live chickens that move in the interprovincial and export trade and reports the figures weekly to each provincial commodity boards.

Inter-Period Quota Transfers

The inter-period quota transfer policy gives flexibility to meet market needs. Requests are in response to short-term, market-driven requirements between two specific quota periods but cannot be used to adjust slaughter schedules or affect quota utilization in a given period.

In 2007, CFC received 3 requests for inter-period quota transfers totalling 286,688 kilograms live weight compared to 4 requests in 2006 totalling 422,711 kilograms live weight. 

Interprovincial Movement of Live Chickens (in kg live weight)

Province	2007		2006	
	To	From	To	From
British Columbia	—	—	3,080,000	—
Alberta	—	—	242,000	—
Saskatchewan	—	—	—	5,579,000
Manitoba	—	—	2,258,000	—
Ontario	21,317,000	30,695,000	22,036,000	27,652,000
Quebec	30,695,000	21,317,000	27,652,000	21,888,000
New Brunswick	15,573,000	—	—	—
Nova Scotia	1,516,000	12,283,000	4,643,000	76,000
Prince Edward Island	—	4,806,000	—	4,716,000
Newfoundland & Labrador	—	—	—	—
Total	69,101,000	69,101,000	59,911,000	59,911,000

A new processing facility in Saskatchewan shipped live chickens to out-of-province facilities in 2006 until they became fully operational. Following the closure of a processing facility in Nova Scotia in April 2007, some live chickens from Nova Scotia and PEI have been shipped to New Brunswick.

Auditors' Report

The Minister
Agriculture and Agri-Food of Canada

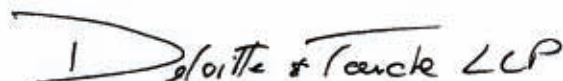
The National Farm Products Council

The Members of
Chicken Farmers of Canada

We have audited the balance sheet of Chicken Farmers of Canada as at December 31, 2007 and the statements of operations and of changes in fund balances and of cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Chicken Farmers of Canada as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants

January 31, 2008

Statement of Operations

year ended December 31, 2007

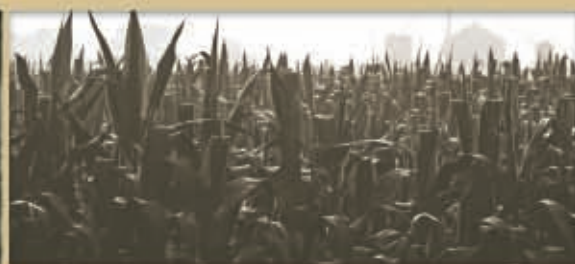
	General Fund	Promotion Fund	Research Fund	2007	2006
Revenue					
Levy and fee revenue	\$ 5,992,326	\$ —	\$ —	\$ 5,992,326	\$ 5,824,677
Interest and other revenue	453,750	142,957	171,822	768,529	645,648
Overmarketing and market development levies	—	3,866,470	—	3,866,470	813,220
	6,446,076	4,009,427	171,822	10,627,325	7,283,545
Expenses					
Amortization of capital assets	73,369	—	—	73,369	71,837
Avian influenza remediation	—	—	—	—	13,000
Canadian Poultry Research Council	—	—	121,371	121,371	93,119
Committees	161,322	—	—	161,322	158,020
Communication	225,388	—	—	225,388	181,281
Directors and alternates	1,232,836	—	—	1,232,836	1,160,209
Membership fees	120,502	—	—	120,502	118,252
Office	444,156	—	—	444,156	407,547
On-line business initiative	32,700	—	—	32,700	82,053
Professional fees	410,724	101,641	—	512,365	455,161
Promotion activities	—	202,023	—	202,023	198,922
Provincial commodity boards funding	—	—	—	—	500,000
Salaries, benefits and travel	2,063,222	—	—	2,063,222	1,953,373
Special studies	505,037	532,456	—	1,037,493	1,135,468
Trade	176,051	—	—	176,051	158,041
Translation	126,990	3,701	—	130,691	125,702
	5,572,297	839,821	121,371	6,533,489	6,811,985
Excess of revenue over expenses	\$ 873,779	\$ 3,169,606	\$ 50,451	\$ 4,093,836	\$ 471,560



Statement of Changes in Fund Balances

year ended December 31, 2007

	General Fund	Promotion Fund	Research Fund	2007	2006
Balance, beginning of year	\$ 7,023,766	\$ 2,827,119	\$ 4,323,444	\$ 14,174,329	\$ 13,702,769
Accumulated unrealized losses on available for sale financial assets (Note 3)	(33,939)	(13,661)	(20,891)	(68,491)	—
Balance, beginning of year, as restated	6,989,827	2,813,458	4,302,553	14,105,838	13,702,769
Excess of revenue over expenses	873,779	3,169,606	50,451	4,093,836	471,560
Net decrease in unrealized losses on available for sale financial assets	24,099	19,932	16,601	60,632	—
Interfund transfers (Note 9)	(630,000)	—	630,000	—	—
Balance, end of year	\$ 7,257,705	\$ 6,002,996	\$ 4,999,605	\$ 18,260,306	\$ 14,174,329
Consists of:					
Invested in capital assets	\$ 143,905				
Unrestricted	7,113,800				
	\$ 7,257,705				



Balance Sheet

as at December 31, 2007

	2007	2006
Current assets		
Cash	\$ 1,425,250	\$ 1,333,763
Short-term investments (Note 4)	2,702,834	2,842,847
Accounts receivable (Note 5)	1,501,898	1,041,551
Restricted cash (Note 7)	703,240	796,370
Prepaid expenses	31,382	22,662
	6,364,604	6,037,193
Investments (Note 4)	11,874,761	9,416,782
Accounts receivable (Note 5)	1,322,747	—
Capital Assets (Note 6)	143,905	166,335
	\$ 19,706,017	\$ 15,620,310
Current liabilities		
Accounts payable and accrued liabilities	\$ 745,525	\$ 652,205
Deferred revenue (Note 7)	700,186	793,776
	1,445,711	1,445,981
Committments (Note 8)		
Fund balances		
Invested in capital assets	143,905	166,335
Internally restricted – Promotion Fund	6,002,996	2,827,119
Internally restricted – Research Fund	4,999,605	4,323,444
Unrestricted	7,113,800	6,857,431
	18,260,306	14,174,329
	\$ 19,706,017	\$ 15,620,310

On behalf of the Board



David MacKenzie, Finance Committee, Director



Erna Ference, Finance Committee, Director



Brian Payne, Finance Committee, Director

Statement of Cash Flows

year ended December 31, 2007

	2007	2006
Net inflow (outflow) of cash related to the following activities		
Operating		
Excess of revenue over expenses	\$ 4,093,836	\$ 471,560
Items not affecting cash		
Change in fair value of available for sale financial assets	35,290	—
Amortization of discounts on investments	—	(100,890)
Amortization of capital assets	73,369	71,837
	4,202,495	442,507
Changes in non-cash operating working capital items (Note 11)	(469,337)	(187,268)
	3,733,158	255,239
Investing and financing		
Purchase of capital assets	(50,939)	(33,091)
Purchase of investments	(5,195,403)	(3,504,058)
Proceeds on sale of investments	2,834,288	3,675,968
Decrease in restricted cash	93,130	79,586
Increase in long-term accounts receivable	(1,322,747)	—
	(3,641,671)	218,405
Net cash inflow	91,487	473,644
Cash position, beginning of year	1,333,763	860,119
Cash position, end of year	\$ 1,425,250	\$ 1,333,763



Notes to the Financial Statements

year ended December 31, 2007

1. ACTIVITIES OF THE ORGANIZATION

Objective of the organization

The Chicken Farmers of Canada (CFC), incorporated pursuant to the *Farm Products Agencies Act*, was established to ensure the orderly marketing of chicken in Canada. CFC is exempt from income taxes under section 149(1)(e) of the *Income Tax Act*.

Levy and fee revenue

CFC charges levies to farmers based on chicken marketings in inter-provincial and export trade and receives fees in relation to intra-provincial trade.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations and reflect application of the following significant accounting policies:

Fund accounting

Resources are classified for accounting and reporting purposes into funds that are in accordance with specific activities, or objectives. Accordingly, separate accounts are maintained for the General Fund as well as for the Promotion and Research Funds, which are internally restricted.

The General Fund accounts for operating and administrative activities as well as all transactions related to capital assets and other interest revenue not allocated to the other funds.

The Promotion Fund reports the overmarketing and market development levies collected and expenses that relate to the promotion and marketing of chicken, as indicated in the Market Development Policy and the Monitoring and Enforcement Policy, and expenses incurred in collecting overmarketing and market development levies. It also reports interest earned on resources held for the purpose of the Promotion Fund.

The Research Fund reports interest earned on resources held for research purposes and expenses for research projects related to the poultry industry in Canada.

Revenue recognition

CFC recognizes revenue using the deferral method of accounting.

Levies are recognized as revenue during the year when received or receivable if amounts can be reasonably estimated and collection is reasonably assured.

Cash

Cash is classified as held for trading and carried at fair value.

Investments

Short-term investments and investments are classified as available for sale and recorded at fair value. Interest on interest-bearing investments is calculated using the effective interest rate method.

The fair values of securities are based on quoted market prices when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities or other third-party information.

Transaction costs related to investments are expensed as incurred. Unrealized gains and losses on available for sale financial assets are recorded directly in fund balances until realized when the cumulative gain or loss is transferred to interest and other income.

Accounts receivable

Amounts receivable, including due from related parties, are classified as loans and receivables and carried at amortized cost and fair value approximates amortized cost.

Capital assets

Capital assets are recorded at cost. Amortization of capital assets is calculated using the straight-line method over their anticipated useful lives. Terms are as follows:

Office equipment	10 years
Computer equipment	3 years
Leasehold improvements	Term of lease

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are classified as other liabilities and carried at amortized cost and fair value approximates amortized cost.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. These estimates are reviewed annually and as adjustments become necessary,

Use of estimates (continued)

they are recognized in the financial statements in the period they become known.

The estimated useful life of capital assets, the net realizable value of accounts receivable and accrued liabilities are the most significant items where estimates are used.

3. CHANGES IN ACCOUNTING POLICIES**Financial instruments**

Effective January 1, 2007, CFC adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3865, *Hedges*, Section 3861, *Disclosure and Presentation* and amendments to Section 4400, *Financial Statement Presentation by Not-for-profit organizations*. These new Handbook Sections provide comprehensive requirements for the recognition, measurement and disclosure of financial instruments, as well as standards on when and how hedge accounting may be applied. The amendments to Handbook Section 4400 require certain gains and losses to be recognized initially as direct entries to the Statement of Changes in Fund Balances for the period.

The new financial instrument standards require retrospective application as at January 1, 2007 by CFC without restatement of comparative amounts.

The new Handbook Section 3855 provides comprehensive requirements for the recognition and measurement of financial instruments. Under these new standards, all financial instruments are included on the Balance Sheet and are measured either at fair market value or at amortized cost depending on their classification. In accordance with the provisions of this new standard, CFC reflected the following adjustments as of January 1, 2007:

A decrease of \$68,491 to "Investments" and "Accumulated unrealized losses on available-for-sale financial assets" in the Balance Sheet and in the Statement of Changes in Fund Balances relative to investments recognized at fair value at the adoption date of this new standard.

Reclassification of opening balances

As a result of the implementation of the new accounting standards on financial instruments, the opening balance for net assets in the General Fund decreased by \$33,939, the opening balance for net assets in the Promotion Fund decreased by \$13,661 and the opening balance for the net assets in the Research Fund decreased by \$20,891.

During the prior year, short-term investments were recorded at the lower of cost and market value. Long-term investments were recorded at cost net of amortization of discounts or premiums and were written down when there was a loss of value that was other than temporary.

4. INVESTMENTS

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	\$ 2,717,589	\$ 2,702,834	\$ 2,842,847	\$ 2,842,847
Government of Canada savings bonds	1,648,844	1,649,662	3,803,794	3,761,059
Farm Credit Canada notes	1,363,082	1,351,407	1,000,250	986,836
Canada Housing Trust bonds	8,855,939	8,873,692	4,612,738	4,600,396
	11,867,865	11,874,761	9,416,782	9,348,291
	\$ 14,585,454	\$ 14,577,595	\$ 12,259,629	\$ 12,191,138

Short-term investments are comprised of cash in the amount of \$NIL (2006 – \$84,288) and Government of Canada bonds in the amount of \$2,702,834 (2006 – \$2,758,559) which mature over the next year bearing an interest rate of 3.75% (2006 – 4.5%).

Bonds and notes are debt obligations paying interest rates appropriate to market at their date of purchase. The bonds and notes mature at face value on a staggered basis over the next five years (2006 – five years). Interest rates for these securities range from 3.5% to 4.8% (2006 – 3.5% to 5.5%).

During the year, CFC purchased a total amount of \$5,195,403 of investments (2006 – \$3,504,058) and disposed of \$2,834,288 (2006 – \$3,675,968).

Investment risk

The maximum investment risk to CFC is represented by the fair value of the investments. Investments in financial instruments also include the risks arising from the failure of a party to a financial instrument to discharge an obligation when it is due.

Concentration of risk

Concentration of risk exists when a significant proportion of the portfolio is invested in securities with similar characteristics or subject to similar economic, political or other conditions. Management believes that the concentrations described above do not represent excessive risk.

5. ACCOUNTS RECEIVABLE

Accounts receivable consist of levies and fees, overmarketing levies receivable from the provincial organizations and accrued interest on investments.

CFC has a long-term account receivable from the Chicken Farmers of Ontario totaling \$1,763,662 (2006 – \$NIL) which has a fair value of \$1,718,321. This account receivable bears interest at 3% per year with principal repayment terms as follows:

Current portion 2008	\$ 440,915
Long-term portion	
2009	440,915
2010	440,916
2011	440,916
	1,322,747
	\$ 1,763,662

6. CAPITAL ASSETS

	2007		2006	
	Cost	Accumulated amortization	Net book value	Net book value
Office equipment	\$ 279,592	\$ 234,178	\$ 45,414	\$ 64,735
Computer equipment	191,714	134,735	56,979	43,482
Leasehold improvements	108,992	67,480	41,512	58,118
	\$ 580,298	\$ 436,393	\$ 143,905	\$ 166,335

During the year, CFC purchased \$50,939 of capital assets (2006 – \$33,091).

7. RESTRICTED CASH AND DEFERRED REVENUE

In 2005, CFC received \$875,956 as full and final payment of a vitamins class action settlement. The monies received are to be used by CFC to decrease the cost of on-farm audits of CFC's food safety assurance program, to enhance or increase on-farm biosecurity, and to allocate funds to research and development for protocols and methods to alleviate and contain any foreign animal disease outbreak in Canada.

	2007	2006
Balance, beginning of year	\$ 793,776	\$ 875,956
Interest earned	29,217	27,014
Recognized as revenue	(122,807)	(109,194)
Balance, end of year	\$ 700,186	\$ 793,776

The difference between the restricted cash balance of \$703,240 and the deferred revenue balance of \$700,186 is due to interest receivable and accrued liabilities not yet paid at the end of the year.

The expenses incurred include \$96,000 (2006 – \$91,700) for on-farm audits of CFC's Food Safety Assurance Program and \$26,807 (2006 – \$17,494) for the development for protocols and methods to alleviate and contain any foreign animal disease outbreak in Canada which are recognized in special studies. The revenue is recognized in interest and other revenue.

8. COMMITMENTS

CFC is committed under the terms of lease contracts with various expiry dates for the rental of premises and office equipment. Minimum lease payments are:

2008	\$ 125,299
2009	123,180
2010	56,790
	\$ 305,269

9. INTERFUND TRANSFERS

During the year, the Board of Directors approved a transfer of \$630,000 from the General Fund to the Research Fund to bring the Research Fund's balance to \$5 million.

10. EMPLOYEE PENSION PLAN

CFC has a defined contribution pension plan providing benefits to employees. The contribution is a net percentage of the employees' annual income. The total contributions made by CFC under this plan in 2007 was \$50,100 (2006 – \$56,627).

11. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	2007	2006
Accounts receivable	\$ (460,347)	\$ (90,942)
Prepaid expenses	(8,720)	9,058
Accounts payable and accrued liabilities	93,320	(23,204)
Deferred revenue	(93,590)	(82,180)
	\$ (469,337)	\$ (187,268)

12. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.