

REPORT OF THE CHAIRMAN

This annual report tells a story of contradiction. It is a story of an industry and a supply management system struggling between success and failure. The success is market expansion. The failure is the unresolved struggle to secure its own future.

Since 1996, we have seen unprecedented market growth. That year we saw per capita consumption of eggs increase in Canada for the first time in about 15 years. Though per capita consumption for table eggs has remained steady since then, overall consumption has kept pace with the increase in Canadian population. And per capita consumption of eggs in processed products has continued to climb as food manufacturers appreciate the good value that is the Canadian egg.

The year 1999 has, in many ways, been very good to us. Our Producer Portrait campaign of television advertisements was recognized by the creative advertising community and awarded a CASSIE (Canadian Advertising Success Stories). We completed a revised nutrient analysis that showed that today's egg has a marked reduction in fat and cholesterol than those consumed 20 years ago. The scientific community continued to extol the virtues of eggs with the Harvard School of Public Health, no less, concluding that most people can safely eat an egg a day. Even *Time* magazine recognized the value of eggs in the cover story of its July Canadian edition.

Who wouldn't want to be part of this booming Canadian business? What could there possibly be to complain about?

Now for the bad news...

The year opened with one provincial board withholding levy from CEMA. Another suggested it would run an industrial product program independently of the Agency. Before we knew what was happening, we were embroiled in what may well be the greatest threat to our supply management system in eggs since its inception in 1972. By the end of the year, another provincial marketing board decided to withhold levy. Others declared they could, would and indeed had issued new production quotas unilaterally.



At the heart of the matter is how to divide the national allocation. There are other issues ranging from the return of industrial product supplies to reporting mechanisms between CEMA and the provincial-territorial boards. But it is the allocation issue that has divided us.

It was necessary for CEMA to commission experts in the field of mediation early in 1999 to help us work through these difficulties. These experts conducted independent interviews at the provincial-territorial marketing board level and facilitated negotiations among all stakeholders of the egg marketing system.

Sadly, it became obvious that a change in senior management was required to open the doors, even just slightly, to negotiation. In July, three of our managers left the Agency's employ following dedicated service to supply management and egg producers. I assumed the duties of acting Executive Director. These changes were extremely difficult for our staff and I congratulate them for the professionalism they displayed throughout.

Unfortunately, I must report that progress, if any, in our mediation has been painfully slow. In 1999, we held at least four mediation sessions with representatives from the provincial-territorial and national levels present. Each meeting was filled with optimism only to have agreements fall apart a couple of weeks later. Participants were coming away from meetings with different understandings of what had been agreed to. It seems we have expended an enormous amount of energy only to realize we have a problem and need a solution.

Our biggest challenge as we move into 2000 is regaining trust. Cynically, agreements are criticized before the ink is dry on the paper. Things are said that aren't meant. Things meant aren't said. Participants have grown weary of listening. How sad! *We must not give up.* We must rediscover our common commitment.

I believe if we are to be successful we must be focussed on our responsibility to act on behalf of egg producers. CEMA's role, and that of the provincial-territorial marketing boards, is not to ensure the well-being of the national or various provincial-territorial economies. There are others whose job it is to do that. Our role is to work on behalf of producers, securing their future through a stable supply management marketing system for eggs.

We have to get back to our origins and achieve an understanding of the reasons for our existence. All of us involved in egg supply management must be committed to a common mission and vision. We must be advocate-believers if our system is going to work. We must fervently believe in supply management and the benefits it can bring to egg producers, consumers and other stakeholders.

I leave my position as CEMA Chair while the Agency is in transition. About a year ago, I informed my colleagues of my intent to be in the Chair for just another year. I have held the position for four years and during that time, we have had our

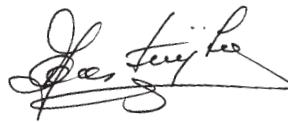
share of successes building our industry. I am very proud I was part of that. Nonetheless, it is time to move on. Room must be made for new people so new ideas and initiatives can be turned into long-term solutions.

The difficulties that presented themselves in 1999 remain as we enter 2000. Though many more critical months are undoubtedly ahead, I am convinced CEMA and its partners can construct long-lasting solutions for the future. The ability is there. I hope I am right in concluding the will is there, too.

Wherever I am, my heart will always be with CEMA. I will still be an active egg producer, taking an interest in marketing within my province and within my country. I will advocate a strong, national egg supply management system and recall fond memories as I see CEMA forge a new era of cooperation and trust.

I would like to thank my colleagues on the Board of Directors and the Executive Committee. I urge them to support their new Chairman and to work diligently on behalf of egg producers for strong national orderly marketing in Canada. Diligence, perseverance and cooperation will be required as never before.

I extend my sincere thanks to the staff at CEMA. I have been honoured to work with them. They have seen our system through a very difficult year and remain dedicated in their service to Canada's egg producers.



Félix Destriker
Chairman

SECTION 1 { RENEWAL

RENEWAL

It became evident in 1999 that CEMA and the provincial-territorial egg marketing boards had to work hard to renew partnerships. National egg supply management was embroiled in allocation disputes, debates which stemmed from growth in domestic and international markets.

In 1998, domestic shell egg disappearance increased by 1.8 percent over 1997. Seventy percent of the growth occurred in the processed, or industrial, sector where consumption increased by almost four eggs per capita.

The growth had pushed production requirements over the national allocation base set in 1972 when CEMA was formed. Allocating quota within the base was a fairly straight-forward matter: long-standing agreements stipulated what the provincial shares of the national requirement were.

A new environment unfolded once requirements first exceeded that base in 1996. There were no historical agreements providing a blueprint of where to place the new production. As 1998 closed, we still had outstanding requests for new quota from British Columbia, Alberta and Saskatchewan egg boards.

It is a credit to the Agency, provincial-territorial egg boards and the signatories to the Federal-Provincial Agreement that all 10 provinces and the Northwest Territories remained within the egg marketing plan throughout the year. Sadly, threats of financial sanctions and/or withdrawal from certain national programs abounded:

- Quebec board withheld its industrial product levy starting January 1, fulfilling notice it had filed with CEMA six months earlier. The board began remitting levy again in July after a national-provincial interim agreement was struck but continued to withhold levy owing from earlier in the year.

- In February, Ontario served notice it would encourage development of a Central Canada industrial products program but then held its notice in abeyance in July. As the year closed, the board notified CEMA it would unilaterally issue new production quota to Ontario producers on March 1, 2000, if the Agency did not resolve the allocation issue.
- Manitoba board issued more “Grow For” quota in 1999 than had been approved by CEMA. While this production

is not purchased by CEMA’s Industrial Products Program, and is used to fill expanding market needs, the amount of Grow For product to be grown in 1999 had been debated extensively by CEMA’s Board of Directors in 1998. As a result of that debate, specific allocations for 1999 were assigned to Manitoba and Ontario. In addition, the Manitoba board served notice it would issue more Grow For quota in 2000.

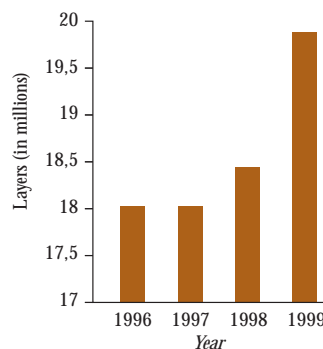
- The Alberta board, commencing July 30, withheld all of its levy to CEMA arguing CEMA had not responded to its needs for more product and had not sought appropriate compensation following a Federal Court of Canada ruling in 1995. The declaratory ruling was that a 1990 transfer of producer contributions to

the Consumer Fund was invalid and had been forced onto CEMA by our supervisory board, National Farm Products Council (NFPC).

To some degree, provincial-territorial boards were facing pressure from their governments who were anxious to take advantage of market growth. Governments are clamoring for agricultural growth and are placing demands to expand production on their marketing boards and national supply management bodies.



NATIONAL LAYER ALLOCATIONS



As a result of increased market demand, the national allocation has grown, surpassing the base established in the 1972 Proclamation.



RENEWAL

(continued)

Clearly, the Agency had to grapple with the dissatisfaction found among its partners. On the surface, it had looked like allocations were the major stumbling block. Allocating new quota as a result of growth was the subject of much debate by the Board of Directors. But it soon became evident that numerous other issues, ranging from approval of motions during directors meetings to communications with marketing boards, had been festering and needed to be resolved. A third-party mediator was commissioned in March to help CEMA and the marketing boards hammer out a new deal.

Parties in the mediation agreed in the spring to suspend all potentially detrimental activity. CEMA postponed regularly scheduled Board and committee meetings to minimize Agency decisions until the mediation process was well underway. Work on renewing the Federal-Provincial Agreement for egg marketing, as directed by federal and provincial agriculture ministers, was also put on hold. What needed to be negotiated for that Agreement could not be decided until we understood all of the contentious issues.

In July, an Interim Agreement was reached. Twenty-two action items were identified to fulfill four recommendations:

- that CEMA improve its planning and information management
- the present base of 475 million dozen eggs allotted to all provinces be considered domestic (table and processing) and paid for by a national uniform recoverable levy
- that the domestic over-base quota allocation be financed by national uniform levy

- that the existing levy system be retained and levies be remitted to CEMA on a per-bird basis, each bird paying the same national rate of lay x provincial quota issued x levy.

Significantly, the members of the Egg Industry Operational Planning Team agreed with current practice whereby:

- the marketing of eggs produced within the base established in the 1972 Proclamation founding CEMA could be paid for by a uniform levy across the country.
- the marketing of eggs produced over the base could also continue to be paid for through a uniform levy providing the eggs were consumed within Canada.

WITH THE ASSISTANCE OF
THIRD-PARTY MEDIATORS,
CEMA NOW HAS A SOLID
FOUNDATION UPON WHICH
TO RENEW ITS PARTNERSHIPS
WITH PROVINCIAL-TERRITORIAL
BOARDS AND PROCESSORS.

The Agreement was a consensus document and reached understanding on many important areas. The Agreement, however, did freeze new domestic allocations for the time being, suggesting interim allocations could be made if needed. In addition, new expansion “Grow For” allocations were put on hold until an independent study could examine the implications of such programs on Canadian egg supply management.

As the year ended, some provinces became impatient, wanting to produce more eggs than ever before in year 2000. Rather than issue new allocations and risk unravelling the July Interim Agreement, CEMA extended its quota arrangements for 60 days. Nonetheless, some provinces made it clear they were prepared to issue new allocations in 2000, with or without the Agency’s approval.

The Canadian Egg Marketing Agency was disappointed by these pronouncements as supply management can only be effective at a national level. In the interests of egg producers

across Canada and other stakeholders, the Agency must be able to maintain its authority to approve quotas.

CEMA's Board of Directors is hopeful CEMA and the provincial-territorial egg marketing boards can continue to work together to resolve these very difficult questions around egg allocation. Together, we have made much progress in the mediation and have completed most of the tasks outlined in the Interim Agreement. All of us must stay focussed on the need to reach understandings, taking care not to take actions or decisions that will escalate disputes.

CORE FUNCTION ANALYSIS

Our mediators also assisted the Agency in examining governance, core functions and the management of issues. With the full cooperation of provincial egg board managers and managers at the Agency, we were able to determine what were the core functions required for a successful egg supply management system. These were governance, agency and board management, an industrial products program, pricing, quota management, information management, financial management, marketing and communications.

GOVERNANCE

A model identified 25 governance features as well as the Agency's strengths and weaknesses in fulfilling the requirements of those features. The governance model is a useful reference tool for the development of strategic and operational plans.

MANAGING ISSUES

The Board also reviewed processes for decision making conducive to managing issues and resolving conflict. Managing issues is a normal feature of CEMA's functions and the process used needs to be continuously improved. Specific steps reviewed for negotiations, mediation and arbitration were identified together with the roles and responsibilities of directors.

With the assistance of third-party mediators, CEMA now has a solid foundation upon which to renew its partnerships with provincial-territorial boards and processors. Despite the often intense difficulties in 1999, CEMA was buoyed by the knowledge that its partners value national supply management. None of the partners in the Federal-Provincial Agreement pulled out of the system. Everyone remained aware of the benefits that have been bestowed by orderly marketing. All are equally aware that national supply management will be an essential tool to build a successful future for the Canadian egg sector.

1999 ALLOCATIONS

<i>Province</i>	<i>Layers</i>	<i>Dozens</i>
BC	2,338,293	59,497,832
AB	1,512,475	41,523,648
SK	821,676	22,880,514
MB	2,920,605	71,656,141
ON	7,327,319	189,977,253
QC	3,209,145	82,738,545
NB	401,029	10,024,816
NS	746,357	18,648,422
PE	111,438	3,117,039
NF	310,474	8,039,958
NT	115,000	2,725,500
CAN	19,813,811	510,829,668

As of Dec. 24/99

The heart of national supply management in eggs is the ability to determine the provincial shares of national production requirements.

SECTION 2 { MOVING FORWARD

MOVING FORWARD

The Canadian egg market is changing... and quickly. In 1999, shell egg disappearance increased by 1.8 percent with the supply of Grade A eggs up by 2.7 percent.

Our year at CEMA has been dedicated to ensuring the viability of our supply-managed marketing system during these changing times. All of our operational activities focussed on the need to rebuild partnerships and to ensure we have the support of provincial-territorial boards. This necessitated a re-examination of many programs and policies to ensure fairness for CEMA, the marketing boards and all stakeholders. Much work remains if we are to continue moving forward.

BUYBACK

CEMA re-examined its buyback policies used in its Industrial Products Program. The Program, a core Agency function, is used to purchase eggs from producers for sale to the Agency's customers, egg breakers that process eggs into liquid, dried or frozen form, or even break eggs down into their component parts for use in pharmaceutical products. The price CEMA pays when buying eggs is known as the "buyback price" and it is based on the average producer's Cost of Production (COP) in each province, determined from regular farm surveys and other data.

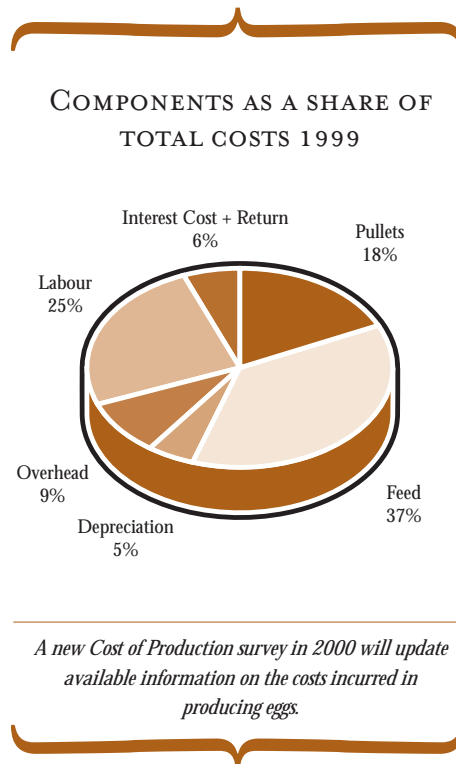
Three recent changes in our buyback policies had increased our financial responsibilities:

- 1) In 1998, an increase in the buyback price was negotiated upward from the COP plus two cents a dozen to COP plus three cents a dozen. This was done to minimize producer assessments levied by provincial boards.

- 2) The national conversion factor to A large, used to determine the appropriate price for grades and sizes of eggs other than A large, had been changed to a regional conversion factor. Effectively, this meant an additional two cents a dozen was being paid for eggs in Western Canada than previously.
- 3) We had returned to a national uniform levy.

Measures were taken to increase efficiency of the program. It

was recognized that some provinces were establishing producer prices at a level below CEMA's buyback price. Therefore, it was decided CEMA should buy eggs at a value equal to the COP plus three cents or the provincial producer price plus three cents, whichever was less. In addition, it was decided to return the conversion factor for A large back to a national factor. However, the Agency, together with the marketing boards, agreed the national assessment on eggs should remain uniform as this was an essential feature to an equitable supply management system.



NEW SURVEY NEEDED

CEMA decided that a new COP survey needed to be completed and we have scheduled one for 2000. This will require discussion with the federal

government supervisory body, National Farm Products Council. The last COP survey was in 1994 and Council disagreed with some of the methodology in the formula. Council will be invited to have a representative on the committee overseeing the new survey.

MOVING FORWARD

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GROW FOR PROGRAMS

The nature of the Canadian egg industry has changed substantially since the Agency was founded in 1972. At that time, egg farmers produced mostly for the table market. Eggs were laid, collected, graded and sized and then sold to retail stores for re-sale to Canadians coast to coast. Only five percent of the eggs grown were shipped to breakers. Generally, these eggs didn't have the quality or they were not the size demanded by the table markets.

Today, about 20 percent of Canada's production is required by the country's highly successful egg processors. Consistent quality and supply are being demanded by these entrepreneurs who also import about 22 percent of their requirements for their domestic and international markets. Canadian egg farmers see these imports as lost opportunity for domestic production.

No sooner had CEMA allocated an additional 900,000 units — 200,000 Grow For layers in Ontario and 700,000 Grow For and development layers in Manitoba — at the end of 1998, that provinces clamoured early in 1999 for yet more quota. And outstanding applications from the previous year still had to be reviewed.

The easy answer would have been to simply rubber stamp the applications. For most of the quota being requested, provincial boards or individual producers were willing to assume the risk if markets dwindled. CEMA would not be expected to find markets for the product or to buy the eggs for use in the Industrial Products Program.

Nonetheless, there were outstanding questions that needed to be resolved. Surplus production could jeopardize market stability and we were uncertain what was really required by the market. We had questions about security, that is the potential leakage of these eggs onto the domestic table market or into

CEMA's industrial product sales. And questions would undoubtedly be raised by our trade partners because the new production would displace their imports.

WHAT'S REALLY REQUIRED BY THE MARKET?

CEMA has to assure all participants that information used as a base for allocation decisions is reliable, accurate and complete. Consequently, we sent a detailed questionnaire to all of our customers to determine total processed market requirements as well as breakdowns of how those requirements are supplied and where the product is sold. Our customers were extremely cooperative, supplying us, on a confidential basis, with information on sources of supply and sales of whole egg, yolk and albumen.

SECURITY/LEAKAGE

The Agency commissioned consultants to examine Grow For programs for potential leakage onto the table market or into CEMA's Industrial Products Program. The consultants concluded there were no serious security concerns and eggs were not leaking out of the Grow For programs. Nonetheless, they did note it was possible for leakage to occur. Recommendations to reduce, if not entirely eliminate, this possibility were forwarded to CEMA.

Installation of sealed counters on egg breaking machines and random audits by CEMA require further investigation in 2000.

QUESTIONS BY TRADE PARTNERS

The consultants also provided CEMA with an assessment of the trade implications surrounding provincial Grow For programs. The programs make economic sense when excess barn capacity is utilized and overall profitability increases, the

THE GOAL IS TO REDUCE UNILATERAL ACTIONS THAT CAN BE SO HURTFUL TO A NATIONAL MARKETING SYSTEM BY ENSURING THAT ALL REGIONS AND INTERESTS AFFECT BOARD DELIBERATIONS.

MOVING FORWARD

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consultants concluded. CEMA and its provincial-territorial partners will examine Grow For programs and policies to ensure the additional economic activity is created with full regard for our international trade obligations.

BREAKER EQUITY

CEMA continues to contribute up to three cents per dozen to help equalize costs incurred by Canadian egg breakers importing additional eggs. However, Eastern Canadian breakers have had to import a greater percentage of their requirements than western breakers. It was the view of the eastern breakers, and CEMA agreed, that they suffered an economic disadvantage relative to their western counterparts. Consequently, in 1999, CEMA agreed to cover the import costs incurred by eastern breakers up to the equivalent level of supply to the western breakers.

TABLE REQUIREMENTS

In 2000, CEMA will have to examine its table requirements. Canada's population is steadily increasing and Canadian egg producers must increase production to meet this growing

need. CEMA must decide where to place this increased production so the needs of a growing population are met by producers throughout the country.

REPRESENTATION

Together with the provincial-territorial boards and industry stakeholders, CEMA will continue to examine the way motions are carried at the Board of Directors table. Some have questioned the fairness of maintaining a one-province, one-vote principle established at the time of CEMA's creation in 1972.

In 1999, the provincial-territorial boards and CEMA agreed that any motion carried had to have at least one positive vote from each region. Still open for discussion in 2000 is a proposal that at least one positive vote is also required from the four directors representing the grading, breaking, hatchery and consumer segments.

The goal is to reduce unilateral actions that can be so hurtful to a national marketing system by ensuring that all regions and interests affect Board deliberations.

1999 INTERPROVINCIAL MOVEMENT

<i>Buyers</i>	<i>BC</i>	<i>AB</i>	<i>SK</i>	<i>MN</i>	<i>ON</i>	<i>QC</i>	<i>NB</i>	<i>NS</i>	<i>PE</i>	<i>NF</i>	<i>NT</i>	<i>YK</i>	<i>Total Sales</i>
<i>Sellers</i>													
BC	0	0	0	0	0	0	0	0	0	0	0	0	0
AB	357,232	0	62,272	16,076	225	0	0	0	0	0	21,643	16,612	474,060
SK	94	463,424	0	13,662	979	0	0	0	0	0	0	27	478,186
MN	31,054	151,113	165,363	0	165,615	1,760	0	0	0	0	0	0	514,905
ON	0	0	0	0	0	415,629	0	0	0	0	0	0	415,629
QC	0	0	0	0	104,464	0	3,957	0	0	0	0	0	108,441
NB	0	0	0	0	0	456	0	8,188	1,155	2,711	0	0	12,510
NS	0	0	0	0	5,100	240	29,606	0	2,518	17,101	0	0	54,565
PE	0	0	0	0	0	0	0	173	0	0	0	0	173
NF	0	0	0	0	0	0	0	0	0	0	0	0	0
NT	0	216,965	0	0	0	0	0	0	0	0	0	0	216,965
YK	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Purchases	388,380	831,502	227,635	29,738	276,383	418,085	33,563	8,361	3,673	19,832	21,643	16,639	2,275,434

Data in boxes of 15 dozen. CEMA table movement included. As of reports received up to February 11, 2000

CEMA is responsible for the interprovincial movement of both table eggs and eggs purchased by breakers. Egg movement changed in 1999, evidenced by a 20.2 percent increase in interprovincial sourcing of table eggs in 1999 over 1998.

MOVING FORWARD

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NUMBER OF REGISTERED PRODUCERS PER PROVINCE

Province	99	98	97	96	95	94	93	92	91	90	89
BC	133	136	140	142	144	144	147	153	153	154	155
AB	167	171	176	186	192	196	202	214	216	228	230
SK	74	74	76	76	77	76	78	79	79	79	80
MN	181	194	208	207	211	214	218	219	225	231	240
ON	430	446	466	499	541	570	589	612	632	652	682
QC	115	117	128	129	136	144	144	149	161	171	175
NB	18	18	18	18	18	18	18	18	19	19	22
NS	24	25	27	30	30	34	35	35	36	38	40
PE	18	18	18	18	18	19	19	21	24	25	27
NF	15	17	18	18	20	20	21	24	32	29	31
NT	2	-	-	-	-	-	-	-	-	-	-
TOTAL	1,177	1,216	1,275	1,323	1,387	1,435	1,471	1,524	1,577	1,626	1,682

As of Dec. 24/99

Though egg production exists in all provinces and the Northwest Territories, Ontario has the largest number of regulated egg producers followed by Manitoba, Alberta and British Columbia. The largest average flock size, however, is found in Nova Scotia followed by Quebec, New Brunswick and Newfoundland.

AVERAGE NUMBER OF LAYERS PER PRODUCER

Province	99	98	97	96	95	94	93	92	91	90	89
BC	17,581	16,814	16,277	16,019	15,750	15,513	15,123	14,818	14,788	14,673	14,879
AB	9,056	8,695	8,289	7,844	7,599	7,444	7,296	7,036	6,916	6,454	6,417
SK	11,103	10,913	10,273	10,274	10,140	10,274	10,010	10,104	10,001	9,829	9,512
MN	12,268 16,135	11,271	10,213	10,263	10,068	9,927	9,745	9,891	9,614	9,349	9,178
ON	16,575 17,040	15,644	14,642	13,674	12,608	11,945	11,553	11,347	10,941	10,560	10,358
QC	27,905	26,146	23,657	23,467	22,112	20,883	20,883	20,589	18,997	17,856	17,880
NB	22,279	21,999	21,639	21,369	21,639	21,639	21,639	22,081	20,919	20,906	18,424
NS	31,098	29,479	27,356	24,621	24,621	22,965	22,309	22,738	22,106	20,943	20,453
PE	6,191	6,854	6,641	6,641	6,641	6,292	6,292	5,809	5,618	5,375	5,078
NF	20,698	19,584	18,496	18,497	18,103	18,103	17,241	15,394	13,016	14,339	13,687
NT	57,500	-	-	-	-	-	-	-	-	-	-
CAN	16,069 16,834	15,126	14,176	13,658	13,028	12,589	12,281	12,096	11,685	11,285	11,132

As of Dec. 24/99

Note: Manitoba was allocated 200,000 Grow For and 500,000 Special Permit units. Ontario was allocated 200,000 Grow For units.

MOVING FORWARD

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NORTHWEST TERRITORIES

History was made in 1999, as egg marketing was the first national supply management system to receive the Northwest Territories as a full member. A supervisory board, egg marketing board, marketing plan and marketing regulations were put in place in the NWT. The Agency's Proclamation, levies order and quota order were amended to include the NWT as a full member.

Entry by the NWT has come with its fair share of pain. For over a decade, litigation between the Agency and NWT producers marred the cooperation between the Government of the NWT and CEMA to have 11 provincial-territorial partners in the national egg marketing system. Court rulings allow CEMA to collect levy, count hen numbers in NWT facilities and have a full accounting of all NWT eggs exported to provinces. Despite these definitive decisions and support of the NWT Government, we have been prevented from acquiring a full accounting of eggs produced and traded.

The Agency will continue discussions with NWT producers in 2000 and offer whatever assistance possible to ensure a smooth transition. Clearly, all parties must work harder to understand and abide by their obligations.

PLASTICS

We explored with the grading and breaking sectors the feasibility of standardizing supplies — trays, pallets and dividers — with plastic. Easily cleaned and disinfected, plastic can be treated with antimicrobials. Plastic is durable and supplies specially designed for eggs to minimize breakage could be used for thousands of hauls between producers and their customers.

A committee was formed in 1999 together with the Canadian Poultry and Egg Processors Council to explore standardized supplies. The committee will continue its work in 2000.

SECTION 3 { A CANADIAN INDUSTRY

A CANADIAN INDUSTRY

Canadian egg producers are watching closely the World Trade Organization's new round of agricultural trade negotiations. The Canadian Egg Marketing Agency worked extensively with the other national supply management organizations, with the Canadian Federation of Agriculture and with the Canada Poultry and Egg Processors Council to assist the Canadian government in developing a trade position that fairly represented the consensus of Canadian agriculture.

Canadian egg farmers have evolved their industry to support small holdings which are generally owned and operated by families. Supply management has brought a stable supply of high quality eggs for producers and fair prices for consumers. It has allowed production to take place in all regions of Canada, supporting rural and urban economies alike.

Our supply management system came under attack during the last round of trade negotiations. We lost an article that gave Canada the ability to apply import controls on commodities supply-managed at home — eggs, dairy, chicken, turkey and broiler hatching eggs. Nonetheless, we were able to establish tariff rate quota administrations which afforded some border control and allowed for effective domestic supply management.

Without these tariff rate quotas, there is little doubt that Canada's egg industry would be swallowed up by the large, multinational food companies based in the United States. The five largest U.S. egg

producing companies account for nearly 30 percent of that country's layers. One company alone has as many laying hens as there are in Canada.

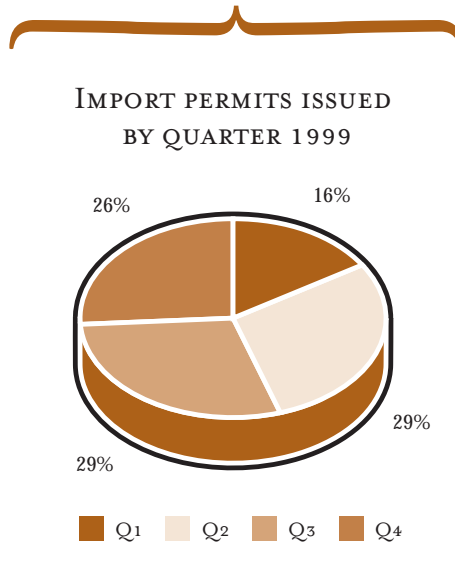
Canada has exercised its right to develop government policies, such as supply management, supportive of primary agriculture. As a result of these policies, government has indirectly enhanced the environment, food safety and animal welfare.

Together with Dairy Farmers of Canada, Chicken Farmers of Canada, the Canadian Turkey Marketing Agency and the

Canadian Broiler Hatching Egg Marketing Agency, CEMA developed a trade policy position calling for the maintenance of tariff rate quotas. The position recognizes that Canada has opened up its domestic egg and poultry markets by at least five percent. This within-access commitment is substantially greater than the access allowed by many other countries. For example, the European Union market access for eggs is only 3.3 percent of domestic consumption while this rests at a mere 0.5 percent for all poultry. CEMA maintains that tariffs above the five percent access level must be maintained at current levels.

Other tenets of the position include:

- all government-financed export subsidies must be eliminated
- clear and precise rules governing market access need to be established



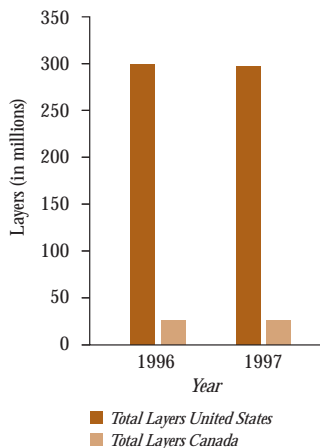
Imports come into the country at different levels, depending on the quarter, so supplies in Canada can match demand.

THE ENVIRONMENT	FOOD SAFETY	ANIMAL WELFARE
Supply management's typically small farms are good for the environment. A small parcel of land does not support a large, intensive animal operation.	Field officers employed by CEMA assist producers with our Start Clean – Stay Clean program of food safety. There are no independent field officers in the United States doing this kind of work.	Income per animal is higher in Canada than the United States, creating an incentive for better animal husbandry standards here. Flock health programs, high quality diets even at times of high feed costs and adequate labour are required to maintain high care standards.

A CANADIAN INDUSTRY

(continued)

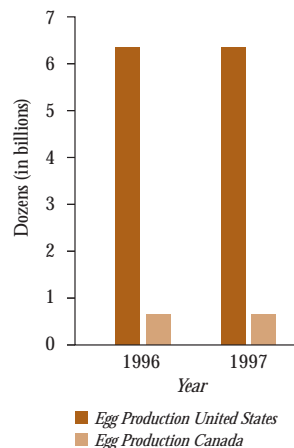
TOTAL NUMBER OF LAYERS
IN CANADA AND USA



Source: USDA for USA statistics and CEMA for Canadian Statistics

Over 60 farms in the United States have more than one million laying hens. Though consolidation of Canadian egg farms is occurring to accommodate retiring farmers, Canada does not have one farm with a million or more laying hens.

TOTAL EGG PRODUCTION
IN CANADA AND USA



Source: USDA for USA statistics and CEMA for Canadian Statistics

- as is the case with domestic markets for Canadian egg, poultry and dairy, tariffs applying to WTO within-access commitments should be reduced to zero
- there must be a cap on total domestic support
- trade-distorting programs must not be permitted under the “green” category of programs that may receive unlimited government assistance provided criteria are met
- sanitary and phytosanitary measures must be based on sound science.

Early in 1999, CEMA and its supply-managed partners agreed it was necessary to have as broad a base of support as possible for our position. Consequently, we negotiated with other members of the Canadian Federation of Agriculture to have our position considered in Federation policy. We also developed a common trade position with the Canadian Poultry and Egg Processors Council. And in March, we met with the representatives of the five supply-managed commodity boards in all provinces to solidify the egg, dairy and poultry position.

In this way, the Canadian egg industry was prepared to participate actively in the federal-provincial governments’ April trade policy conference. During workshops with a variety of agri-food stakeholders, egg producers were successful in explaining the importance of maintaining tariff rate quotas.

As a result of these efforts, the federal government had a strong grass-roots foundation in the development of Canada’s official position to enter negotiations later in the year. In announcing Canada’s position, the federal government emphasized the need to maintain Canada’s ability to choose how to market its products, including through orderly marketing systems such as supply management. The position itself recognized the importance of tariff rate quotas and the need to ensure fair within-access commitments.

YEAR 2000 AND BEYOND

The Canadian government will have to work hard to negotiate a trade deal that works for all sectors of our agri-food industry. Though a difficult task, we believe it is possible. Indeed, all other countries have gone to the table with the diverse interests of its agri-industries considered.

Negotiators from all countries will have to contend with the groundswell of concern expressed by citizens for food safety and environmental issues. The trade-neutral rigors of supply-managed production and marketing are on solid footing when addressing these other issues. Supply management is an ideal that Canadian egg producers, together with their governments, turned into reality. It can be held up proudly as a tool not just to be protected but indeed to be promoted.

A CANADIAN INDUSTRY (continued)

COMPARISON OF NORTHERN CALIFORNIA AND VANCOUVER CONSUMER PRICES GRADE 'A' LARGE

	<i>**Northern California</i>	<i>Vancouver</i>	<i>Canadian Price Advantage</i>
January 16, 1999	\$3.18	\$2.15	\$1.03
February 20, 1999	\$2.96	\$2.16	\$0.80
March 20, 1999	\$3.27	\$2.11	\$1.16
April 17, 1999	\$2.80	\$2.07	\$0.73
May 15, 1999	\$2.84	\$2.07	\$0.77
June 19, 1999	\$3.29	\$2.07	\$1.22
July 17, 1999	\$3.33	\$2.07	\$1.26
August 21, 1999	\$3.04	\$2.07	\$0.97
September 18, 1999	\$2.90	\$2.07	\$0.83
October 16, 1999	\$2.96	*	n/a
November 20, 1999	\$2.91	*	n/a
December 18, 1999	\$2.94	*	n/a

Prices are from the third week in each month for 1999

***In Canadian dollars*

Source: USDA, AAFC

**denotes Agriculture and Agri-Food Canada did not report any prices for the months of October, November and the first 3 weeks of December.*

Supply management has also provided Canadians with an affordable supply of eggs. Comparisons between prices in Vancouver and Northern California and between Toronto and Metropolitan New York clearly show that egg supply management is a good deal for Canadians.

COMPARISON OF NEW YORK METROPOLITAN AND TORONTO CONSUMER PRICES GRADE 'A' LARGE

	<i>*New York Metropolitan Area</i>	<i>Toronto</i>	<i>Canadian Price Advantage</i>
January 13, 1999	\$2.71	\$1.74	\$0.97
February 17, 1999	\$2.80	\$1.75	\$1.05
March 17, 1999	\$2.27	\$1.76	\$0.51
April 14, 1999	\$2.52	\$1.75	\$0.77
May 12, 1999	\$1.88	\$1.79	\$0.09
June 16, 1999	\$1.40	\$1.74	-\$0.34
July 14, 1999	\$1.94	\$1.74	\$0.20
August 18, 1999	\$2.47	\$1.73	\$0.74
September 15, 1999	\$2.28	\$1.72	\$0.56
October 13, 1999	\$2.22	\$1.72	\$0.50
November 17, 1999	\$2.03	\$1.74	\$0.29
December 15, 1999	\$1.83	\$1.74	\$0.09

Prices are from the third week in each month for 1999

Source: USDA, AAFC

**In Canadian dollars*

SECTION 4 { NUTRITION: A BANNER YEAR

NUTRITION: A BANNER YEAR

The Canadian Egg Marketing Agency is committed to helping Canadians make informed food choices. For 25 years, we have produced consumer brochures that provide food and nutrition information. In addition to our own resource material, we have actively supported the nutrition efforts of the Dietitians of Canada and the National Institute of Nutrition in order to ensure consumers have access to reliable nutrition information.

In completing this work, we consult with the provincial-territorial egg boards as well as health professionals who routinely offer advice on nutrition as members of CEMA's Nutrition Advisory Panel. These professionals include academics, physicians, hospital dietitians and community educators. We review scientific literature for the latest developments on human nutrition and the role of eggs in a balanced diet. We provide feedback to Health Canada on program and policy options.

1999 was a banner year for the Agency's nutrition unit. Research, scientific review and media coverage all culminated to portray eggs as the powerhouse of nutrition that they are.

ONE OF NATURE'S MOST NUTRITIOUS FOODS

CEMA completed a revised nutrient analysis for Canadian eggs in 1999. The results showed that today's egg has 23 percent less fat and 31 percent less cholesterol than the egg eaten in the early 1980s. A large egg, defined as 50 grams of egg, now has only 4.6 grams of fat and 190 milligrams of cholesterol, down from the 6.0 grams of fat and 274 milligrams of cholesterol found in the Canadian Nutrient File prior to 1989.

Sixty-three percent of the fat is made up of unsaturated fatty acids — the heart-healthy type of fat. There is increasing recogni-

tion that saturated and trans fatty acids are fats which, when consumed in excessive quantities, increase the risk of cardiovascular disease. However, an egg contains only 1.5 grams of saturated fat and virtually no trans fatty acids.

As we enter Year 2000, our goal is to have the results from the new analysis recognized in the Canadian Nutrient File

maintained by Health Canada. We anticipate the results of the analysis will be incorporated when the Department updates its File as we consulted extensively with government officials on the methodology used to complete the analysis.

To prepare health professionals for new information about eggs and to create greater awareness of emerging science downplaying cholesterol's role in heart health, CEMA commissioned a nutrition communications consultant who is also a registered dietitian to promote eggs in the media. Her efforts resulted in over 50 radio interviews generating over 700 minutes of air time.

THE HARVARD STUDY

New evidence in 1999 supported previous scientific study that dietary cholesterol found in eggs and other foods is not of concern for healthy individuals.

Results of a prospective study by the Harvard School of Public Health were published in the spring of 1999 and demonstrated that eating an egg a day

does not increase the risk of cardiovascular disease. By analyzing the food intake of nearly 118,000 men and women, and by following them over a period from eight to 14 years, the researchers concluded that the risk is the same whether a person eats less than one egg a week or more than one egg a day. The Harvard study authors clearly stated that eating an egg a day does not increase the risk of coronary disease, except in people with diabetes.

NUTRITION INFORMATION

One large egg (50 grams of egg) provides:

Calories	71	(300kJ)
Protein	6.2 g	
Fat:	4.6 g	
polyunsaturates	0.7 g	
monounsaturates	2.2 g	
saturates	1.5 g	
cholesterol	190 mg	
Carbohydrate	0.6 g	

Percentage of recommended daily intake:

Vitamin A	8 %
Vitamin D	8 %
Vitamin E	9 %
Thiamine	3 %
Riboflavin	14 %
Niacin	7 %
Vitamin B6	2 %
Folacin	15 %
Vitamin B12	29 %
Pantothenic Acid	15 %
Calcium	2 %
Phosphorus	6 %
Magnesium	2 %
Iron	4 %
Zinc	5 %

NUTRITION: A BANNER YEAR

(continued)

The results of the study are consistent with findings over the past decade. One study published in 1994 measured the effect of various doses of dietary cholesterol by feeding young men zero, one, two or four eggs per day over eight-week periods. Their blood cholesterol levels varied very little despite the increase in the number of eggs. Another study showed that adding two eggs per day to the diet did not change the ratio of total blood cholesterol to High Density Lipoprotein cholesterol, the type of cholesterol that is carried to the liver for elimination from the body. In other recent studies, large groups of men and women were followed for several years and a link between cholesterol consumption and cardiovascular health could not be established when the impact was isolated from the impacts of saturated fat, trans fatty acids, total fat and lack of fibre in the diet.

It is indeed unfortunate that unfounded concerns about dietary cholesterol have caused many individuals in North America to restrict their consumption of eggs. It is impossible to measure the negative health effects resulting by fearful individuals restricting their diets of this most important food. Eggs are among the most nutritious foods available and yet current consumption is about 3.5 a week.

Eggs have a high “nutrient density” since they supply important levels of many nutrients in proportion to their calorie count. One large egg constitutes an excellent source of folacin, vitamin B12 and pantothenic acid, and is a good source of riboflavin, as well as a source of Vitamins A, D and E, niacin, phosphorus and zinc.

Furthermore, the protein in eggs is of the highest quality found in food and it contains all nine amino acids essential to our health. Dietary protein is measured in terms of biological value, that is the rate of efficiency with which protein is used for growth and regeneration of muscle, skin and other body tissues, as well as for production of antibodies, hormones and enzymes essential to our health. The egg protein biological value ranks highest among all foods. Scientists use eggs as a standard for measuring the protein quality of other foods.

POSITIVE COVERAGE

In 1999, CEMA found media coverage of eggs was generally positive. There was substantial coverage given the above-mentioned Harvard study. Even *Time* magazine, in its July Canadian edition, promoted the merits of eggs, confessing that 15 years ago, the *Time* treatment of eggs and cholesterol didn't tell the full story.

The 1999 *Time* story was extremely significant, signaling a turning point in popular thinking about eggs in the diet. The cover photo was of two eggs as eyes on a plate that had a turned-up piece of cantaloupe as the smiling mouth. This was a digitally altered version of its photo from 15 years ago with the mouth portrayed as a turned-down piece of bacon.

CEMA was disappointed that *Time* chose not to run the same 1999 cover photo in the United States as it did in Canada, thereby limiting the impact that this story could have had on the egg industry in North America and indeed throughout the world.

NATIONAL INSTITUTE OF NUTRITION

In 2000, the National Institute of Nutrition will publish a review of cholesterol and eggs. The Institute is a highly credible organization, relied upon by media for its objectivity. The review will be a useful tool that demonstrates, once again, the nutritional role played by eggs in a balanced diet.

GOVERNMENT RELATIONS

CEMA actively consults with Health Canada on a variety of matters involving nutrition and eggs. In 1999, we provided submissions on the Department's review of generic health claims on food packages and its nutrition labeling policy review. In doing so, we sought the views of our provincial-territorial marketing board partners and incorporated them in our submissions.

On nutrition labeling, CEMA actively supported the removal of cholesterol from the core list of nutrients and inclusion of trans fatty acids instead. The Department's national guidelines have

IT IS INDEED UNFORTUNATE THAT UNFOUNDED CONCERNS ABOUT DIETARY CHOLESTEROL HAVE CAUSED MANY INDIVIDUALS IN NORTH AMERICA TO RESTRICT THEIR CONSUMPTION OF EGGS.

NUTRITION: A BANNER YEAR

(continued)

always focused on saturated fat rather than cholesterol in its education messages. The removal of cholesterol from the label's core list of nutrients is consistent with this philosophy and in keeping with scientific evidence.

CEMA is of the view that the benefits of mandatory nutrition labeling have been extremely exaggerated. Mandatory nutrition labeling in the United States has not resulted in a population better informed on nutrition nor a population healthier than that in Canada. One only has to follow the incidence and prevalence of obesity and diabetes in the United States to see that the availability of product information does not directly reduce food-related diseases.

To adequately address public health nutrition problems, Canada requires the ability to identify eating trends and food consumption patterns. When eating trends and food consumption patterns can be identified, nutrition labeling may be able to respond to specifically identified needs. In addition, Health Canada must commit to updating and improving the Canadian Nutrient File before mandatory labeling can be realistically considered. Product labeling requires a strong national database from which to pull nutrient information.

On nutrition labeling, we also told Health Canada:

- the title, order of nutrients, names of nutrients, method of declaring nutrient amounts and expressed serving size must be standardized across all product categories
- graphic presentation should be standardized for easy reference by consumers
- serving size and servings per package are important pieces of information for consumers as they provide consumers with a realistic reference point for nutrient contents

Health Canada also explored adopting in Canada the generic health claims made on food packages in the United States. CEMA has concerns about Canada adopting a U.S.-type system as errors in claims can have a long lasting impact on food selection. Claims regarding cholesterol and coronary heart disease are not supported by scientific evidence and conflict with proposed guidelines on nutrition labelling.

We believe Canadians should be encouraged to adopt a "total diet" approach that supports good health rather than an approach encouraging consumers to select foods in order to avoid particular diseases which are truly multifactorial in cause. Health claims

as used in the United States oversimplify the diet-disease relationship and encourage unrealistic expectations by consumers.

We also told Health Canada:

- claims must be consistent with the information on the nutrition label
- claims should focus on healthy lifestyles
- statements need to be tested prior to implementation to ensure consumers are interpreting them accurately
- cholesterol references should be deleted and replaced with "trans fatty acids"

JOINT CAMPAIGNS

In 1999, CEMA once again joined Dietitians of Canada and others in promoting Nutrition Month which falls in March. The campaign, Eat Well, Live Well for a Lifetime, featured nutrition tips and recipe ideas for seniors living independently. Eight fact sheets were produced and an egg recipe was included in the media kits. Fifty million readers are estimated to be exposed to the Nutrition Month campaign each year.

CEMA will again participate in the 2000 Nutrition Month campaign entitled Great Food Fast. The campaign is consistent with our desire to promote eggs as nutritious, versatile and easy to prepare.

RESOURCE DEVELOPMENT

We completed and distributed editions seven and eight of *Nutrition In Your Practice*, a newsletter read by health professionals. The newsletter provides the latest nutrition recommendations and trends and positions eggs as part of a healthy eating pattern. A new feature enables health professionals to find credible sources of information on the Internet.

Bringing Fats Into Focus, a 16-page booklet, was developed in 1999 and mailed directly to dietitians. It was also advertised directly to health professionals through the Physicians' Hotline catalogue. The catalogue also promoted other CEMA resources in 1999: *Cholesterol And You*, *Lowering Your Blood Cholesterol*, our *Take Action* poster promoting healthy eating and lifestyles and the *Nutrition In Your Practice* newsletter.

SECTION 5 { FROM US TO YOU

FROM US TO YOU

We know eggs are great. The task of our marketing unit is to make sure everyone else knows, too. All of our marketing programs are developed to ensure consistency in messages from one end of the country to the other. CEMA and the 11 marketing boards work cooperatively to develop integrated plans, each one serving as the blueprint for our advertisements and promotions during the next 12 to 18 months. The programs at the national and provincial-territorial level are developed with the overall egg positioning in mind: “Eggs are good food because they are healthy and nutritious, can be eaten many ways any time of the day and are good value.”

We want to ensure that collectively our marketing programs deliver against our positioning statement.

Our television advertisements are, undoubtedly, the anchor of our promotional efforts. Advertising on television has been selected as the most efficient and cost-effective medium for our product as it:

- has unmatched creative possibilities with sight, colour, motion and sound
- reaches a large group of people economically
- covers urban centres and rural markets
- exhibits flexibility in the markets and weeks chosen for airing

Our other marketing programs — retail promotions, print campaigns, recipe publications and nutrition communications — extend the tones and messages found in our television advertisements.

TELEVISION ADVERTISEMENTS

CEMA continued its producer portrait campaign in 1999. Producer portrait commercials were aired nationally from early January to mid-May and again from September to the end of


December. This campaign, begun in 1996, has been the Agency’s most successful television campaign to date. Together with the creative company designing the advertisements, CEMA received a Gold in the Packaged Goods Category of the CASSIES (Canadian Advertising Success Stories). We were honored that the comedy network chose to spoof our advertisements, signaling that a significant portion of the audience would recall the “original” and appreciate the humor in the comedy treatment. Never before had the Agency received this degree of recognition for its creative marketing.

The producer portrait campaign featured real egg farmers talking about their product and their lifestyle as they promoted the natural goodness of eggs. Two new producer portraits were created for 1999.


Since the campaign began, per capita egg consumption has increased by 9.6 eggs. The first increase — the largest — occurred in 1996 with gains made in both the processing and table markets. It is difficult to say with certainty how much the advertisements were responsible for the increase but it appears they were at least partially responsible. Per capita table egg consumption remained steady over the next two years, increasing as the Canadian population increased, thus turning the tide of declining consumption which had been so pronounced in

the 1970s, 80s and even into the 1990s.

An ad tracking study completed in April confirmed the advertisements were having an impact as awareness of egg advertisements was steady. But there was also evidence that a change would be required for year 2000 in order to sustain the awareness. Ad recall was highest in the 45 to 49 age group as well as households without children. Research also showed that households with children were consuming fewer eggs than the national average per capita. This was a worrisome finding given that this group represents about 70 percent of the population.



TO CONTINUE TO BE SUCCESSFUL,
CEMA MUST ENSURE ITS
ADVERTISING PROGRAMS CHANGE
AS ITS AUDIENCE CHANGES.
THE YOUNGEST BABY BOOMERS ARE
NOW 35 WHILE THE OLDEST ARE
IN THEIR 50s.



FROM US TO YOU

(continued)

We also determined strategically that key messages such as “Eggs are versatile” and “Eggs are not just for breakfast” were not being addressed in our current campaign. Given the importance of these benefits to consumers, communicating these messages became a critical part of the Year 2000 creative development process.

Consequently, throughout 1999, we worked with the newly formed creative team at The Crichton Kim-Kirkland Company to develop five English and five French commercials in a combination of 30-second and 15-second commercials. The provincial-territorial marketing boards assisted in the development of marketing strategies and concepts. Our advertising committee, made up of Agency and marketing board representatives, was instrumental in developing strategy for the campaign, focusing on the versatility of eggs — that they can be prepared and eaten any time of the day — and their nutritional attributes. In this series of advertisements, we concentrate on each benefit directly but always with a sense of natural honesty and good humour reminiscent of the Portraits campaign.

AT RETAIL

CEMA participated in three retail promotions in 1999 that encouraged egg sales in approximately 2000 retail outlets. Each promotion featured contests as well as recipe booklets that included cooking tips, preparation times and nutrient analyses. As part of each campaign, free-standing inserts reached about 5.6 million homes.

Our springtime project *Brunch with Eggs, Paint on Eggs* promoted traditional egg decorating as well as brunch recipes for the Easter season. A craft card provided detailed instructions to create beautiful painted eggs decorated with small pieces of pasta and rice. Our project partners supplied 40 barbecues as prizes for the promotion.

The fall event, *Good for You*, promoted quick and nutritious meal ideas for anytime occasions. The booklet, as well as the free-

standing newspaper insert accompanying the promotion, had a mail-in offer to purchase a set of egg cookers with the proof of purchase of two dozen eggs.

Be Ready to Celebrate was the title of our holiday promotion. The mail-in offer was for a chance to win a new Year-2000 van or a chance to win one of 10 sets of Philips kitchen accessories. We received 47,529 entries, making this CEMA's most successful contest, not just for the year but ever! The booklet featured prepare-ahead recipes to allow the hostess or host to relax and enjoy the party.

CEMA coordinated the 1999 national edition of *Bakefest*, a fall promotion initially developed by the Ontario marketing board. Distributed to about 1,000 stores for display in the baking ingredients section, the 600,000 *Bakefest* recipe booklets featured eggs in holiday baking. The promotion was aimed at encouraging purchase and use of the various sponsors' food products. The mail-in offer, fulfilled by CEMA, was for an egg recipe booklet. The *Bakefest* recipe booklet was also distributed through four national magazines reaching about 4.8 million adults.

CEMA PARTICIPATED IN
THREE RETAIL PROMOTIONS
IN 1999 THAT ENCOURAGED
EGG SALES IN APPROXIMATELY
2000 RETAIL OUTLETS.

MORE RECIPES

Besides creating and distributing recipes as part of specific promotions, CEMA also creates, compiles and dis-

tributes recipes in publications that can be used for years down the road, even decades. In 1999, we produced a 32-page recipe booklet *Eggs: Nature's Treasure* and a 200-page egg cookbook entitled *Get Cracking*.

Eggs: Nature's Treasure features basic egg recipes, including variations, meal ideas and desserts. It was produced to answer the need for resource materials to distribute at trade shows, school presentations and to consumers upon request. Like our retail recipe leaflets, cooking tips, nutrition information and safe food handling information are also provided.

FROM US TO YOU

(continued)

Get Cracking was published jointly with Brimar/Tormont Publications and it will sell nationally at retail in 2000. CEMA and the provincial-territorial marketing boards supplied the 150 recipes, all which prominently feature eggs, as well as the cooking tips, nutrition information and safe food handling guidelines. Colourful photographs entice the consumer to cook with eggs.

EGGS ON THE ROAD

CEMA combined efforts with Holiday Inn in developing a breakfast program featuring eggs in their full service hotels. The program promoted fresh shell eggs in Holiday Inn breakfasts while the menus spoke to the goodness of eggs.

GRADER COMMUNICATIONS

CEMA provided four mailings to graders in 1999 to update them on our marketing activities. As graders deal directly with retailers, it is essential that they know what we are doing on the whole egg industry's behalf to increase sales at retail.

LOOKING AHEAD

As successful as our marketing year was in 1999, challenges do remain for 2000. The need to plan our programs well in advance has been identified by our provincial-territorial partners. Marketing board specialists have asked for one-year lead

time so they can plan the best way to extend national themes and messages in their provinces. If this is to be done, longer range marketing plans will have to be developed.

In addition, earlier budgeting processes would facilitate marketing program planning. Many promotional partners establish their budgets mid-year while CEMA's budget is generally approved in the fall to coincide with the renewal of levies and quota orders by the Agency's government supervisory body. Earlier planning would provide a larger array of potential promotional partners for CEMA, improved choice in airtime for advertisements and cost savings.

To continue to be successful, CEMA must ensure its advertising programs change as its audience changes. The youngest baby boomers are now 35 while the oldest are in their 50s. These boomers have a heightened awareness of the aging process and indeed of mortality as they begin to cope with the effects of aging parents. As they have, nonetheless, a positive outlook on life, we are presented with an opportunity to address health and nutrition matters. On the other hand, we must also reach young families whose children will determine the long-term future of egg sales in Canada.

SECTION 6

{ WHEN IS SAFE, SAFE ENOUGH?

WHEN IS SAFE, SAFE ENOUGH?

The egg is naturally one of the safest, if not the safest, foods known. Nature's design offers three lines of defence to protect the egg from food-borne infection. The hard calcium shell is nature's perfect package. A membrane sticks to the inside of the shell, providing a second barrier to bacteria while another membrane surrounds the egg white, or albumen. Though it's difficult to imagine bacteria getting through this armor, if bacteria do penetrate, then they are met by the natural antimicrobials found in the albumen.

Today's consumer, however, is increasingly seeking assurances that the food he or she eats is not only safe but risk-free. While guarantees of risk-free food are impossible, the Canadian Egg Marketing Agency and its provincial-territorial partners have taken measures to reduce the risks of microbial contamination in food.

Our Start Clean – Stay Clean program, first developed in 1990, has led the world in biosecurity features at the level of primary commercial food production. The program's early guidelines contained many of the prerequisites that allowed easy conversion to a program based on HACCP principles which have been approved by the World Health Organization's food safety committee, Codex Alimentarius. According to HACCP, potential hazards are analyzed and critical control points for reducing or eliminating the hazards are identified.

CEMA moved quickly to develop a HACCP-based on-farm program, recognizing the desire of processors and consumers to purchase food produced according to internationally recognized standards.

Our revised HACCP-based Start Clean – Stay Clean program was introduced in 1998. By the fall of 1999, our eight field inspectors had visited and presented the program to all regulated egg producers, rating their farms according to 31 guidelines

covering refrigeration, personnel hygiene, control of flies and other pests, sorting and packing, property conditions inside and out, sanitation, state of equipment, receiving area and feed storage.

Introduction of the HACCP-based program required training by our inspectors. In 1998, they concentrated on standardizing their ratings nationally. In May of that year, they were trained by the Guelph Food Technology Centre in a train-the-trainer program on delivering HACCP to the farm. Provincial inspectors were also in attendance at that training. Then, in 1999, our inspectors were trained by the British Columbia

Institute of Technology on how to audit HACCP-based programs such as Start Clean – Stay Clean at the farm level.

CEMA has used its food safety program as an education tool. When weaknesses on a farm are identified by our inspectors, producers are eager to improve and frequently ask that their farm be rated again.



OUR START CLEAN – STAY CLEAN

PROGRAM, FIRST DEVELOPED

IN 1990, HAS LED THE WORLD

IN BIOSECURITY FEATURES

AT THE LEVEL OF PRIMARY

COMMERCIAL FOOD PRODUCTION.



SALMONELLA TESTING

The egg marketing boards have also instituted on-farm testing to detect the presence of Salmonella enteritidis (SE) in layer barn environments. If found, eggs are diverted directly to a further processor for pasteurization even though none of the eggs are

likely to have this pathogen.

SE is, however, of concern because it can be transferred from the hen while she is forming the egg inside of her. This is extremely rare in Canada where the estimate rests at 1 in a million for Canada Grade "A" eggs. When SE is in the egg, it is almost always in the albumen where natural antimicrobials prevent multiplication. The cooling of eggs after lay and refrigeration at retail and at consumers' homes are other key factors in limiting the pathogen.

WHEN IS SAFE, SAFE ENOUGH?

(continued)

While SE is killed by cooking, CEMA recognizes consumers' desire to eat softly cooked eggs and on occasion, to even use eggs raw in salad dressings, sauces and beverages. So, with the provincial-territorial egg marketing boards, we have rallied producers to control for SE and all pathogens that can cause human or animal illness.

To test, barn samples such as dust or feathers are taken and treated in laboratories to encourage growth of Salmonella, if present. Should the laboratory detect even minute levels of SE, eggs from that barn are purchased by CEMA and sold to breaking plants for pasteurization. Barns are cleaned, thoroughly disinfected and tested again prior to re-stocking.

CEMA compensates producers who must depopulate their barns early as a result of finding SE. This is done to ensure producers who act in the best interests of consumers and of their industry are not hurt financially. The level of compensation is based on Start Clean – Stay Clean ratings: the higher the rating, the higher the compensation. This also encourages compliance with Start Clean – Stay Clean.

Since instituting its SE compensation policy in 1997, CEMA has seen a decline in applications for compensation, suggesting that SE is gradually being reduced in Canada.

WE'RE FIGHTING BAC

CEMA is a founding member of the Canadian Partnership for Consumer Food Safety Education. Through the fight BAC campaign, this non-profit coalition of industry, consumer, government, health and environmental organizations is dedicated to reducing the incidence of food-borne illness in Canada. BAC, short for bacteria, is a big, green mascot which is now accustomed to touring across Canada promoting food safety. In 1999, the Coalition also sponsored display booths at

various events. In all, the Coalition was present through its mascot or booth at over 20 events nation-wide.

The year was also dedicated to developing an Education Kit for Ages 6 to 9. The kit features a presenter's guide, food safety game, badges, songs, a skit and materials to construct a BAC puppet.

A major advantage of the Coalition is the sharing of educational materials on food safety among members. This avoids costly duplication among government and industry groups.

CEMA is dedicated to ensuring consumers understand the importance of proper handling of eggs. Egg handling tips

can be found at our internet site www.canadaegg.ca, in our recipe booklets, on fact sheets distributed to consumers who enquire about egg safety and in releases and feature stories routinely issued to media.



BAC, SHORT FOR BACTERIA,
IS A BIG, GREEN MASCOT WHICH
IS NOW ACCUSTOMED TO TOURING
ACROSS CANADA PROMOTING
FOOD SAFETY.



CONSULTATION WITH GOVERNMENT

CEMA actively consults with the Canadian Food Inspection Agency and Health Canada on food safety. Specifically in 1999, we participated in two Health Canada working groups: one examining processes for handling raw foods of animal origin and another examining the best ways to determine appropriate cooking times and temperatures for raw foods.

CEMA has emphasized to government that Canadian eggs are extremely safe and are absent of the microbial load that is frequently found with other animal foods. Consequently, eggs need not and should not be subjected to the same treatments required by other foods.

WHEN IS SAFE, SAFE ENOUGH?

(continued)

THE DEMAND FOR SCIENTIFIC CERTAINTY

CEMA finds increasing concern expressed in media regarding scientific uncertainty about food safety. Consumers are bombarded by news about the safety of their food. Activist groups are supporting organic food, opposing genetically modified organisms and blaming agriculture for the creation of antibiotic-resistant bacteria. No matter what effort is taken to increase efficiency, improve safety or increase animal welfare, the agriculture industry, including egg production, is being taken to task as never before.

The introduction of Bill C-80, the Canada Food Safety and Inspection Act, in the House of Commons served as a rallying point for numerous activist groups demanding that all food be completely safe always. Such a level of certainty is impossible to deliver as it is impossible for any sector to deliver risk-free goods.


CEMA was disappointed to see that the Bill had to be delayed so another round of consultations could be held in response to the many questions and often false allegations being made about the Canadian food supply and government's ability to regulate it for the benefit of consumers.

CEMA believes consumers have a right to safe food. That is why we joined forces with the Canadian Council of Grocery Distributors and other industry groups to have provisions against food tampering and against threatening to tamper with food included in the Bill.


CEMA understands the proposed Act is to be reintroduced in 2000. We encourage the government to do so without delay and to maintain strong provisions against tampering.

We also encourage the government to move forward with its efforts to develop policy on the use of science in government decision-making. CEMA responded through Industry

Canada to the Council of Science and Technology Advisors' discussion document *Science Advice for Government Effectiveness*. We strongly agreed with the suggestion that advice providers need to distinguish clearly between scientific fact and their personal views and need to recognize the limits of science advice. CEMA also noted that peer review is essential to prevent bias in the scientific discovery process.



CEMA BELIEVES
CONSUMERS HAVE A RIGHT
TO SAFE FOOD.



SECTION 7 { INTO THE NEXT CENTURY

INTO THE NEXT CENTURY

The arrival of Year 2000 marked the need to update some of the Agency's information services. Our 16-year-old provincial flock monitoring information system would not process dates beyond 1999. As well, technology needed to be upgraded to reduce data entry and increase processing speed. The information system overhaul of 1999 and all Y2K compliance issues were overseen by the Board of Directors' Audit Committee.

EIMS

Throughout the year, we further developed the national Egg Information Management System, a new-generation technology with over 130 functions to serve the needs of provincial-territorial boards and CEMA. This customized, personal computer-based business system supports information requirements involving flock monitoring, levy and quota administration, the maintenance of postal address lists and implementation of our Start Clean – Stay Clean program. The goal is to provide all 11 provincial and territorial boards with EIMS software tailored to specific requirements while a virtual private network allows data summaries and other files to be transferred to CEMA.

The multi-phased development began in 1998 with interviews at provincial board offices to determine their needs. With this information, we could design a customized system to meet requirements unique to individual boards as well as requirements shared among boards and CEMA. To date, eight provincial boards and CEMA have received EIMS. Additional functions are to be added to the software package in 2000.

So far, British Columbia, Ontario and Northwest Territories boards have not adopted the EIMS system. Unique functions to British Columbia board must yet be written into the software. Ontario board is running a newly developed information system but it, too, has expressed interest in implementing


EIMS. The Northwest Territories only joined the national egg marketing plan in 1999 and that board is busy developing administrative and operational procedures.

The information system is being developed with broad-based, well supported industry standard software development tools. The design architecture is standards-based and modular so current resources and those of the foreseeable future can be used to maintain the system and develop further functions as required. As the project moves from development to maintenance and support, responsibility will increasingly move from CEMA-retained consultants to persons employed by the Agency and the provincial-territorial boards.


EIMS is being delivered to the boards and Agency in phases. This eases transition and ensures the CEMA development team is able to follow a realistic schedule for software development. Functions are being delivered as "beta" software releases or approximations of the final software. This allows the boards to test, evaluate and provide direct feedback to CEMA software developers. From there, the developers can update the software.

During the spring, a CEMA consultant visited provincial board offices to install the first round of software and provide staff training. By May, we knew that most were able to enter representative samples of information on producers, flocks and quotas.

A critical juncture was experienced in the summer as EIMS flock monitoring functions had to be fully completed and installed by fall. At this time, flock monitoring data would include information on Year 2000 placements and this could not be addressed adequately by our old system. Thanks to the cooperation of provincial boards, testing and evaluation moved forward to ensure the initial EIMS software could be deployed.



THROUGHOUT THE YEAR, WE
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BOARDS AND CEMA.



INTO THE NEXT CENTURY

(continued)

YET MORE NEW SOFTWARE

Other major overhauls took place in our finance and market operations units as well. Accounting software for our finance unit was upgraded in two phases. Modules processing transactions in the Administration Fund were introduced early in the year while business modules for industrial product transactions, such as purchase and sales order processing, recording of inventory and pricing, were introduced later in 1999. Parallel runs were performed on the new and old business systems prior to full implementation to identify glitches and ensure operations of CEMA's customers would be unaffected.

Y2K AWARENESS

CEMA also made every effort to ensure awareness in the industry of the need for Y2K compliance. Shortly after distributing an awareness memorandum to graders, breakers and other stakeholders late in 1998, we issued a readiness questionnaire to all regulated egg producers. The main purpose of the questionnaire was to identify specific risks within the industry and the Agency, if any, and take corrective action. Our conclusions, based on the responses received, was that egg producers were prepared and had checked with their suppliers and customers to ensure compliance.

INTERNET DEVELOPMENT

In addition to these efforts, we continued to update our use of the Internet. We trained staff so we had the skills to enhance and change our site at www.canadaegg.ca without the use of outside specialists. We developed a producers' site so we could convey information electronically to producers. CEMA policies and our Start Clean – Stay Clean on-farm food safety program are featured on that site. We also developed Intranet communications for use within the Agency office. Our Intranet includes access to the Canadian Egg Marketing Information Database, the Agency's operational and personnel policies and a link to www.canadaegg.ca.

A MODERN PLATFORM

Much effort has been made over the last two years to introduce the latest technology to CEMA's information management systems. We now rely on a very modern computer platform with up-to-date office automation tools. Staff are trained on a regular basis to use these tools so efficiencies can be maximized.

SECTION 8



FINANCIAL ANALYSIS

FINANCIAL ANALYSIS

The Canadian Egg Marketing Agency is a body corporate established by parliamentary proclamation and the Farm Products Agencies Act. CEMA must be financially self-sufficient, though its operations are not-for-profit.

In meeting its corporate responsibilities, it operates two funds, the Administration Fund (AF) and the Pooled Income Fund (PIF). The AF includes all of the administrative revenues and expenses while the PIF is used to record all of the transactions related to industrial product activities. The Agency, by direction of its Board of Directors, is required to maintain minimum amounts in each fund. In the AF, the minimum unrestricted balance is \$1.5 million while in the PIF, the fund balance should be maintained between a range of \$2.5 million and \$7.5 million.

Fund balances are generally maintained at levels to allow the Agency to cushion the impact of market volatility. For the AF balance, the revenues and expenses are managed according to an annual budget and are not subject to a great deal of unpredictability. Alternatively, in the PIF, exchange rates and cost of production input prices do vary throughout the year but the main risk is the fluctuation of egg prices in the U.S. These prices are used to determine the base prices of the Agency's industrial product sold to Canadian egg processing customers. As an example, in 1999, the U.S. prices for large eggs ranged from a low of \$0.20/dozen to a high of \$0.48/dozen. These variations can have a severe impact on the PIF balance.

In 1999, the AF opened the year with a fund balance of \$5.6 million and recorded a loss of \$830,000 to close the year with a fund balance of \$4.8M. During the year, the fund experienced increases in its levy, interest and other revenues. While the administrative levy rate was maintained at \$0.025/dozen, levy revenues increased due to higher year-over-year production volumes. Interestingly, the current administration levy rate has been in place since 1994. However, these increased revenues were more than offset by increased expenditures. In 1999, the AF recorded increased expenditures for marketing programs, meeting and travel, professional fees and salaries and benefits. These were all the result of increased activity in these expenditure areas.

As in past years, a portion of the AF balance is restricted to provide funds for research on eggs and egg products. In 1999, about \$17,000 of restricted funds were utilized for research projects. At year end, the restricted balance totaled \$2.2 million.

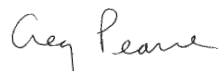
The PIF opened 1999 with a balance of \$8.1 million. While this was over the maximum balance of \$7.5 million as directed by the Board, this allowed the levy rate to remain unchanged at \$0.144/dozen. By year end, the fund balance had a healthy closing at \$5.9M.

What were the factors that impacted the PIF balance in 1999?

- Industrial product volumes increased by 414,482 boxes to 6,077,655, an increase of 7.3 percent. This was mainly the result of increased quota allocated by the Agency in 1999.
- Canadian/U.S. exchange rates increased slightly from \$1.4795 to \$1.4899 in 1999. This had a positive impact on the Agency's fund balances as it converts a U.S.-based price into a higher Canadian sales value.
- We also experienced a decrease in average buyback prices which were about \$0.017 lower than the 1998 average of \$1.201/dozen. This was mainly driven by the lower input prices for feed, a major component of the buyback price.
- Average levy rates in the PIF were \$0.144 /dozen in 1999, versus \$0.13/dozen in 1998.
- Average selling prices also decreased in 1999 as compared to 1998. In 1999 they averaged \$0.496/dozen, down \$0.087/dozen from 1998.
- In 1999, the Agency recorded an adjustment for \$1.0 million resulting from the final reconciliation of a Memorandum of Understanding among the Agency and its partners. This also assisted in the improvement in the fund balance.
- In 1999 as well, there were a significant number of uncollected levies. While the Agency is attempting to resolve this situation through the mediation process, a provision is required in the PIF for these uncollected levies.

The PIF also has a portion of its balance that is restricted. It is referred to as the National Quota Exchange (NQE) Fund and provides financing for activities related to the operation of the NQE by the Agency. At year's end, the restricted balance totaled \$237,000.

As we enter 2000, the Agency's financial position is seemingly in a strong position. However, it belies the real story of mounting pressure on the fund balances. In the AF, the unrestricted balance continues to be drawn down as a result of increased activity levels and a low but steady inflation rate that has eroded the purchasing power of a \$0.025/dozen levy slowly over time. In the PIF, increased allocation will cause further increases in industrial product volumes, which in turn require new resources to finance their removal. Some of this will come from existing funds with the remainder needing to be financed through higher levy rates.



Greg Pearce
Chief Finance and Operations Officer

AUDITORS' REPORT

Auditors' Report to

The Minister of Agriculture and Agri-Food
Government of Canada

The National Farm Products Council

The Members

Canadian Egg Marketing Agency

We have audited the statement of financial position of the Canadian Egg Marketing Agency as at December 25, 1999 and the statements of operations and fund balances and cash flows for the fifty-two week period then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, 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 common with many agricultural product marketing agencies, the Agency derives revenue from levy, service fees and contributions, the completeness of which, due to the structure of the egg industry, is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the accounts of the Agency and we were not able to determine whether any adjustments might be necessary to levy, service fees and contributions, excess of revenue over expenses, assets and fund balances.

In our opinion, except for the effects of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of revenue from levy, service fees and contributions referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Agency as at December 25, 1999 and the results of its operations, the changes in its fund balances and its cash flows for the fifty-two week period then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Ottawa, Canada
February 18, 2000

STATEMENT OF FINANCIAL POSITION

December 25, 1999, with comparative figures for 1998
(in thousands of dollars)

	POOLED INCOME FUND	ADMINISTRATION FUND	1999 TOTAL	1998 TOTAL
ASSETS				
CURRENT ASSETS:				
CASH	\$ 1,190	\$ 1,258	\$ 2,448	\$ 5,477
MARKETABLE SECURITIES	892	1,563	2,455	2,782
ACCOUNTS RECEIVABLE (NOTE 3)	11,868	1,633	13,501	9,440
INVENTORY	58	—	58	108
PREPAID EXPENSES	—	288	288	103
	14,008	4,742	18,750	17,910
RESTRICTED INVESTMENTS (NOTE 4)	236	2,187	2,423	2,331
CAPITAL ASSETS (NOTE 5)	—	724	724	561
	\$ 14,244	\$ 7,653	\$ 21,897	\$ 20,802
LIABILITIES AND FUND BALANCES				
CURRENT LIABILITIES:				
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 8,340	\$ 2,844	\$ 11,184	\$ 7,103
FUND BALANCES:				
UNRESTRICTED	5,667	2,622	8,289	11,365
RESTRICTED (NOTE 4)	237	2,187	2,424	2,334
	5,904	4,809	10,713	13,699
COMMITMENTS AND CONTINGENCIES (NOTES 7 AND 8)				
	\$ 14,244	\$ 7,653	\$ 21,897	\$ 20,802

See accompanying notes to financial statements.

On behalf of the Agency:



Chairman of the Board of Directors



Chairman of the Audit Committee

STATEMENT OF OPERATIONS AND FUND BALANCES

Fifty-two week period ended December 25, 1999, with comparative figures for 1998
(in thousands of dollars)

	POOLED INCOME FUND	ADMINISTRATION FUND	1999 TOTAL	1998 TOTAL
REVENUE:				
EGG SALES	\$ 39,483	\$ —	\$ 39,483	\$ 45,809
LEVY, SERVICE FEES AND CONTRIBUTIONS	29,443	11,276	40,719	35,985
NET LEVY CONTRIBUTION (NOTE 1(D))	26,940	—	26,940	24,405
INTEREST AND OTHER INCOME	155	265	420	458
OTHER INCOME – RESTRICTED (NOTE 4)	13	108	121	103
	96,034	11,649	107,683	106,760
EXPENSES:				
TRADE OPERATIONS:				
EGG PURCHASES	91,942	—	91,942	88,725
BUYBACK ALLOWANCE	2,468	—	2,468	1,614
TRANSPORTATION AND HANDLING	1,995	—	1,995	1,902
FOOD SAFETY PROGRAM	143	—	143	90
BAD DEBTS (RECOVERY)	33	—	33	(106)
THIRD PARTY VERIFICATION	370	—	370	345
OTHER	(2)	—	(2)	37
	96,949	—	96,949	92,607
MARKETING	—	5,710	5,710	5,181
SALARIES	—	2,726	2,726	2,189
PROFESSIONAL FEES AND CONSULTING	—	1,063	1,063	301
MEETINGS AND TRAVEL	—	1,063	1,063	877
PUBLIC AFFAIRS AND COMMUNICATIONS	—	384	384	351
OFFICE AND OTHER ADMINISTRATIVE	—	523	523	349
MARKETING RESEARCH	—	158	158	259
RENT	—	288	288	304
PER DIEMS	—	334	334	281
AMORTIZATION	—	213	213	117
UNCOLLECTED LEVY, SERVICE FEES AND CONTRIBUTIONS	1,062	17	1,079	305
DONATIONS OF EGGS	179	—	179	187
	98,190	12,479	110,669	103,308
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(2,156)	(830)	(2,986)	3,452
FUND BALANCES, BEGINNING OF PERIOD (NOTE 4)	8,060	5,639	13,699	10,247
FUND BALANCES, END OF PERIOD (NOTE 4)	\$ 5,904	\$ 4,809	\$ 10,713	\$ 13,699

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

Fifty-two week period ended December 25, 1999, with comparative figures for 1998
(in thousands of dollars)

	POOLED INCOME FUND	ADMINISTRATION FUND	1999 TOTAL	1998 TOTAL
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:				
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	\$ (2,156)	\$ (830)	\$ (2,986)	\$ 3,452
AMORTIZATION, WHICH DOES NOT INVOLVE CASH	—	213	213	117
	(2,156)	(617)	(2,773)	3,569
DECREASE (INCREASE) IN NON-CASH WORKING CAPITAL				
	(996)	881	(115)	2,324
	(3,152)	264	(2,888)	5,893
CASH FROM (USED IN) FINANCING AND INVESTING ACTIVITIES:				
SALE (PURCHASE) OF MARKETABLE SECURITIES	198	129	327	(2,782)
PURCHASE OF RESTRICTED INVESTMENTS	(2)	(90)	(92)	(2,331)
PURCHASE OF CAPITAL ASSETS	—	(378)	(378)	(400)
DISPOSAL OF CAPITAL ASSETS	—	2	2	39
	196	(337)	(141)	(5,474)
NET CHANGE TO CASH	(2,956)	(73)	(3,029)	419
CASH, BEGINNING OF PERIOD	4,146	1,331	5,477	5,058
CASH, END OF PERIOD	\$ 1,190	\$ 1,258	\$ 2,448	\$ 5,477

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

*Fifty-two week period ended December 25, 1999
(in thousands of dollars)*

1. ACTIVITIES OF THE AGENCY:

(a) Objective of the Agency:

In 1972, Parliament enacted the National Farm Products Agencies Act. The Canadian Egg Marketing Agency, a Statutory Corporation, was then established by proclamation. It, along with a Federal-Provincial Agreement, identifies the Agency's responsibilities including: to effectively manage the production, pricing, distribution and disposition of eggs in Canada and to promote the sale of eggs.

(b) Levy, service fees and contributions:

The provincial egg marketing boards have agreed to act as agents of the Agency for the collection, control and remittance of the levy, as recommended by the Agency and approved by the National Farm Products Council. Further amounts are paid to the Agency by the provincial boards to finance the national industrial product removal system pursuant to the supplementary Federal-Provincial Agreement and, in the case of Quebec and Alberta, through service fees payable pursuant to a commercial contract.

(c) Removal activities:

The Agency purchases, at specified buy-back prices, all eggs that meet Agency specifications that have been declared as excess to provincial table market requirements. These eggs are then sold to domestic processors.

(d) Service contracts:

The Agency maintains service contracts with the Ontario and Quebec provincial boards.

They allow for the operation of provincial industrial product removal programs within the national system. As a result of national programs operated by the Agency, not all provincial declarations are recorded as sales by the provincial boards. In Ontario, the provincial removal program was responsible for 18% (1998 – 15%) of their province's industrial product declarations. In Quebec, the provincial removal program was responsible for 99% (1998 – 99%) of their province's industrial product declarations. The excess of national levies over the cost of removal of industrial product is recorded as net levy contribution.

NOTES TO FINANCIAL STATEMENTS

Fifty-two week period ended December 25, 1999
(in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of accounting:

The industrial product removal levy, service fees and contributions are allocated to the Pooled Income Fund. All transactions involving the buying and selling of eggs are recorded in this fund.

The administration levy, service fees and contributions and all administrative expenses are recorded in the Administration Fund.

(b) Cash:

Cash includes deposits with financial institutions that can be withdrawn without prior notice or penalty and short-term deposits with an original maturity of 90 days or less.

(c) Marketable securities and restricted investments:

Marketable securities and restricted investments consist of Government of Canada bonds and are valued at the lower of cost or market.

(d) Inventory:

Inventory consists of eggs which are valued at the lower of cost and net realizable value.

(e) Capital assets:

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

ASSET	BASIS
OFFICE EQUIPMENT	10 YEARS
COMPUTER HARDWARE AND SOFTWARE	5 YEARS
LEASEHOLD IMPROVEMENTS	OVER REMAINING TERM OF LEASE

(f) 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 disclosure 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 periodically and, as adjustments become necessary, they are reported in net expenditures in the periods in which they become known.

NOTES TO FINANCIAL STATEMENTS

Fifty-two week period ended December 25, 1999
(in thousands of dollars)

3. ACCOUNTS RECEIVABLE:

	POOLED INCOME FUND	ADMINISTRATION FUND	1999 TOTAL	1998 TOTAL
LEVY, SERVICE FEES AND CONTRIBUTIONS, NET OF ALLOWANCES FOR UNCOLLECTED AMOUNTS OF \$1,626 (1998 – \$567)	\$ 9,588	\$ 1,339	\$ 10,927	\$ 4,955
EGG SALES, NET OF ALLOWANCES FOR UNCOLLECTED AMOUNTS OF \$142 (1998 – \$118)	2,107	—	2,107	4,165
OTHER	59	408	467	320
INTERFUND RECEIVABLE	114	(114)	—	—
	\$ 11,868	\$ 1,633	\$ 13,501	\$ 9,440

4. RESTRICTED INVESTMENTS AND FUND BALANCES:

(a) Restricted investments:

Restricted investments held by the Agency represent funds which have been restricted by the Board of Directors for the purposes described in notes 4(b) and 4(c). The carrying values and market values of the investments are as follows:

	CARRYING VALUE		MARKET VALUE	
	1999	1998	1999	1998
POOLED INCOME FUND:				
CASH	\$ 23	\$ 11	\$ 23	\$ 11
BONDS	213	223	213	219
	236	234	236	230
ADMINISTRATION FUND:				
BONDS	2,187	2,097	2,187	2,218
	\$ 2,423	\$ 2,331	\$ 2,423	\$ 2,448

(b) Restricted fund balance – Pooled Income Fund:

In 1995, the Agency was directed by the Board of Directors to set up a trust account to administer transactions for the National Quota Exchange (NQE) Program. The use of the funds is at the discretion of the Board of Directors. The transactions in the fund are as follows:

	1999	1998
BEGINNING BALANCE	\$ 237	\$ 229
INTEREST INCOME	13	12
ADMINISTRATION EXPENSE	(13)	(4)
ENDING BALANCE	\$ 237	\$ 237

NOTES TO FINANCIAL STATEMENTS

Fifty-two week period ended December 25, 1999
(in thousands of dollars)

4. RESTRICTED INVESTMENTS AND FUND BALANCES (continued):

(c) Restricted fund balance – Administration Fund:

In 1997, the Agency was directed by the Board of Directors to set up a \$2,000 restriction in the Administration Fund. The restricted funds are to be used to fund research. The use of the funds is at the discretion of the Board of Directors. The transactions in the fund are as follows:

	1999	1998
BEGINNING BALANCE	\$ 2,097	\$ 2,058
INTEREST INCOME	108	91
RESEARCH ACTIVITIES	(18)	(52)
ENDING BALANCE	\$ 2,187	\$ 2,097

5. CAPITAL ASSETS:

	COST	ACCUMULATED AMORTIZATION	1999 NET BOOK VALUE	1998 NET BOOK VALUE
COMPUTER HARDWARE AND SOFTWARE	\$ 1,461	\$ 816	\$ 645	\$ 467
OFFICE EQUIPMENT	427	353	74	89
LEASEHOLD IMPROVEMENTS	6	1	5	5
	\$ 1,894	\$ 1,170	\$ 724	\$ 561

Cost and accumulated amortization amounted to \$1,543 and \$982 respectively in 1998.

6. DEMAND LOANS:

The Agency has a revolving demand loan facility with a total approved limit of \$5,000 at an interest rate of prime on the first \$2,500 and prime plus 0.5% on the remainder. The facility is secured by a general assignment of book debts and a demand debenture agreement. As at December 25, 1999, loans under this facility totalled \$Nil (1998 – \$ Nil).

NOTES TO FINANCIAL STATEMENTS

Fifty-two week period ended December 25, 1999
(in thousands of dollars)

7. COMMITMENTS:

The Agency is committed under the terms of an operating lease contract for the rental of premises (\$124 per year) and estimated operating costs (\$132 per year), as follows:

2000	\$	256
2001		256
2002		256
2003		256
2004		256
2005 – 2007		768
	\$	2,048

8. CONTINGENCIES:

- (a) In 1996, the Agency was named as defendant in a statement of claim in the amount of \$10,000. In 1998, the Agency was successful in a Supreme Court ruling on a constitutional issue of marketing eggs, produced in the North West Territories (NWT), into areas of regulated production. It is the Agency's view that the statement of claim was subject to the outcome of the Supreme Court ruling, but the statement has not yet been withdrawn.
- (b) In 1997, 1998 and 1999, the Agency received invoices totalling \$965 (1999 – \$632, 1998 – \$202 and 1997 – \$131) from the Alberta Board. The amounts are estimates of industrial product removal costs resulting from the movement of unregulated production from the NWT into their province. In 1996 the Agency recognized the existence of this production and associated costs and provided an interim payment of \$75 to the Alberta Board. The Agency has not recognized any further liability due to the lack of accurate and complete information. Any additional liability will be recognized when the Agency obtains the necessary information to determine the extent of any further liability.

9. CONCENTRATION OF CREDIT RISK – ACCOUNTS RECEIVABLE:

As described in note 3, the Agency's receivables are from two main sources: egg sales to Egg Processors and levy and service fees collected by Provincial Boards on eggs marketed. The Agency mitigates credit risk through credit evaluations and monitoring of the outstanding balances and the financial conditions of the Agency's customers.

Egg sales are dependent upon a group of related companies. In 1999, these customers purchased 39% (1998 – 38%) of the eggs sold by the Agency.

NOTES TO FINANCIAL STATEMENTS

Fifty-two week period ended December 25, 1999
(in thousands of dollars)

10. SUPPLEMENTARY INFORMATION:

Egg sales revenues and cost of sales are recorded on a net basis as net levy contribution, in accordance with service contracts in Ontario and Quebec, and on a gross basis as egg sales and cost of sales, in the case of the other provinces, in accordance with the underlying Federal-Provincial Agreement.

Had all the industrial product removal operations in Ontario and Quebec been recorded on a gross basis, the Pooled Income Fund Statement of Operations would be as follows:

	1999	1998
REVENUE:		
EGG SALES	\$ 44,590	\$ 51,178
LEVY, SERVICE FEES AND CONTRIBUTIONS	65,427	56,119
INTEREST AND OTHER INCOME	155	197
OTHER INCOME – RESTRICTED	13	12
	<u>110,185</u>	<u>107,506</u>
EXPENSES:		
TRADE OPERATIONS:		
EGG PURCHASES	105,108	99,836
BUYBACK ALLOWANCE	2,815	1,805
TRANSPORTATION AND HANDLING	2,625	2,532
FOOD SAFETY PROGRAM	151	90
BAD DEBTS (RECOVERY)	33	(106)
THIRD PARTY VERIFICATION	370	345
OTHER	(2)	37
UNCOLLECTED LEVY, SERVICE FEES AND CONTRIBUTIONS	1,062	300
DONATIONS OF EGGS	179	187
	<u>112,341</u>	<u>105,026</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	<u>\$ (2,156)</u>	<u>\$ 2,480</u>

11. COMPARATIVE FIGURES:

Certain 1998 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1999.