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(CPEPC) CANADIAN POULTRY AND EGG PROCESSORS COUNCIL

(CAC) CONSUMERS' ASSOCIATION OF CANADA

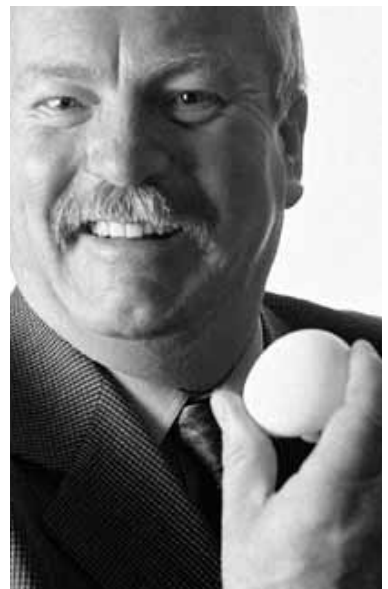




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*Report from the Chairman*  
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**O**ur world is moving quickly and to keep up, the Canadian Egg Marketing Agency (CEMA) has to move quickly, too. On every front, change manifested itself in 2001 and increased demands were placed on the egg industry and on your Agency.

Perhaps our major initiative is the renewal of the Federal-Provincial Agreement (FPA). Our old Agreement has served us well. But 30 years after national supply management in eggs was developed, not all of our structures and methods of doing business apply to today's realities. All signatories are participating in the FPA discussions and if all parties remain sensitive to the needs of others, success will be achieved. Our supply management system was built on good will and collaboration; and its renewal will depend on the same.



Our discussions with government have increased as federal and provincial governments, too, must deal with the pressures of change. There have been demands from government for informative and mandatory nutrition labeling, strict measures against animal cruelty and the development of fair global trading rules. Legitimate demands like these are placed on government every day and if properly implemented, the resulting change can have a positive impact on our industry; if implemented poorly, the consequences can be dire. To meet these challenges, we increased our consultations with government and as this report outlines in detail, we had considerable impact.

We took advantage of the development of the Prime Minister's Caucus Task Force on Future Opportunities in Farming to emphasize the need for federal and provincial governments to support orderly marketing. We appeared before the House of Commons Justice Committee to outline some of the pitfalls posed by specific wording found in proposed amendments to the Criminal Code. We met with government officials on several occasions to examine the implications of several nutrition and other regulatory initiatives.

Pricing based on costs of production remains a fundamental pillar of our supply management system. A new Cost of Production study completed in 2001 means the pricing decisions made by the Agency and the provincial marketing boards are based on the most up-to-date, on-farm pricing information possible. Our thanks are extended to the producers who agreed to be extensively surveyed and have their records examined when these studies were done so all egg producers could benefit from cost-based pricing mechanisms.

Your Board of Directors works well and remains focussed on serving the needs of a national system. Each director brings his or her own insight to the issues being examined and we are enriched by the wealth of knowledge and experience on our Board. I would like to thank CEMA's directors for examining each matter that comes before them in detail and taking decisions only after considerable thought.

My thanks are also extended to Executive Director David Clemons for his management of the day-to-day activities of the Agency and to our staff for diligently carrying out their duties. We can attribute much of our success to them.

The year 2001 was like no other and we will remember it for the tremendous loss endured by our United States colleagues, friends and associates. Against the backdrop of terror that was September 11, we recognize that we are indeed fortunate.



Laurent Souligny, Chairman

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*Report from the Executive Director*  
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**I**t is my duty as Executive Director of the Canadian Egg Marketing Agency (CEMA) to make the most efficient use possible of our human and financial resources so the goals set by the Board of Directors are reached. To do this, I have made greater use of the Strategic and Operational Plan (SOP) as the most important guide to keep us on track.

As the guiding tool for management, the SOP lists the goals and objectives as determined by the Board and outlines the projects and programs recommended by management and subsequently approved by the directors to achieve these goals and objectives. The SOP is brought forward at each regularly scheduled Board of Directors meeting for review so we can examine in detail our accomplishments and where more work is needed.



CEMA's personnel are motivated by the ever-increasing consumption of eggs to continue our dedicated work promoting eggs. We are bolstered by the international recognition given our advertising programs by the International Egg Commission and the increasing recognition dietitians and other health professionals have given eggs as a nutritious food.

Agreement from our federal government to provide official recognition for HACCP-based on-farm food safety programs encourages us to evolve our Start Clean-Stay Clean™ program. Producers continue to make improvements on the farm, allowing us to boast on producers' behalf that the Canadian egg industry is indeed in

the forefront domestically and internationally in enhancing food safety systems.

Ever cognizant of the need for producers to make a fair return, we pressed forward in 2001 in discussions on pricing and supply with our breaker customers. With the full cooperation of the Canadian Poultry and Egg Processors Council, we launched a price discovery program that will continue in 2002.

The work required for successful orderly marketing of eggs is extensive and required the creation of two new full time positions in 2001. Our new International Trade Policy Manager works exclusively on the trade file, allowing the Agency to enhance its work with the other national supply management organizations and to expand its consultations with government. Our new Senior Business Analyst will enhance our relationships with our customers on all fronts.

We are moving forward positively in a number of areas. To make sure we don't fall along the way by a serious, unexpected occurrence, we completed our risk audit in 2001 and are now developing a manual of procedures so we can manage the most dangerous events effectively when and if they arise.

I am proud to work for Canadian egg producers. My hope is that those of us who work on producers' behalf can match the excellence shown everyday by those who provide Canadians with one of the most nutritious and safest foods in the world: eggs.

My sincere thanks go to the Board of Directors for so clearly stating the objectives and goals. With the end known, the game plan unfolds. My thanks are also extended to the Agency's staff for their dedication and the good cheer they bring to my working days.

A handwritten signature in black ink, appearing to read "David H. Clemons". The signature is fluid and cursive, with a long horizontal stroke at the end.

David H. Clemons, Executive Director

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Promoting our Product

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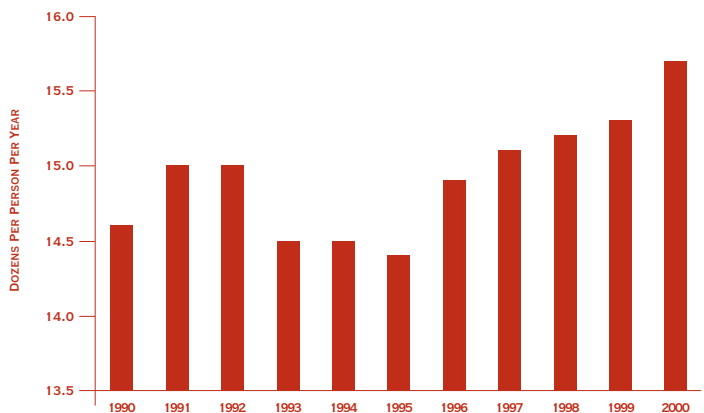
A dynamic marketing campaign was pursued in 2001 to support continued growth in per capita consumption. The popularity of eggs as a versatile, nutritious and good tasting food for any meal continues to grow.

**ADVERTISEMENTS RECOGNIZED WORLD-WIDE**

The Canadian Egg Marketing Agency’s (CEMA) marketing and promotions programs continue to be recognized world-wide for their quality and for getting the job—increasing consumption—done. Data released in

2001 told us per capita consumption had increased for five consecutive years from 1996 to 2000, the latest year data was available. One of the reasons for this Canadian success story is a comprehensive television advertising campaign emphasizing the simplicity and goodness of eggs.

PER CAPITA EGG CONSUMPTION



FOR THE PAST FIVE YEARS, CONSUMPTION HAS BEEN TRENDING UPWARD WHETHER MEASURED BY TOTAL EGG CONSUMPTION OR PER CAPITA EGG CONSUMPTION. CEMA IS OPTIMISTIC THIS TREND WILL CONTINUE FOR SEVERAL YEARS TO COME.

The tag line Eggs | So simple. So good. marked three new national television advertisements in 2001, *Scrambled*, *Hard-Cooked* and *Mushroom Omelette*. The audience penetration of the advertisements was demonstrated in market research. Focus

group research, an ad tracking study involving interviews with a sample of our target audience and a national survey of Canadians' attitudes about eggs showed that our advertisements and their messages are remembered.

In particular, *Mushroom Omelette* appealed to our target audience, women between the ages of 25 and 54. CEMA jumped on the research findings as well as the conclusions reached by our consultants and specialists of the provincial egg marketing boards to design a 2002 campaign that will show everyone, no matter what walk of life, can make an omelette.



2001 TV AD CAMPAIGN



CEMA believes its advertising success is attributed, at least in part, to its ability to remain flexible and respond quickly to research results. If we are to compete for audience attention successfully, we must pay meticulous attention to every detail of our campaigns. In January 2001, a focus group study

indicated *Mushroom Omelette* could be improved by a subtle change in the tone of a voice-over. The change was made in time for our second flight of commercials and *Mushroom Omelette* became one of our best television advertisements ever.

Extensive consultation with partners is another reason for the success. We ensure all of our suppliers work together as a team and that the provincial egg marketing boards help build our promotions programs. Two summits of the Agency's suppliers were held as were two workshops for the marketing specialists employed by the provincial boards. Our goal is for Canadian consumers to hear consistent messages about eggs.

The quality resulting from this approach was recognized by the International Egg Commission when it awarded CEMA, together with the Ontario Egg Producers marketing board, the Golden Egg Award. The award brought global awareness to Canada's advertising programs, now considered by the international egg community to be the best in the world.

The Agency's messages are also consistently promoted in our recipe dissemination programs. Five booklets featuring new egg recipes were distributed nationally in retail stores by CEMA together with our partners who offered gifts of premium kitchen knife sets, electric barbecues and other handy food preparation items. In 2001, we also continued our sponsorship of the Bakefest program which included distribution of a booklet of seasonal winter recipes in several magazines and in grocery stores across Canada.

#### WEB PROMOTES EGG CONSUMPTION

The web remains an excellent vehicle for distributing recipes and generating loyalty among egg users. In 2001, CEMA explored a variety of ways to enhance its use of the world wide web to increase egg consumption.

We began an overhaul of the promotional aspects of our existing site and developed a database of egg recipes. A prototype website displaying recipes and allowing for searches based on key words was then created. A request for proposals was issued to complete development of the database. As a result of this work, an independent website with its own domain name, [www.eggs.ca](http://www.eggs.ca), will be launched in 2002. Finding out how to make supper, or any meal for that matter, quickly with eggs and other ingredients already in the fridge will only be a keyboard away.

#### VISUAL IDENTITY CREATED

The average person hears or sees 5,000 corporate messages a day. Marketing professionals must find strategies to cut through the clutter. Increasingly, marketers are turning to the creation of a strong



visual identity or graphic that, after years of exposure, becomes so familiar to its audience, the audience associates messages with the identity even when the messages aren't actually stated.



A major project for the Canadian Egg Marketing Agency in 2001 was finding a visual identity that will become a familiar and trusted symbol of the goodness, quality and appeal of eggs. The identity was developed by year's end and will go into use in 2002.

#### **POPULARITY OF EGGS GROWING**

Eggs are an ever-popular food as Canadians increase the number of eggs they eat every year. Per capita consumption of eggs has increased for five consecutive years beginning in 1996 with it resting in 2000, the latest year for which Statistics Canada data is available, at 15.7 dozen. This is more than an increase of a dozen eggs since the low of 14.4 recorded in 1995.

A Usage and Attitude study completed by the Canadian Egg Marketing Agency in 2001 confirms the growing popularity of eggs. Comparisons to a similar study completed in 1995 show that consumers' opinion of the acceptable number of eggs to eat a week has increased significantly from 4.3 in 1995 to 5.2 in 2001. In other words, the average Canadian is comfortable eating one more egg a week than he or she was only six years ago.

The study also told CEMA that consumers' opinions about the nutritional elements of eggs have become significantly more positive over the past few years. This increased confidence in eggs is consistent with the advice given by health professionals that eggs are part of a balanced diet.

Healthy individuals eating seven eggs a week can rest assured they are doing themselves good. An excellent source of protein, eggs are abundant in minerals and vitamins. The antioxidants lutein and zeaxanthin, both found in eggs, are good for eye sight while memory is supported by choline, also found in egg yolks.

Early indications are that the positive trends seen will continue. For the 52 weeks of 2001, table disappearance increased 2.9 million dozen, or a

0.8 percent increase over last year. AC Nielsen data for the 52-week period ending January 26, 2002 indicated a three percent increase in retail sales of eggs while a comparison of the 12-week period ending January 26, 2002 to the same period a year earlier shows a whopping four percent increase.

Growth is the trend in Canadian egg markets. That is largely attributable to the coordinated and strategic marketing and nutrition education programs of CEMA and its provincial marketing board partners.

#### **NUTRITIONAL MERITS OF EGGS PROMOTED THROUGHOUT 2001**

Eggs are an important part of a balanced diet and CEMA takes pride in promoting them to health professionals and other Canadians. Our goal is to ensure dietitians, physicians and health educators have the latest scientific information there is about eggs. They need access to publications that accurately describe for their clients, in easy-to-read language, the importance of eggs at any stage in life.

Pregnant women are a specialized audience for those promoting nutritious eating habits as women's requirements change when they become pregnant. Eggs contain many nutrients important to the health of pregnant women and needed for proper fetal development.

To provide a nutrition education resource for pregnant women, we translated the *Bonjour la vie!* booklet developed by our provincial partner in Quebec, the Fédération des producteurs d'œufs de consommation du Québec, and a Quebec foundation assisting low-income pregnant women, La Fondation OLO. Over 15,000 of the French booklets and 3,000 of the English ones were distributed through health units in the province while 30,000 English and 3,000 French were provided to Health Canada's prenatal nutrition program.

Our *Eggs for Your Baby* pamphlet, developed at the end of 2000, was a pillar among our nutrition resources in 2001 and proved to be popular at conferences attended by health professionals. The booklet describes the nutrient requirements of babies, how eggs help meet those requirements and the best ways to introduce egg yolks, then egg whites, gradually, to babies. The booklet was distributed at various health professional conferences and consumer shows through CEMA and the provincial egg boards.

In 2001, we developed *Eggs for the Young at Heart*. This booklet describes the nutritional requirements for mature adults and how eggs help meet those needs. It will be distributed through our regular mailings to registered dietitians and other health professionals as well as during conferences in 2002.

The latest scientific information on eggs was publicized in a four-part advertisement campaign for publication in a health professionals' journal in 2001 and 2002. An ad kit for our provincial partners was developed to facilitate further advertising in their own campaigns.

Our *Nutrition In Your Practice* newsletter also highlighted the latest scientific news about eggs to health professionals. Distributed to over 2,500 subscribers twice in 2001, the newsletter provided updates on lutein in eye and heart health, the lack of vitamin B<sub>12</sub> in vegan diets, the relationship between choline and memory, folic acid fortification and child nutrition.



Agency resources continued to be popular among physicians who ordered through the Physicians' Hotline catalogue. In 2001, the catalogue featured four of our nutrition booklets. From January to June, we received 13,000 orders through the

catalogue and we expect, once data is compiled, that a similar number of orders were made for the second half of the year.

As part of our continuing work with registered dietitians, we were an official sponsor of Dietitians of Canada's Nutrition Month campaign in March. The campaign included distribution of news articles to media outlets across Canada. The focus of the campaign was dispelling myths and fallacies about food. We extended the myths and fallacies theme of Nutrition Month by distributing our own CEMA news release to highlight the importance of eating eggs.

Our nutrition publications are also disseminated on our website at [www.canadaegg.ca](http://www.canadaegg.ca). In 2001, we updated our Frequently Asked Questions in our nutrition section to include information on the most current nutrition subjects. We also updated and revised the nutrition section of our website to include separate units for health professionals and consumers.

#### **CHECK THIS OUT...**

The Canadian Egg Marketing Agency is pleased to announce its participation in the Heart and Stroke Foundation's Health Check™ Program. This means that egg marketers can now use the Foundation's Health Check™ logo on cartons of shell eggs, signaling to grocery shoppers that eggs are a healthy food choice.

The five-year national license was negotiated by the Canadian Egg Marketing Agency after we demonstrated to the Foundation that we met the criteria established under the Health Check™ program. Use of the symbol on cartons will encourage shoppers to buy eggs because consumers trust the Heart and Stroke Foundation, they want to make healthy food choices and they find nutrition information on food labels confusing. By using the symbol, we can reassure consumers that eggs fit into a healthy eating pattern.

CEMA developed a Health Check™ Implementation Guide for graders and retailers. Grader members of the Canadian Poultry and Egg Processors Council will receive the Guide early in 2002 while other graders can obtain a copy by contacting the Canadian Egg Marketing Agency.

Graders and retailers wanting to take part in the program must sign a sub-license agreement under the national license and are required to follow the requirements set out in the Implementation Guide.

**CEMA BACKS NUTRITION LABEL**

The mandatory nutrition label proposed by the federal government in *Canada Gazette – Part I* in 2001 was supported by CEMA. The Agency told Health Canada and then Health Minister Allan Rock that Canadians need helpful nutrition information, such as that provided on the proposed label.

In addition, we supported the government’s decision to not allow a percentage daily value of cholesterol on the label as this decision was based on sound nutritional science. The most recent and most credible scientific evidence clearly shows that dietary cholesterol, independent of fat intake, does not impact the health of most Canadians.



HEALTH CHECK™ LOGO



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## Research

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**A** good knowledge base stemming from sound scientific research can only serve to benefit egg producers and the industry as a whole. Supporting Canada's poultry research community was the major reason for developing a national poultry research council and a CEMA research program.

### **CEMA FOUNDING MEMBER**

The Canadian Egg Marketing Agency (CEMA) became a founding member of the Canadian Poultry Research Council (CPRC) in 2001. Together with the Canadian Turkey Marketing Agency, Chicken Farmers of Canada, the Canadian Broiler Hatching Egg Marketing Agency and the Canadian Poultry and Egg Processors Council, CEMA approved CPRC's bylaws, enabling the Council to have its inaugural meeting early in 2002.

CEMA recognized that egg producers have long considered research to be a priority. The provincial egg marketing boards have supported independent research both within and outside their provinces for several years and some have even developed partnerships with research institutions outside the country. These grants have been made because it is generally recognized that research pays off. For every dollar invested in egg research, a benefit of about \$80 is generated to the agri-food industry.

Objectives for the CPRC are to serve as a focal point for poultry research in Canada, secure additional and matching funds for research, establish priorities, assess proposals and select researchers, support the expansion of poultry science education and research in Canada and disseminate research results. The Council will ensure that the duplication of research is avoided, thereby maximizing the dollars available. Each member organization can sponsor their own independent research or sponsor research overseen by the Council.

CEMA established a special research reserve fund several years ago but recognized that a full-scale research program required specialists to assess the validity of funding requests and to recommend the highest priorities for poultry research. With CPRC established, we will have access to those specialists and be in a better position to award research grants. A website will be developed by CEMA for the CPRC.

### **RESEARCH COMMITTEE ESTABLISHED**

The Canadian Egg Marketing Agency's Board of Directors approved the development of a standing research committee in 2001. Four people were appointed for a two-year term. Among its first decisions was awarding two small research grants: one for \$5,000 to an Alberta project examining ways to modify cages for the benefit of layer welfare and another one for \$6,000 to a Nova Scotia project examining the relationship between layer osteoporosis and age of maturity.

Further research grants are expected in 2002. For the first time in recent history, CEMA established a research budget line at the end of 2001. The 2002 research budget line of \$140,000 signals the Agency's ability and desire to support poultry research in Canada.

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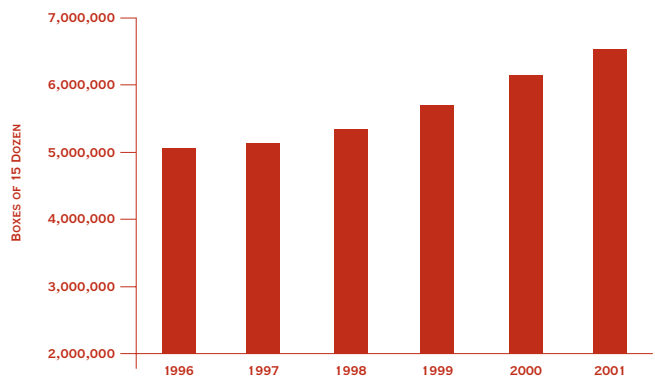
## Managing the Supply

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A stable market results from producing enough eggs to fill the demand while making sure producers and their customers have the opportunity to make fair returns. Operating under the authorities of the Farm Products Agencies Act and a Parliamentary proclamation, the Canadian Egg Marketing Agency (CEMA) is responsible for the development of that stable market.

Good working relationships are essential to the successful operation of CEMA's Industrial Products Program. In this program, we buy eggs from the provincial/territorial egg marketing boards and sell them to our 16 breaker customers or fill graders' requests for table eggs. In 2001, CEMA sold 338,767 boxes of 15 dozen eggs from its purchases to the table market, down 27 percent from 2000.

CEMA SALES TO BREAKERS



DEMAND FOR EGGS BY DOMESTIC BREAKERS HAS INCREASED STEADILY, INCREASING THE NUMBER OF EGGS BOUGHT AND SOLD BY CEMA EACH YEAR.

### PRICE DISCOVERY PROGRAM LAUNCHED

CEMA launched three studies as part of a price discovery program in 2001. The action was taken in response to prolonged

**2001 INTERPROVINCIAL MOVEMENT**

BUYERS: SELLERS	YK	BC	AB	NT	SK	MB	ON	QC	NB	NS	PE	NF	TOTAL SALES
YK	—	0	0	0	0	0	0	0	0	0	0	0	0
BC	0	—	2,160	0	0	0	0	0	0	0	0	0	2,160
AB	15,290	291,829	—	23,457	52,232	2,856	447	0	0	0	0	0	386,111
NT	0	0	38,369	—	132,465	0	0	0	0	0	0	0	170,834
SK	39	3	517,519	7	—	22,940	2,252	0	0	0	0	0	542,760
MB	0	191,356	218,451	0	0	—	168,816	0	0	0	0	0	578,623
ON	0	0	0	0	0	41	—	484,500	0	0	0	0	484,541
QC	0	0	0	0	0	0	162,477	—	1,666	0	0	212	164,355
NB	0	0	0	0	0	0	0	442	—	8,713	1,325	3,024	13,504
NS	0	0	0	0	0	0	1,200	0	50,516	—	4,431	4,338	60,485
PEI	0	0	0	0	0	0	0	0	0	0	—	0	0
NF	0	0	0	0	0	0	0	0	0	0	0	—	0
<b>TOTAL PURCHASES</b>	<b>15,329</b>	<b>483,188</b>	<b>776,499</b>	<b>23,464</b>	<b>184,697</b>	<b>25,837</b>	<b>335,192</b>	<b>484,942</b>	<b>52,182</b>	<b>8,713</b>	<b>5,756</b>	<b>7,574</b>	<b>2,403,373</b>

DATA IN BOXES OF 15 DOZEN.  
SUBJECT TO REVISION.

negotiations with Canadian egg breakers whose contracts with CEMA expired in the late spring.

CEMA and its breaker customers remained committed to working toward a mutually acceptable agreement. There is demand for new kinds of processed egg products and breakers want to meet this need with value-added product. CEMA agrees the goal is a good one and wants these products developed and introduced to consumers in ways that do not reduce the profitability of the table market. As an interim measure, CEMA offered an agreement whereby pricing terms were the same as the 2000 contract and whose terms would be effective until December 31, 2002.

Discussions will be required in 2002 to establish a new long-term framework contract, a goal shared by CEMA and most of its breaker customers. This contract should set out the protocol to be followed by CEMA and the customer in supplying and using product. Yet it should be flexible enough to allow renegotiation of prices and supply volumes from time to time.

To ensure such an arrangement has the best possible pricing methodology for Canadian circumstances, CEMA commissioned KPMG LLP to conduct an extensive three-phase review of egg marketing and pricing in North America. In developing the studies' parameters, the Canadian Poultry and Egg Processors Council was an active participant with CEMA.

The first phase examines U.S. price discovery models and this study neared completion by year's end. The second study, to be completed in 2002, will examine Canadian regional pricing differentials and substitutability of product. In

this work, the costs of moving industrial product, returning shipping materials and of processing in different regions of the country will be examined along with inter-regional competitiveness and the degree to which one kind of processed egg—say liquid egg—can be substituted for another—say dried egg—in food manufacturing processes. Finally, the third examination, also to be completed in 2002, will study the feasibility of end-use pricing, or the setting of prices on the eggs sold to breakers according to the market into which the product will be sold.

There is much work ahead and CEMA is optimistic there will be substantial collaboration among all parties in order to obtain a mutually beneficial long-term arrangement.

#### EGGS FOR PROCESSING PROGRAM OFFERS NEW SOURCES OF SUPPLY

Out of its infancy, Canada's Eggs For Processing (EFP) program offers breakers new sources of supply by permitting direct sales between breakers and producers according to the terms of contracts established between participating provincial boards and individual breakers, and between these boards and CEMA.

To ensure both market stability and compliance with Canada's trade obligations under the World Trade Organization, industrial eggs marketed by CEMA must receive priority and be sold before eggs produced and marketed under EFP contracts. Furthermore, the EFP eggs cannot be priced below comparable eggs sold in CEMA's Industrial Products Program.

As we entered 2001, EFP Quota had been established by CEMA and approved by National Farm Products Council for Quebec, Ontario, Manitoba, Saskatchewan and British Columbia.

CEMA conducts EFP audits at the provincial boards to verify that the programs operate according to the terms set out in the contracts. In 2001, CEMA established and clarified the scope and objectives of its audits in order to ensure standardized methods for auditing were and will be used in the provinces' EFP programs.

**INSPECTION SERVICES REVIEWED**

Part of making sure markets remain stable is making sure the eggs sold for the breaker market meet Canada grade standards, arrive at the breaking plant in a timely fashion and that they are in fact broken. Breaker eggs are not sold at the same price as table eggs so measures must be in place to ensure the eggs are not leaked inadvertently or purposefully onto the higher priced table market.

Traditionally, the Canadian Food Inspection Agency (CFIA) has served as the third-party verifier for CEMA. However, we reviewed the arrangements between CEMA and CFIA in 2001 to see if there were advantages to using other service providers. CEMA decided to hire a private inspection service to conduct third-party verification at Alberta breaking plants. We will continue to review third-party verification in 2002 and may hire additional private inspection services for other parts of the country.

In other discussions with government, we met with personnel from CFIA and the Department of Foreign Affairs and International Trade to review the mechanisms used by government to control

imports according to the terms of the North American Free Trade Agreement and the Agriculture Agreement of the World Trade Organization.

**DEMAND UP**

Demand for Canadian eggs continues to grow, promising a strong future for the industry.

For the 52 weeks of 2001, table disappearance increased by 0.8 percent compared to the same period in 2000. In addition, AC Nielsen recorded brisk sales of eggs at retail stores with a three percent increase for the 52-week period ending January 26, 2002 over the previous year. The 12-week period leading up to January 26, 2002 saw a four percent increase compared to the same 12-week period a year earlier.



The brisk sales on the table market were also coupled with brisk demand in the breaker sector. Breakers submit sales information to CEMA on a confidential basis and our auditing and econometrics units analyze the information and summarize it for six-month periods. That analysis supports increasing

PROVINCIAL ALLOCATIONS – HEN NUMBERS								
	1995	1996	1997	1998	1999	2000		2001
						JAN. – FEB.	MARCH – DEC.	
BC	2,268,083	2,268,083	2,274,686	2,278,791	2,338,293	2,338,293	2,445,708	2,543,670
AL	1,459,037	1,459,037	1,459,037	1,459,037	1,512,475	1,512,475	1,606,637	1,606,637
SK	780,811	780,811	780,811	780,811	821,676	821,676	833,033	1,033,033
MN	2,124,430	2,124,430	2,124,430	2,124,430	2,920,605	2,920,605	2,920,605	3,120,605
ON	6,820,832	6,820,832	6,823,344	6,823,344	7,327,319	7,327,319	7,605,684	8,105,684
PQ	3,007,222	3,007,222	3,027,225	3,028,158	3,209,145	3,209,145	3,481,319	3,587,467
NB	389,507	389,507	389,507	389,507	401,029	401,029	423,783	423,783
NS	738,637	738,637	738,637	736,637	746,357	746,357	757,146	757,146
PE	119,542	119,542	119,542	119,542	124,938	124,938	125,404	124,774
NF	362,058	362,058	332,940	332,940	336,997	336,997	349,769	323,226
NWT	—	—	—	—	115,000	115,000	115,000	115,000
CAN	18,070,159	18,070,159	18,070,159	18,073,197	19,738,834	19,738,834	20,664,088	21,741,065

NATIONAL LAYER ALLOCATION: CEMA DETERMINES THE NATIONAL REQUIREMENT FOR EGGS AND THEN ESTABLISHES THE PROVINCIAL SHARES.

**AVERAGE NUMBER OF LAYERS PER PRODUCER**

PROVINCE	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
BC	17,233	17,798	17,067	16,814	16,277	16,019	15,750	15,513	15,123	14,818	14,788
AL	8,918	9,303	8,742	8,695	8,289	7,844	7,599	7,444	7,296	7,036	6,916
SK	12,405	12,160	11,103	10,913	10,273	10,274	10,140	10,274	10,010	10,104	10,001
MN	12,560	12,347	12,134	11,271	10,213	10,263	10,068	9,927	9,745	9,891	9,614
ON	18,140	18,012	16,272	15,644	14,642	13,674	12,608	11,945	11,553	11,347	10,941
PQ	31,704	29,701	27,905	26,146	23,657	23,467	22,112	20,883	20,883	20,589	18,997
NB	23,383	22,816	22,279	21,999	21,639	21,369	21,639	21,639	21,639	22,081	20,919
NS	31,344	29,709	29,854	29,479	27,356	24,621	24,621	22,965	22,309	22,738	22,106
PE	8,245	5,767	6,941	6,854	6,641	6,641	6,641	6,292	6,292	5,809	5,618
NF	21,066	20,698	22,466	19,584	18,496	18,497	18,103	18,103	17,241	15,394	13,016
NWT	57,500	57,500	57,500	0	0	0	0	0	0	0	0
<b>CAN</b>	<b>17,026</b>	<b>17,596</b>	<b>15,821</b>	<b>15,126</b>	<b>14,176</b>	<b>13,658</b>	<b>13,028</b>	<b>12,589</b>	<b>12,281</b>	<b>12,096</b>	<b>11,685</b>

AS OF DEC 31/01

NOTE: GROW FOR AND SPECIAL PERMIT ALLOCATION ARE NOT INCLUDED.

AS A RESULT OF CANADA'S SUPPLY MANAGEMENT SYSTEM, REGULATED EGG PRODUCTION OCCURS IN EVERY PROVINCE AND IN THE NORTHWEST TERRITORIES. THE AVERAGE SIZE OF OUR FARMS REMAINS RELATIVELY SMALL COMPARED TO THE UNITED STATES WHERE FARMS OF ONE MILLION OR MORE HENS IS NOT UNCOMMON.

production to meet breaker requirements. In addition, CEMA sales to egg processors was 6.4 percent higher during 2001 compared to last year, based on a 52-week period.

To maintain market stability, CEMA must ensure production growth meets demand without surpassing it and causing costly surplus. Finding the best way to share the production growth across the country is frequently a difficult task. Saskatchewan signatories continued to voice concern about the Quota Allocation Agreement developed in 2000. That agreement sets the foundation for the way CEMA allocates quota.

The concerns expressed by our Saskatchewan partners are serious and CEMA is committed to working hard with all stakeholders to resolve these issues in a way that is fair to all of Canada's egg producers.

**U.S. EGG PRODUCERS FACE LOWER PRICES**

Struggling in a non-supply-managed environment, United States egg producers can expect continued low returns in 2002, according to a recent letter issued by United Egg Producers (UEP) headquartered in Atlanta, Georgia.

Producers did not heed early warnings in the spring of 2001 by UEP's marketing committee. At that time, UEP called for a voluntary production cutback to reduce the average age of flocks by two weeks. However, the advice wasn't followed and at year's end, the U.S. had 10 million more hens than it had at the end of 2000, spelling low prices for egg producers through much of 2002.

The instability that exemplifies the U.S. market does not occur in Canada because of our national supply management system.

**NUMBER OF REGISTERED PRODUCERS PER PROVINCE**

PROVINCE	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
BC	138	132	113	136	140	142	144	144	147	153	153
AL	180	170	167	171	176	186	192	196	202	214	216
SK	67	68	74	74	76	76	77	76	78	79	79
MN	174	178	181	194	208	207	211	214	218	219	225
ON	404	407	430	446	466	499	541	570	589	612	632
PQ	109	111	115	117	128	129	136	144	144	149	161
NB	18	18	18	18	18	18	18	18	18	18	19
NS	24	24	24	25	27	30	30	34	35	35	36
PE	15	19	18	18	18	18	18	19	19	21	24
NF	15	15	15	17	18	18	20	20	21	24	32
NWT	2	2	2	0	0	0	0	0	0	0	0
<b>CAN</b>	<b>1,146</b>	<b>1,147</b>	<b>1,157</b>	<b>1,216</b>	<b>1,275</b>	<b>1,323</b>	<b>1,387</b>	<b>1,435</b>	<b>1,471</b>	<b>1,524</b>	<b>1,577</b>

AS OF DEC 31/01

THE NUMBER OF REGISTERED PRODUCERS WAS VIRTUALLY THE SAME IN 2001 COMPARED TO 2000.



**CUSTOM SOFTWARE HELPS CEMA  
MANAGE SUPPLY**

CEMA has developed its own computer software—EIMS, the Egg Information Management System—to help the Agency and the provincial egg marketing boards manage supplies. By custom designing the software, CEMA and the provincial/territorial egg marketing boards are able to record and manipulate the vast amounts of information needed to produce and market eggs successfully. This software package contains modules that address the specific business needs of the Agency and the egg marketing boards, including an address book, flock and quota management modules, interprovincial movement of eggs, Start Clean-Stay Clean™ plus over 100 reports targeted to both management and operational requirements.



Four new modules for EIMS are under development. Two support the information and data manipulation requirements of our Industrial Products and Eggs For Processing Programs. These modules also contain functions to capture and record the many price tables that are administered by the egg marketing boards. A fourth module supports CEMA and the egg marketing boards' activities related to the administration of levies.

In addition, several enhancements were made. The flock management module was updated to more easily record sales and purchases of flocks and to record a variety of producer production

details. Reports were enhanced to better record egg production and we enhanced the capability to export EIMS data to external programs so reporting and data manipulation can take place outside of EIMS.

Also in 2001, we initiated a project to update the current market information and Canadian Egg Market Information Database (CEMID) systems so that their functions will be aligned with current business practices and the software itself built on up-to-date technology. The new CEMID system will encompass egg market data entry and reporting functions and a website that makes selected data available to the general public. Access to the new CEMID website will be available through the Agency's main website at [www.canadaegg.ca](http://www.canadaegg.ca).

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## Managing Risk

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All organizations and industries face risks. Identification of the egg industry's risks—so specific actions could be developed to reduce them—was a high priority for CEMA in 2001.

### RISK AUDIT COMPLETED

The Canadian Egg Marketing Agency (CEMA) completed a risk audit in 2001 and began drafting an issue response and crisis preparedness guide to reduce the risks identified. Completion of the guide is expected in 2002.

The purpose of the program is to identify actions that should take place to avoid serious problems or if serious problems occur, that should take place to reduce them and their repercussions quickly. It is important to identify the procedures ahead of time as it is often very difficult to know what the best action is during times of crisis.

The Agency commissioned an independent firm to interview stakeholders both within and outside the industry. Interviews were held with representatives of provincial boards, CEMA, processors, government and other stakeholders to determine where CEMA's strengths and weaknesses were in managing these risks.

Risk areas identified were not necessarily those where problems existed, but rather, areas that would be difficult to manage if a problem arose. Food safety, signatory disputes, animal welfare and international trade were the areas most often cited as requiring special attention. Respondents recognized that the greatest threat would occur if the safety of eggs came into question. Yet they also saw the chances of poor egg safety occurring as being remote.

Overall, those interviewed said the egg industry's main weaknesses when it comes to crisis preparedness are its lack of response plans and the potential for confused roles and responsibilities. Respondents

said CEMA should act as the coordinator of the industry's national emergency response program and CEMA was considered to be the most capable organization to effectively coordinate communications during emergencies. They advised CEMA to develop a crisis preparedness and response program which included a regular maintenance schedule, to establish and maintain regular stakeholder contact so understanding and cooperation could be fostered and to commit to regular response team training and simulations.

### RESPONSE PROTOCOLS BEING DRAFTED

CEMA has begun preparing an extensive response guide to assist the Agency and the provincial/territorial egg marketing boards in managing serious issues should they arise. The guide is expected to be completed in the summer of 2002.

The guide will clarify processes and communications that should take place should risks involving any of the four high priority areas identified by stakeholders materialize. The guide will detail specific internal communications and operational procedures and suggest ways to communicate with external audiences when problems arise.

.....  
*The Producer*  
.....

Canada's egg farmers are the foundation of egg supply management. They produce only high quality and safe eggs using humane animal husbandry practices. It's CEMA's job to promote programs and a policy environment that makes that possible.

**TRUST IN EGG SAFETY HIGH**

Without safe eggs, there is no market.

Canadians have come to trust the safety of Canadian eggs. Canada's egg farmers have worked hard to maintain that trust, continually updating and improving their HACCP-based Start Clean-Stay Clean™ (SC-SC) program. Annually, each regulated egg farm in Canada is rated on its hygienic practices by one of the Canadian Egg Marketing Agency's (CEMA) nine field inspectors. Since the inception of the program in 1990, farm ratings have gradually increased with the national average now resting at 88 percent.

SC-SC has evolved for more than a decade to become a full on-farm food safety program built on the principles of the globally recognized HACCP system of identifying hazards and developing risk reduction strategies at critical points in food production and processing. CEMA was the first to introduce biosecurity practices in the primary production sector in Canada.

The year 2001 was marked by extensive discussions with federal and provincial government authorities so the Start Clean-Stay Clean™

program could get the recognition it deserves. Consequently, CEMA is applying to the Canadian Food Inspection Agency (CFIA) in 2002 to have SC-SC receive recognition as a technically sound HACCP-based on-farm food safety program.

To qualify for this recognition, the SC-SC program will require some minor modifications. Specifically, the program will be adapted to provide simple, easy-to-follow instructions for producers wanting to individualize the plan to their own operations. In addition, our field inspectors were trained so they can serve as the required third-party auditor of producers' HACCP records and practices.

CEMA is also undertaking major revisions of its SC-SC program so it more readily includes free run, free range and organic operations.

In 2001, CEMA was proud to congratulate approximately 60 operations throughout Canada that achieved scores of 99 or 100 percent on the program in our newsletter. We also emphasized in our producer communications the importance of maintaining high scores so egg farmers can benefit from CEMA's compensation program in the event the bacteria *Salmonella enteritidis* is found in one of their production facilities.

Canada's egg producers consider food safety to be of paramount importance. That's why the provincial/territorial egg boards operate sampling programs of barn environments.

If the bacteria is found in the environmental samples, eggs are diverted to processing plants where they are broken and then pasteurized. Pasteurization kills the bacteria.

When this happens, the eggs are bought and sold under CEMA's Industrial Products Program so producers receive their regular price for them. Sometimes, it is necessary to dispose of a flock early and the amount of compensation received by the producer is dependent on the operation's Start Clean-Stay Clean™ rating. Whether the flock is disposed of early or not, the barns must be cleaned and disinfected to ensure the next flock is going into a safe and healthy environment.

#### **WELFARE GUIDELINES PART OF START CLEAN-STAY CLEAN™**

Animal care guidelines are an important part of the Start Clean-Stay Clean™ program. Healthy animals are necessary if we are to produce clean, safe eggs of high quality. Besides, taking care of farm animals is the right thing to do.

Recognizing its leadership role in promoting humane treatment of farm animals, the Agency agreed to serve as secretariat for the development of a Recommended Code of Practice for the care

and handling of pullets, layers and spent fowl. Under the auspices of the Canadian Agri-Food Research Council, CEMA organized two meetings with representatives of the Canadian Federation of Humane Societies, the Canadian Veterinary Medical Association, the Canadian Food Inspection Agency and other credible organizations in the animal care field to reach consensus on guidelines for the humane treatment of animals used in the egg laying industry.

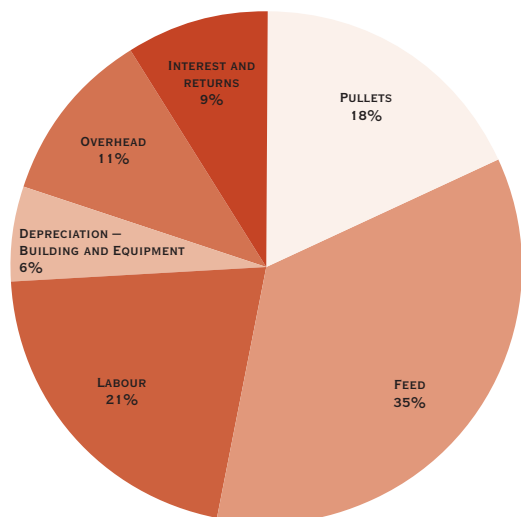
The new Code will separate out and update guidelines specific to the egg industry from the current poultry code which also includes guidelines for turkey and chicken production. Like CEMA, these other industries have worked with scientists, government and others to update the guidelines specific to their industries.

#### **COP STUDY COMPLETED**

The Canadian Egg Marketing Agency completed a new Cost of Production (COP) study in 2001. The study provides the most up-to-date information on the actual costs paid by Canada's egg farmers. Egg pricing is based on the results of the study to ensure producers receive a fair return. Consequently, cost of production pricing remains a fundamental pillar of Canada's egg supply management system.

The study also showed that producers have made large investments in the industry in recent years. The average age of buildings has dropped almost four years, from 14.6 years to 10.5 years, between 1994 and 1999. The average age of equipment has dropped almost three years, from 9.4 years to 6.5 years.

#### **1999 COST OF PRODUCTION SURVEY RESULTS**

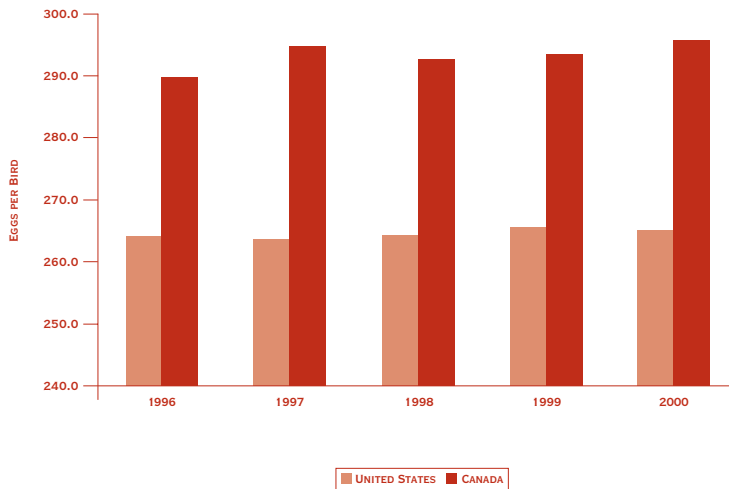


	1999	1994
DOZENS OF EGGS PER BIRD	24.41	23.73
KILOGRAMS OF FEED TO PRODUCE ONE DOZEN EGGS	1.5759	1.6305
LABOUR HOURS	.00923	.0175

A COP study is completed about every three to five years and consistently they show improved efficiencies. The study of 2001, based on a survey conducted with a statistically proportionate sample of egg producers, demonstrated that on all three factors, efficiency has improved since 1994, when the previous survey was taken.

In 2002, the Agency will continue its work improving on the methodologies used to update costs between surveys. Costs such as those for feed, pullets, labour, depreciation, overhead and interest, as well as producer returns, are updated regularly. In 2001, the provincial egg boards asked that the way feed and pullet prices are updated be reviewed and CEMA committed to undertake this work in 2002.

#### PRODUCTIVITY COMPARISON CANADA – UNITED STATES



.....

*Trade*

.....

**W**e must make sure the interests of Canadian egg farmers are fairly represented in this round of multilateral trade talks.

**POSITION UPDATED**

The Canadian Egg Marketing Agency's (CEMA) trade focus in 2001 was on preparations for the new round of multilateral trade negotiations in agriculture, a round that was officially launched in Doha, Qatar, in November, 2001, by ministers of the 142-member countries of the World Trade Organization.

Revisions to a supply management trade position were developed in conjunction with our colleagues in the other national supply management organizations. With a full-time Manager of International Trade Policy hired at CEMA, we were able to participate in extensive working group meetings with government trade officials and take part in international missions.

The year opened with CEMA approving a revised trade position developed by the national supply management organizations. The position makes clear the need for strong border controls to continue operating effective national supply management systems in Canada. It clarifies that increased global access to markets will be the outcome if all countries offering the same generous access to their domestic markets as Canada offers to its domestic supply-managed markets.

Market access commitments must be equivalent among all countries, the position states, and must be equal to five percent of domestic consumption. Over-quota tariffs must be maintained at their current levels, as they are an essential tool in ensuring effective functioning of supply management.

In addition, the position better outlines our views on the need for transparency in Tariff Rate Quota administrations, the value of global sector-specific

initiatives and the requirement to better define multifunctionality and the role of non-trade concerns.

We participated in several briefings with government officials to discuss the complexities and implications of various country positions tabled at the WTO. We want to assist our trade officials in their work developing agreements with other countries and to supply them with the data that demonstrates the legitimacy of tools used for managing supply. Our ultimate goal is to ensure all of Canadian agriculture's diverse interests, both export and domestic, are treated fairly in world trade.

The WTO member-country ministers are hoping to have the trade talks finished by 2005 and a new agreement then put in place. Ultimately, CEMA and the Canadian egg industry will be affected by decisions taken. We look forward to the continued support of our federal and provincial governments.

**CEMA PARTICIPATES IN GLOBAL FORUM**

The Canadian Egg Marketing Agency participated in the May Global Awareness Forum organized by National Farm Products Council. The Forum engaged industry leaders in a useful dialogue regarding emerging global trends.

We were struck by the comments made by Gordon Butland of Rabobank International during that symposium. According to him, the idea that there are lucrative export markets for poultry products is a myth.

CEMA reiterated this message in its presentation to the Prime Minister's Caucus Task Force on Future Opportunities in Farming. The most lucrative opportunities for Canada's egg industry are found in Canada and with a strong supply management system, CEMA told the Task Force.

.....  
*Financial Analysis*  
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The Canadian Egg Marketing Agency is a body corporate established by parliamentary proclamation and the Farm Products Agencies Act. It is governed by a Board of Directors which is made up of one representative from each of the provincial egg marketing boards and the egg marketing board of the Northwest Territories. In addition, there is one director representing consumers and one each from the hatching, grading and breaking sectors. The Chair is elected from and by the directors and an alternate is named to fill the vacancy.

The Agency must be financially self-sufficient. Its operations are not-for-profit and the Agency's activities are supervised by National Farm Products Council which reports to the Minister of Agriculture and Agri-Food.

The Agency maintains two funds: the Administration Fund and the Pooled Income Fund (PIF). The Board has directed the Agency's management to maintain minimum balances in the unrestricted portions of these funds. The minimum balance set for the Administration Fund is \$1.0 million while the minimum for the (PIF), used to buy and sell eggs for use in the Industrial Products Program, is \$5 million. An upper limit of \$12 million has also been established for the PIF.

The fund limits are established to allow the Agency to cushion the impact of market volatility. The revenues and expenses budgeted for the Administration Fund are not subject to a great

deal of volatility. The PIF, on the other hand, can face substantial and changing pressures depending on the volumes of industrial product, and fluctuations in the Canadian dollar relative to the United States dollar.

In 2001, depressed U.S. prices continued due to an uncontrolled expansion of the U.S. laying flock resulting in over production. The U.S. price is used as a base for pricing the Agency's industrial product sold to Canadian egg processing customers.

The following is a summary of the factors affecting the PIF balance in 2001:

- Industrial product volumes increased by 148,863 boxes of 15 dozen, or 2.2 percent. This negatively affected profitability by (\$1.7 million).
- The Canadian dollar decreased relative to the United States dollar having a positive influence of about \$1.9 million.
- The average buyback price was up by \$0.072 a dozen compared to 2000, negatively affecting the PIF by (\$7.3 million).

In 2001, the Administration Fund opened with a balance of \$4.8 million and experienced a loss through the year of (\$0.3 million) to close with a balance of \$4.5 million. The Pooled Income Fund opened at \$8.2 million and gained \$2.9 million to end the year at \$11.1 million.

The PIF also has a portion of its balance that is restricted. It is used to operate the National Quota Exchange. At year's end, this restricted balance totaled \$1.1 million.

The Agency also maintains a Research Fund. Interest earned may be used for research programs. In 2001, a small research grant of \$6,033 was made from the fund and at year's end the Fund balance was \$2.4 million.

The Funds have closed the year in a strong position, enabling the Agency to reduce its levy requirements by half a cent a dozen. In addition, the Agency has increased the share of the levy used for administrative purposes. This will allow for an expansion of our marketing and communications programs while ending the gradual erosion of the year-end administrative surplus.

We can expect continued volatility in prices as the U.S. industry remains unable to reduce the flock size. U.S.-based prices will remain low, especially through the first part of 2002, and industrial product volumes in Canada will increase. Overall, there will be increased pressure on the PIF but we believe our healthy 2001 closing balance is expected to compensate and keep the fund above the \$5 million minimum.



Greg Pearce

Chief Finance and Operations Officer



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*Auditors' Report*  
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**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 29, 2001 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.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at December 29, 2001 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.

*KPMG LLP*

Chartered Accountants

Ottawa, Canada

February 15, 2002

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## Statement of Financial Position

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December 29, 2001, with comparative figures for 2000 (In thousands of dollars)

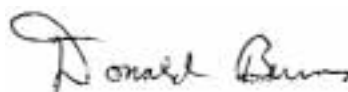
	POOLED INCOME FUND	ADMINISTRATION FUND	2001 TOTAL	2000 TOTAL
<b>ASSETS</b>				
Current assets:				
Cash	\$ 8,979	\$ 1,117	\$ 10,096	\$ 6,431
Accounts receivable (note 3)	8,659	1,139	9,798	10,442
Inventory	246	—	246	192
Prepaid expenses	—	427	427	422
	17,884	2,683	20,567	17,487
Restricted investments (note 4)	1,052	2,385	3,437	2,545
Capital assets (note 5)	—	653	653	741
	<b>\$18,936</b>	<b>\$ 5,721</b>	<b>\$24,657</b>	<b>\$20,773</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 7,816	\$ 1,263	\$ 9,079	\$ 7,797
Fund balances:				
Unrestricted	10,068	1,420	11,488	9,690
Restricted (note 4)	1,052	2,385	3,437	2,545
Investment in capital assets	—	653	653	741
	11,120	4,458	15,578	12,976
Commitments and contingencies (notes 7 and 8)				
	<b>\$18,936</b>	<b>\$ 5,721</b>	<b>\$24,657</b>	<b>\$20,773</b>

See accompanying notes to financial statements.

On behalf of the Agency:



Chairman of the Board of Directors



Chairman of the Audit Committee

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## Statement of Operations and Fund Balances

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Fifty-two week period ended December 29, 2001, with comparative figures for 2000 (In thousands of dollars)

	POOLED INCOME FUND	ADMINISTRATION FUND	2001 TOTAL	2000 TOTAL
Revenue:				
Egg sales	\$ 47,356	\$ —	\$ 47,356	\$ 46,473
Levy, service fees and contributions	73,955	11,757	85,712	76,818
Net levy contribution (note 1(d))	6,225	—	6,225	6,460
Interest and other income	336	62	398	227
Other income – restricted (note 4(b))	381	93	474	124
	128,253	11,912	140,165	130,102
Expenses:				
Trade operations:				
Egg purchases	118,271	—	118,271	109,798
Buyback allowance	2,892	—	2,892	2,889
Transportation and handling	3,263	—	3,263	2,943
Food safety program	111	—	111	23
Bad debts	32	—	32	—
Third party verification	593	—	593	472
Interest	—	—	—	103
Other	(2)	—	(2)	60
	125,160	—	125,160	116,288
Marketing	—	5,997	5,997	5,678
Salaries	—	2,487	2,487	2,200
Professional fees and consulting	—	668	668	1,190
Meetings and travel	—	1,152	1,152	1,126
Public affairs and communications	—	376	376	314
Office and other administrative	—	487	487	429
Marketing research	—	256	256	125
Rent	—	280	280	234
Per diems	—	316	316	397
Amortization	—	249	249	255
Uncollected levy, service fees and contributions	(14)	(20)	(34)	(591)
Donations of eggs	169	—	169	194
	125,315	12,248	137,563	127,839
Excess (deficiency) of revenue over expenses	2,938	(336)	2,602	2,263
Fund balances, beginning of period	8,182	4,794	12,976	10,713
Fund balances, end of period	<b>\$11,120</b>	<b>\$ 4,458</b>	<b>\$15,578</b>	<b>\$12,976</b>

See accompanying notes to financial statements.

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## Statement of Cash Flows

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Fifty-two week period ended December 29, 2001, with comparative figures for 2000 (In thousands of dollars)

	POOLED INCOME FUND	ADMINISTRATION FUND	2001 TOTAL	2000 TOTAL
Cash flows from (used in) operating activities:				
Excess (deficiency) of revenue over expenses	\$ 2,938	\$ (336)	\$ 2,602	\$ 2,263
Amortization, which does not involve cash	—	249	249	255
	2,938	(87)	2,851	2,518
Decrease (increase) in non-cash working capital	2,167	(300)	1,867	(596)
	5,105	(387)	4,718	1,922
Cash from (used in) financing and investing activities:				
Sale of marketable securities	50	—	50	2,455
Purchase of restricted investments	(855)	(87)	(942)	(122)
Purchase of capital assets	—	(174)	(174)	(272)
Disposal of capital assets	—	13	13	—
	(805)	(248)	(1,053)	2,061
Net change to cash	4,300	(635)	3,665	3,983
Cash, beginning of period	4,679	1,752	6,431	2,448
Cash, end of period	<b>\$ 8,979</b>	<b>\$ 1,117</b>	<b>\$10,096</b>	<b>\$ 6,431</b>

See accompanying notes to financial statements.

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## Notes to Financial Statements

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Fifty-two week period ended December 29, 2001 (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 (the "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 contract:

The Agency maintains a service contract with the Quebec provincial board.

The contract allows for the operation of a provincial industrial product removal program 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 board. In Quebec, the provincial removal program was responsible for 99% (2000 – 99%) of their province's industrial product declarations. The difference of 1% (2000 – 1%) represents product sold interprovincially by the Agency. The excess of national levies over the cost of removal of industrial product is recorded as net levy contribution.

**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:

ASSETS	BASIS
Office equipment	10 years
Computer hardware and software	5 years
Leasehold improvements	over remaining term of lease

(f) Revenue recognition:

Egg sales revenue is recognized on the date eggs are delivered to the customer.

Levy, service fees and contributions are recognized in the period of issuance, production or provision of service as applicable.

Levy revenue is calculated based on the weekly provincial bird issuance and a weekly per bird levy rate.

(g) 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 expenses in the periods in which they become known.

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*Notes to Financial Statements* (cont'd)

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Fifty-two week period ended December 29, 2001 (In thousands of dollars)

**3. ACCOUNTS RECEIVABLE:**

	POOLED INCOME FUND	ADMINISTRATION FUND	2001 TOTAL	2000 TOTAL
Levy, service fees and contributions, net of allowances for uncollected amounts of \$222 (2000 – \$710)	\$ 5,297	\$ 792	\$ 6,089	\$ 6,760
Egg sales, net of allowances for uncollected amounts of \$174 (2000 – \$142)	3,291	—	3,291	3,202
Other	71	347	418	480
	<b>\$ 8,659</b>	<b>\$ 1,139</b>	<b>\$ 9,798</b>	<b>\$10,442</b>

**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:

	2001	CARRYING VALUE 2000	2001	MARKET VALUE 2000
Pooled Income Fund:				
Cash	\$ 859	\$ 43	\$ 859	\$ 43
Bonds	193	204	204	210
	1,052	247	1,063	253
Administration Fund:				
T-bills	2,385	2,298	2,385	2,298
	<b>\$ 3,437</b>	<b>\$ 2,545</b>	<b>\$ 3,448</b>	<b>\$ 2,551</b>

(b) Restricted fund balance – Pooled Income Fund:

The Agency has been directed by the Board of Directors to restrict the use of certain monies in the Pooled Income Fund. The use of the funds is at the discretion of the Board of Directors. There are currently two restrictions in the fund:

(i) In 1995, a trust account was set up to administer transactions for the National Quota Exchange (NQE) Program.

(ii) In 2001, a Risk Management Fund was set up to self-finance potential costs related to its risk management activities.

The transactions in the fund are as follows:

	RISK MANAGEMENT FUND	NQE FUND	2001 TOTAL	2000 TOTAL
Beginning balance	\$ —	\$ 247	\$ 247	\$ 237
Interest income	17	17	34	13
Administration expense	—	(5)	(5)	(3)
Reissuance of quota retirement layers	347	—	347	—
Transfer from 2000 unrestricted year-end balance	429	—	429	—
<b>Ending balance</b>	<b>\$ 793</b>	<b>\$ 259</b>	<b>\$ 1,052</b>	<b>\$ 247</b>

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*Notes to Financial Statements* (cont'd)

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Fifty-two week period ended December 29, 2001 (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:

	2001	2000
Beginning balance	\$ 2,298	\$ 2,187
Interest income	93	111
Research activities	(6)	—
<b>Ending balance</b>	<b>\$ 2,385</b>	<b>\$ 2,298</b>

**5. CAPITAL ASSETS:**

	COST	ACCUMULATED AMORTIZATION	2001 NET BOOK VALUE	2000 NET BOOK VALUE
Computer hardware and software	\$ 1,825	\$ 1,230	\$ 595	\$ 673
Office equipment	423	370	53	61
Leasehold improvements	9	4	5	7
	<b>\$ 2,257</b>	<b>\$ 1,604</b>	<b>\$ 653</b>	<b>\$ 741</b>

Cost and accumulated amortization amounted to \$2,121 and \$1,380 respectively in 2000.

**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 29, 2001, loans under this facility were \$Nil (2000 – \$Nil).

**7. COMMITMENTS:**

(a) The Agency is committed under the terms of an operating lease contract for the rental of premises and estimated operating costs, as follows:

2002	\$ 274
2003	280
2004	280
2005	280
2006	280
2007	280
	<b>\$ 1,674</b>

(b) The Agency is committed under contract for the purchase of advertising in fiscal 2002 for \$2,147 (2001 – \$1,942).

**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 2000, the Agency and its Board of Directors were served with a Statement of Claim for \$18,000 in damages. The claim arose out of the termination of the processor contract by the Agency with Highland Produce Ltd. The plaintiff alleged that termination of the contract would deny them access to industrial product, which would result in the demise of their egg processing business. The action against the directors has been discontinued while the action against CEMA has been adjourned indefinitely.

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## Notes to Financial Statements (cont'd)

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Fifty-two week period ended December 29, 2001 (In thousands of dollars)

**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, service fees and contributions 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 2 groups of related companies. In 2001, these customers purchased 60% (2000 – 67%) of the eggs sold by the Agency.

**10. SUPPLEMENTARY INFORMATION:**

Fiscal period 2001 egg sales revenues and cost of sales are recorded on a net basis as net levy contribution, in accordance with the service contract with the Quebec provincial board, 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. In 2000, egg sales and cost of sales in Ontario and Quebec were recorded on a net basis as net levy contribution and on a gross basis as egg sales and cost of sales in the case of the other provinces.

Had all the industrial product removal operations in Quebec (and in Ontario for 2000) been recorded on a gross basis, the Pooled Income Fund Statement of Operations would be as follows:

	2001	2000
<hr/>		
Revenue:		
Egg sales	\$ 52,468	\$ 50,844
Levy, service fees and contributions	89,312	78,229
Interest and other income	353	56
Other income – restricted	364	13
	<hr/>	<hr/>
	142,497	129,142
Expenses:		
Trade operations:		
Egg purchases	132,003	120,133
Buyback allowance	3,196	3,430
Transportation and handling	3,471	3,083
Food safety program	111	23
Bad debts	32	—
Third party verification	593	472
Interest	—	103
Other	(2)	60
Uncollected levy, service fees and contributions	(14)	(634)
Donations of eggs	169	194
	<hr/>	<hr/>
	139,559	126,864
<b>Excess of revenue over expenses</b>	<b>\$ 2,938</b>	<b>\$ 2,278</b>

**11. PENSION PLAN:**

The Agency sponsors and administers The Pension Plan for the Employees of the Canadian Egg Marketing Agency, which is a defined contribution plan registered under the *Ontario Pensions Benefit Act*.

The Agency contributes an amount equal to the employee's required contribution under the Plan. In the 2001 fiscal period, the Agency contributed \$141 (2000 – \$114) to the Plan, which is included in salaries expense in these financial statements.

**12. COMPARATIVE FIGURES:**

Certain 2000 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2001.

Fiscal 2001 includes 52 weeks of activity while in comparison, 2000 had 53 weeks.