

canadian
egg marketing
agency beyond
30 years 2002
annual report

02	board of directors
04	report of the chairman
07	the horizon
13	leadership
19	education
25	30+
29	accountability
33	auditors' report



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30th annual report of the Canadian Egg Marketing Agency for presentation to the Honourable Lyle Vanclief, Minister of Agriculture and Agri-Food, the National Farm Products Council and the 30th annual meeting, Wednesday, March 26, 2003.



02 board of directors

bryan durst, on



carl bouchard, qc



fred krahn, bc



robert sixty (cac)



harold froese, mb



joseph r. smallwood II, nl
bruce simmons to
november 2002 (absent)



peter clarke, ns



don burns, pe



(cpepc) canadian poultry and egg processors council

(cac) consumers' association of canada



gordon hunter, nb



ernie unger (cpepc)



bill gray (cpepc)



bruce ramage, nt



laurent souligny (cema chair)



meb gilani, ab



pieter vanderpol (cpepc)



tim wiens, sk



laurent souligny (cema chair)

Our accomplishments have been many and we have set the stage for the progress that needs to be made in 2003. First and foremost, my goal is to see the completion of the new FPA. All signatories must continue to work extremely hard. Each of us must renew our resolve to be flexible so our supply management system retains its ability to accommodate the legitimate desires of egg producers throughout the country.

As we look back on the year 2002, we can be proud of the progress we made on several fronts. The year of our 30th anniversary was filled with many accomplishments as we expanded our programs to adjust to new realities. We completed market and pricing analyses to better understand our pricing options.

We completed a study to know the degree to which egg products can be substituted and the impacts this substitutability may have on our revenue stream.

CEMA consulted extensively with our colleagues from the egg marketing boards in the provinces and the Northwest Territories in our work to renew the Federal-Provincial Agreement (FPA). We participated in the FPA Committee which finished drafting a proposal for a renewed Agreement and whose members are asking for comments from their respective supervisory boards.

We expanded our marketing, nutrition and communications programs. Whether by television advertising, retail promotions, nutrition communications, media interviews or government relations, we promoted the benefits of shell eggs and of the supply management marketing system.

We adapted Start Clean-Stay Clean™ to reflect specific requirements to maintain biosecurity on free-range, free-run and organic operations. We worked with several stakeholders and interest groups to complete a new welfare Code of Practice. We nurtured our national and international relationships with farmers and government officials to promote the requirements of supply-managed

agriculture in the world trade negotiations. We supported advancement through poultry research.

Our accomplishments have been many and we have set the stage for the progress that needs to be made in 2003. First and foremost, my goal is to see the completion of the new FPA. All signatories must continue to work extremely hard. Each of us must renew our resolve to be flexible so our supply management system retains its ability to accommodate the legitimate desires of egg producers throughout the country.

Early in the New Year, our Board of Directors must consider the ways to protect our Pooled Income Fund from market forces beyond our control. Increased costs of production and the low United States-based egg price were two factors beyond our control that resulted in a deficit in our Pooled Income Fund, used for industrial product operations. Our Board will need to come up with a course of action to protect the Agency against unpredictable factors that affect our bottom line.



Now that we have a better understanding of pricing options as a result of our studies in 2002, we must move forward to reach a new long-term contract with breakers. We must develop an end-use pricing model and we must adopt one with the support of our processing colleagues.

Another goal is to have Start Clean-Stay Clean™ officially recognized by the Canadian Food Inspection Agency as a technically sound HACCP-based program. We are almost there and anticipate this to happen early in the New Year.

We will work closely with provincial egg boards to complete a new rating sheet measuring welfare criteria. We will take the results of our marketing research to

OUR BOARD WILL NEED TO COME UP WITH A COURSE OF ACTION TO PROTECT THE AGENCY AGAINST UNPREDICTABLE FACTORS THAT AFFECT OUR BOTTOM LINE.

develop new promotions programs and entrench the identity of eggs. We will participate in international consultations to expand the list of farmers' organizations in

a growing global alliance that is demanding trade talks result in benefits to food producers. We will train egg producers to tell the media about what they do and why they keep producing eggs. We will begin a new Cost of Production study, starting with an examination of the possible ways to collect information. We will encourage egg and poultry research that benefits the industry.

Ambitious goals? Yes. Realistic goals? Absolutely!

As we leave the success of 2002 behind, I know these goals are achievable in 2003. I am confident the strong desire that exists among producers to have a sound national supply management system for the future will motivate our leaders to govern wisely and adjust when necessary. Success will come with continued dialogue; it is important producers tell their directors what they want.

My thanks go to David H. Clemons who led our staff for three years as our Executive Director. David has moved onto new and exciting business opportunities in agriculture. It will take some time to fill this position; I hope we will have a person in place mid-way through the year.

I would like also to say thank you to all CEMA staff. We owe a lot of our success in egg supply management to our staff who run our programs day-to-day.

Finally, I extend my thanks to the directors of the board. Your directors have been diligent in bringing the many views and opinions to the table. They have worked closely together as a single team for the success of a national system that is fair to producers, consumers and all stakeholders. I thank them for their support and co-operation.



laurent souligny, chairman

the horizon



Rapidly changing markets in Canada required continuous adjustment in the Canadian Egg Marketing Agency's management of egg supplies in 2002. Strong and decisive management of supplies by CEMA and its provincial partners was crucial to the success achieved by the Canadian egg industry in 2002. The changing market creates greater demand on our marketing programs which are designed to promote sales of fresh table eggs.

evolving markets:

Record levels of industrial product above forecasted amounts occurred in Western Canada and this necessitated regularly scheduled transport of industrial product out of British Columbia for the first time. The degree of levelling off forecast to begin week 24 did not materialize, likely due to higher hen inventories within allocations and improved layer productivity. Despite record production, all supplies were sold domestically.

We evaluated ways to reduce excess supplies and with the cooperation of the British Columbia egg board used quota credits and an Early Fowl Removal Program to change the pattern of production in the province. The Program was successful in temporarily removing 50,000 birds from production at a time when production peaked. Decisive intervention will again be required in 2003 as we anticipate a peaking of industrial product to a record level of national production

in the second period. A national Early Fowl Removal Program was approved for 2003 and other supply modification tools such as adjustments to quota credit rules, quota leasing and seasonal levy will continue to be considered.

The record supply in Western Canada was but one indication of rapid market change in 2002. Two major acquisitions in the processing sector were beacons heralding a new era for the Canadian egg market. After 15 years of operation, an Alberta grading station was sold to two existing Canadian companies and the egg division of Canadian Inovatech was sold to a wholly-owned subsidiary of United States-based Michael Foods Inc. Our table market is also changing with continued growth in sales of specialty shell eggs such as omega-3, free-run and organic eggs, as well as growth in the sale of liquid egg product.

The historical shift from the use of fresh shell eggs to industrial egg products is expected to intensify in 2003 and beyond. We hired a full-time business analyst

PROV	2001			2002			INVENTORY CHANGE
	ALLOCATION	INVENTORY	PERCENTAGE	ALLOCATION	INVENTORY	PERCENTAGE	
BC	2,439,560	2,350,594	96.4%	2,439,560	2,343,285	96.1%	-0.3%
AB	1,606,637	1,543,945	96.1%	1,606,637	1,546,910	96.3%	0.2%
NT	115,000	111,765	97.2%	115,000	112,358	97.7%	0.5%
SK	833,033	794,801	95.4%	833,033	797,555	95.7%	0.3%
MB	2,220,605	2,097,691	94.5%	2,220,605	2,122,841	95.6%	1.2%
ON	7,405,684	6,935,755	93.7%	7,405,684	6,986,776	94.3%	0.7%
QC	3,487,467	3,253,175	93.3%	3,487,467	3,306,548	94.8%	1.6%
NB	423,783	401,982	94.9%	423,783	404,272	95.4%	0.6%
NS	757,146	721,915	95.3%	757,146	719,094	95.0%	-0.4%
PE	125,404	109,462	87.3%	125,404	121,172	96.6%	10.7%
NL	349,769	305,477	87.3%	349,769	318,533	91.1%	4.3%
CAN	19,764,088	18,626,561	94.2%	19,764,088	18,779,344	95.0%	0.8%

PROVINCIAL ALLOCATIONS AND INVENTORIES

Provincial allocations by hen numbers – The national requirement for eggs is shared among all provinces and the Northwest Territories. Even if the allocation remains the same from one year to the next, increased production can occur. Provincial boards can choose to increase their inventories within allocations. In addition, productivity of the national flock increases with improved breeding.

to monitor continuing changes in the market profile and launched several studies. Information garnered from these studies will enable us to meet the consumer needs of the future and ensure flexibility in managing supplies.

In 2002, we examined United States price discovery models to help determine a relevant base price for our industrial eggs. In addition, we completed a review of regional pricing differentials and the substitutability of egg products. Both projects were completed with the collaboration of the Canadian Poultry and Egg Processors Council and three of their members. In 2003, we will continue this effort by developing an end-use pricing model.

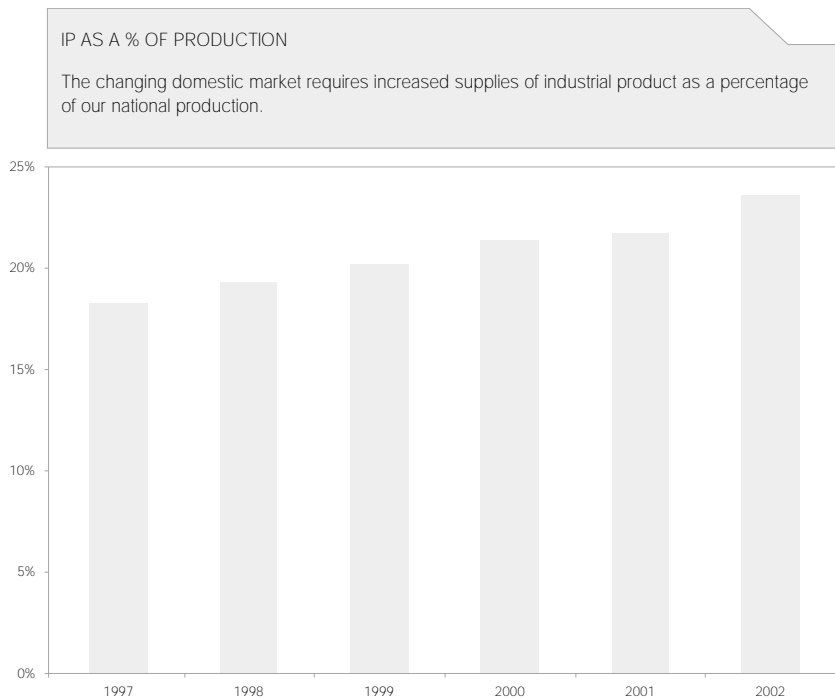
This basic research provides us with the information needed to determine the most appropriate pricing mechanisms to use in Canada. These mechanisms

must be compliant with Canada's trade obligations, must keep Canadian products competitive in a North American further processing market and must provide Canadian egg producers with a fair return. The information will also be crucial in the development of a long-term contract with breakers in 2003.

Data on egg usage in the Hotel, Restaurant and Institutional (HRI) sector will also be gathered in 2003 as a result of a decision taken by some graders to provide CEMA with aggregate data showing the portions of shell egg sales going to retail and those going to HRI.

A multi-phased industrial product yield study was also started in 2002. The study will determine the actual weight and yields of CEMA's industrial product categories as received by further processors. A team of consultants affiliated

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were conducted both to verify supply and sales as well as to examine administrative procedures used. Discussions among provincial egg boards to adopt similar administrations for Eggs for Processing Programs are ongoing and facilitated by CEMA. Similarly, we facilitated discussions on the earning, tracking and utilization of national quota credits which are used to adjust supply to better meet peak demand.

Third-party verification procedures in breaking plants also continues with the privatization of this government service. In 2002, we met with several private service providers and contracted parts of the verification process to two of them. This will be expanded in 2003.

so simple. so good:

Changing markets demanded an aggressive and expanded marketing and promotions program in 2002. CEMA launched into its omelette theme for all of its marketing and promotions programs based on consumer test results showing that the mushroom omelette spot made the most impact of all spots from our 2001 television campaign. Our 2002 series of five English and five French, 15-second television ads, always aired in pairs, served as the anchor for our other promotions.

The omelette theme provided creative versatility to match the versatility of the Canadian population and of eggs. The campaign used different ethnic backgrounds and languages to reflect Canadian cultures while demonstrating that eggs are versatile, easy to prepare and good food for anyone at any time of day.

with the University of Guelph in Ontario will collect and analyze information that will help us assess the desirability and feasibility of a weight-based pricing model. Information on the variability of weights in boxes and pallets will be gathered and analyses of yields, solids and productivity across all categories will be completed.

CEMA reviewed several programs for administrative consistency by the provincial egg boards. Consistency in the delivery of national programs promotes fairness among egg producers and sustainability of our highly successful national egg supply management system. Audits of provincial Eggs for Processing Programs



To maximize the impact of the new creatives for our television advertising, we assessed the spots early in the year through a combination of qualitative and quantitative research. Following the first flight, an ad tracking survey was completed to measure the effectiveness, strengths and weaknesses before entering the final, second flight. Such testing provides the opportunity to make necessary adjustments before a campaign begins or while it is in progress and is essential to maximize the effectiveness of any television campaign. Because of its ability to reach large audiences, television advertising is extremely effective, but it can also be costly if it is not created from solid research gauging audience reaction.

Ad tracking at the end of 2002 pointed to a strong campaign with 84 percent total awareness, higher than the previous years in all regions of the country.

CEMA WAS ABLE TO COMPLETE THE CREATIVE OF ITS 2003 CAMPAIGN WHICH IS DESIGNED TO SHIFT KNOWLEDGE ABOUT THE SIMPLICITY OF EGGS TO A DESIRE FOR THE GOOD TASTE OF EGGS.

Messages most understood by the audience were "Eggs are easy to prepare" and "Eggs are nutritious, good for you and versatile". The advertisements registered a positive claimed effect on consumption, particularly with our female media target audience. Over one-third of urban women with children said the advertisements encouraged them to eat more eggs. With detailed results determining which messages in which advertisements made the most impact, CEMA was able to complete the creative of its 2003 campaign which is designed to shift knowledge about the simplicity of eggs to a desire for the good taste of eggs.

The television advertisements of 2002 provided the ideal means to promote eggs.ca which was launched in February. The web site extended all of our 2002 advertising and promotions to those who wanted more information. It gained

popularity quickly with over 30,000 visits in the first four weeks. The site contains an extensive recipe database, contests and nutrition information and allows those visiting the site to subscribe to a newsletter. At year's end, over 14,000 had signed up to become members of our e-loyalty club and receive the electronic newsletter about eggs.

In 2002, CEMA entered the field of event marketing with our cross-Canada tour of Operation Omelette, completed in partnership with Delonghi and Signature Vacations. The objective was consistent with the goals of our television campaign: to increase awareness of egg consumption using omelettes as the quick, easy meal solution.

Two egg representatives and their 20-foot Operation Omelette egg balloon traveled 11,000 kilometres and covered 116 venues in 59 towns and cities. Forty media promotions and 104 television, radio, newspaper, magazine and online stories were generated. It is estimated that there were about 10 million impressions made via media that would have cost three times more the actual investment had the space and time been purchased. During the campaign, over 97,000 flyers with instructions on how to omelette were distributed and over 112,000 direct intercepts of consumers were recorded.

A recipe rally was held in conjunction with Operation Omelette. Consumers were invited to submit their favourite omelette recipes to CEMA. Recipes were tested and about 90 of the best will be published in an omelette recipe book in 2003.

Our use of public intercepts was greatly expanded in 2002. These intercepts provided ideal opportunities to promote eggs to Canadians in a personal, one-on-one setting. Our series of booklets, **The Omelette Collection**, or a student

12 the horizon



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calendar, were used to attract attention of consumers at the store, leaving work or while on campus.

An Egg Crew of about 25 representatives was commissioned for in-store promotions across Canada in February and October whereby promotional items, egg information and egg recipes were handed out to consumers. Additional direct consumer intercepts were also done in October at busy locations during the after-work rush hour in select locations across Canada. Representatives encouraged people to prepare eggs for dinner, at just the point when busy people are beginning to wonder what to prepare for the family meal. This kind of intercept reaches consumers when they are most open to the promotion. Our final public intercept was a University Promotion in October. Eggs are ideal food for busy students who require nutritious and affordable food that is quick and easy to make. Students were provided a calendar with eight omelette recipes and encouraged to prepare omelettes as a simple meal solution.

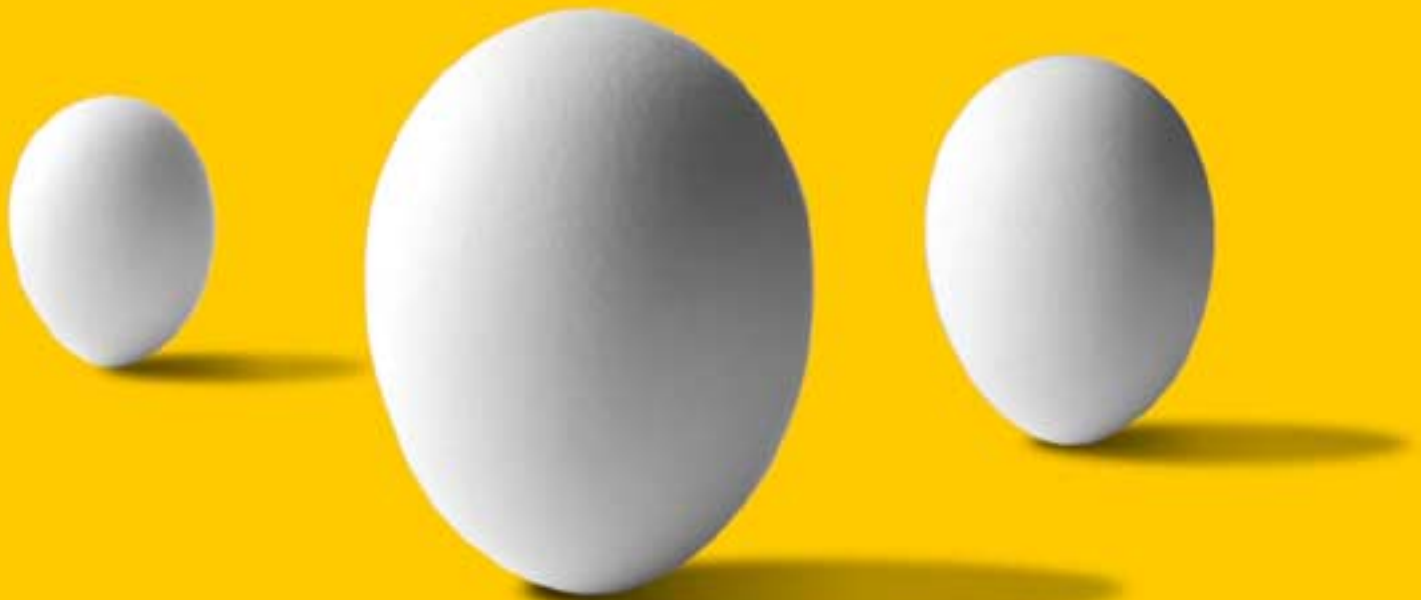
In addition to distribution during public intercepts, **The Omelette Collection** was also used during on-shelf retail promotions in May and November at the egg cases of about 2,000 grocery stores. During each promotion, about 850,000 booklets were picked up by consumers wanting to learn about eggs and find new ways to use them.

To attract Canadians to our promotions and therefore to eggs, CEMA works closely with sponsors who provide gifts and vacation for contest winners.

These important contributions assure appeal for our promotions while minimizing the expenses incurred by CEMA.

The success of egg marketing and promotions in Canada depends on the collaboration of the marketers at CEMA and the provincial egg boards. Together, we share the common goal to increase the consumption of shell eggs in Canada. Sharing marketing materials, programs and skills has maximized available dollars and reaching consensus on programming has assured highly focused and assertive marketing products. As our markets continue to change with the ever-increasing introduction of specialty products, our need to work closely will intensify. Our bi-annual national-provincial workshops and our working committees will continue to be used to enhance our team to meet the challenges that lie ahead.

leadership



CEMA's global leadership in the area of food safety continued in 2002 as it enhanced its Start Clean-Stay Clean™ program, based on internationally recognized HACCP principles, in preparation for technical recognition from the Canadian Food Inspection Agency (CFIA). Our global leadership was also exemplified in our welfare and trade programs.

safe eggs:

A HACCP team made up of provincial board representatives and CEMA's food safety specialist finalized the background manual for submission to CFIA.

We met with CFIA officials for an initial screening of the program and after making the minor changes recommended, we notified CFIA of our readiness to proceed to the formal review. That review is expected to occur early in 2003.

The manual outlines the Good Management Practices and Standard Operating Procedures which are the foundation of Start Clean-Stay Clean™. With the development of the manual, Start Clean-Stay Clean™ has been expanded to include free-run, free-range and organic operations. This recognizes interest by consumers in these alternate products and the desire of egg producers to give consumers choice. In addition, the manual sets out parameters that can be used by individual producers to set up their own site-specific HACCP-based plans.

We continued our active participation in the Canadian On-Farm Food Safety Program Working Group under the leadership of the Canadian Federation of

Agriculture. We ensured our program is consistent with a national, multi-commodity approach. National, consistent application of on-farm food safety principles across all commodities results in a made-in-Canada approach that is credible to food users.

Throughout the year, our nine field inspectors continued to evaluate layer operations against Start Clean-Stay Clean™ criteria. First developed in 1990, CEMA's program was the first formal program in Canada to introduce biosecurity measures to primary commercial food production. For over a decade, egg producers have demonstrated continuing improvements in production practices for safe eggs and healthy flocks.

We participated in discussions among provincial boards to standardize their protocols used to test layer barn environments for the presence of Salmonella Enteritidis (SE). Eggs from barns where SE is found are diverted to breakers for pasteurization, which kills this bacteria. We also participated in discussions to develop testing programs for pullet barns and to improve risk management tools.



Egg producers understand they have a responsibility to ensure the well-being of the animals in their care. That is why they have supported the development of practical, science-based recommendations to guide the handling of laying hens.

Our excellence was recognized when we were asked by the Caribbean Poultry Association to attend a workshop for egg producers from 10 member countries interested in developing on-farm food safety programs similar to CEMA's. We accepted the invitation and will continue to provide assistance when requested.

safe hens:

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In 2002, CEMA completed its work serving as secretariat for revisions to the Code of Practice. Under the auspices of the Canadian Agri-Food Research Council, the text for a new Recommended Code of Practice for the Care and Handling of Pullets, Layers and Spent Fowl was finalized in 2002. Printing and distribution were completed early in the New Year.

The Code is substantially different from the one of 1989 in that it only addresses guidelines specific to the care and handling of birds in the egg sector. The major differences in the guidelines from the 1989 Code to the new one are:

- > The recommended housing space is increased so floors in cages are large enough to accommodate at least 67 square inches for each white leghorn adult. This is up from 64 square inches, but the change is not required until new equipment is purchased. For brown birds, the increase is to 75 square inches from 70 square inches.

- > There is now a specific recommendation that beak trimming should ideally take place prior to 14 days of age. Beak trimming is not recommended after eight weeks of age.
- > There is a recommendation to provide an electrolyte solution containing vitamins, particularly vitamin K.
- > Controlled moulting by methods involving deprivation of feed is to be phased out by 2005.
- > There are now special sections to address the specific welfare concerns associated with free-range and free-run operations.
- > There is a recommendation to have generators available in the event of electrical failure.
- > There are new building and yard design considerations for transportation.
- > Specific suggestions are made for moving birds from one laying operation to another.

The Code is the most authoritative welfare text on laying operations in Canada. It is science-based and was developed by consensus among several groups, including welfare advocates.

The egg industry is demonstrating to egg customers that it is serious when it comes to animal welfare. Several provincial boards have worked together to develop measurable welfare criteria, based on the recommendations in the Code, for egg farms. CEMA participated in numerous meetings that resulted in a preliminary rating system that is to be field tested in 2003.

While it is obvious to egg farmers that welfare is a critical consideration in laying operations, this is not as clear to some egg users who have considered putting welfare criteria in their purchasing specifications. By developing a rating system based on the Code, the industry will have consistent, generally accepted practices based on what is good for layers, rather than what may allow one or another company to temporarily secure a greater share of the market.

CEMA also worked to ensure laws remain fair to producers. We worked with the other poultry agencies to make a presentation before the House of Commons Standing Committee on Justice and Human Rights when it was reviewing animal cruelty amendments to the Criminal Code.

Like other farmers, egg producers abhor animal cruelty. CEMA agreed to the increased penalties proposed by the amendment and argued that defenses currently available need to be incorporated in the new law. While the proposed law was changed in response to our concerns, major problems remain. At year's end, we were preparing to present our views to the Senate committee reviewing the amendments.

a global community:

International trade was of increasing importance to Canada's egg industry in 2002. Formal agricultural negotiations on "modalities", or the framework of how trade commitments will be made, including numerical targets and formulas, began in the Geneva-based World Trade Organization (WTO) in 2002. The goal of establishing the modalities by March 2003 is likely not to be reached but the

aggressive global agenda signalled the need to expand our international trade policy program.

Sessions of the WTO Committee on Agriculture focussed on the three pillars of the Agriculture Agreement: export subsidies, market access and domestic support. Non-trade concerns and treatment for developing countries remained on the agenda of various committee members. Several proposals tabled throughout the year could impact the Canadian egg marketing system and the Canadian egg industry.

In 2002, CEMA's trade unit focussed its attention on building support for supply management and Canada's trade position. This was achieved on several fronts, first by refining our own knowledge of the technical questions involved and then working with others at home and abroad to promote the interests of Canada's egg farmers. This entailed significant analysis of trade practices of several countries, particularly in eggs and egg products and in strategically important regions such as the European Union.

A technical committee of the national supply management organizations and the organizations' general managers furthered the work directed by our joint Executive Committees. In 2002, potential trade remedy measures, market access and questions related to rules of origin were analyzed. On market access, our analyses showed real gains in trade can be made globally if WTO members adopt an approach supporting five percent minimum access to markets at zero tariff, with Over-Quota Tariffs established for other imports. This is fully in line with Canada's Initial Negotiating Position.

Our work with the other four national supply management organizations — the Canadian Turkey Marketing Agency, the Canadian Broiler Hatching Egg

We maintain our close alliance with other Canadian farm groups through our membership in the Canadian Federation of Agriculture (CFA). The Federation has been instrumental in demonstrating the flexibility of Canada's trade position and how it can be used to further the goals of all Canadian agriculture, supply management included.

Marketing Agency, Chicken Farmers of Canada and Dairy Farmers of Canada – was solidified by hiring a public affairs specialist to coordinate our work domestically, complementing the work of our Geneva-based representative who coordinates our work internationally. These two very capable individuals help us establish and achieve common goals and put forward consistent, common messages.

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Working closely with the CFA, CEMA was able to demonstrate the hypocrisy of other country's positions. Together, we denounced the United States' new Farm Bill — approved by the House of Representatives in almost the same breath as calls for reduced subsidies globally. The bill authorizes \$180 billion, \$73 billion of which are new expenditures, in spending for agriculture over 10 years. There have been many questions at the WTO regarding the credibility of the United States and many wonder if a rules-based deal abided to by all can be struck. In particular, a United States proposal released at the WTO in July targeted state trading enterprises, among other things, including the Canadian Wheat Board, and it was received with scepticism by many WTO members. Canada's supply management farmers issued a press release criticizing the United States' proposal for being unrealistic, unfair and for perpetuating world trade inequities if adopted.

Canada's relationship with the United States on trade matters was further exacerbated in 2002 by a dairy dispute with the United States and New Zealand. Although in 2001 the WTO ruled both countries had failed to demonstrate that exports of Canadian milk were inconsistent with WTO rules, the two countries requested another compliance panel in 2002. The panel ruled Canada was providing export subsidies in excess of its WTO commitments on commercial export milk and the ruling was upheld by the Appellate Body at year's end. Significantly, the Body emphasized that the WTO consistency of Canada's domestic supply management system was not at issue.

Throughout 2002, CEMA worked closely with the other supply management organizations and the CFA in the development of an international farmers' declaration calling for fair and equitable trade rules for farmers. Working with the national supply management organizations, we held discussions with our colleagues from Japan on several occasions to develop a joint policy statement which was then brought to other farmer organizations for consideration. In March, we participated in a meeting, organized by our Japanese colleagues, of Asian farmers. The meeting included farmers from the Philippines, India, Indonesia, Korea and Thailand and in May we met with several European farm groups. Yet more support was gained from additional farm organizations during the meeting of the International Federation of Agricultural Producers, where a Canadian was elected president.

By October, at a farm leaders meeting held in Geneva and led by Canada, we achieved a declaration signed by nine farm organizations representing farmers in over 30 countries. The declaration recognized the importance of maintaining orderly marketing, including supply management and other production

disciplines. It also called for the new trade agreement to allow for various forms of marketing systems in all countries. Trade reform needs to respect the domestic concerns of farmers and meet the needs of export-dependent farmers, it stated.

Brainstorming meetings were held with Canadian government trade officials to better understand various countries' positions. Through our participation at CFA Trade Committee meetings, we received regular briefings from government officials. During these meetings, we have encouraged the Canadian government to build alliances with other countries whose own national policies supported the rights of farmers to organize for orderly marketing systems. We expressed our support for the government's decision not to sign onto the market access and domestic support proposals tabled at Geneva by the Cairns Group, of which Canada is a member, as neither was consistent with Canada's negotiating goals and objectives.

Generally, we have been fortunate to have the government's support regarding the WTO negotiations. The need to support Canadian farm programs and orderly

THROUGHOUT 2002, CEMA WORKED CLOSELY WITH THE OTHER SUPPLY MANAGEMENT ORGANIZATIONS AND THE CFA IN THE DEVELOPMENT OF AN INTERNATIONAL FARMERS' DECLARATION CALLING FOR FAIR AND EQUITABLE TRADE RULES FOR FARMERS.

marketing in the WTO was recognized in the report of the Prime Minister's Caucus Task Force on Future Opportunities in Farming. The report said the government must uphold our orderly marketing systems on all fronts and against all challenges. It called on the government to instruct its trade negotiators to defend Canada's right to determine its own domestic marketing systems. However, we believe the government must now move beyond

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Force on Future Opportunities in Farming. The report said the government must uphold our orderly marketing systems on all fronts and against all challenges.

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supportive words. Starting in 2003, the Canadian government must act aggressively and forcefully in furthering its trade position and strategy.

There is still room for the Canadian government to win an agreement favourable to Canada's agriculture and agri-food industry and the opportunities must not be wasted. The release in December of the Agriculture Committee Chairman's overview paper highlighted how unlikely it is agreement on modalities will be achieved in time for the fifth ministerial conference in September, let alone the March, 2003 deadline for producing a modalities paper. The chairman noted WTO members have become entrenched in their positions on tariff reductions and consensus must yet emerge on how to expand tariff rate quotas. The extent to which export subsidies must be reduced, what sorts of domestic support should be permitted and how much to reduce other kinds of domestic support are all outstanding issues. Canada can still influence resolutions if it works closely with its farmers at home and negotiates strategically abroad.

Developments on bilateral and regional trade agreements are also watched closely by CEMA. Generally, we support the development of such agreements provided concessions relating to eggs and egg products remain within the commitments and disciplines of the WTO. We filed comments with the government on Canada's negotiations with the Central American countries, the Caribbean Community and Common Market, Singapore and Chile.

Finally, in 2002, we developed a trade section on CEMA's website canadaegg.ca. The site details background to world trade talks, progress in Geneva, the joint trade position of the supply management organizations and other trade policy information of interest to visitors.

education



Nutrition programs were expanded in 2002 as we enhanced our nutrition communications to Canadian consumers and to health professionals. Increased scientific understanding of human nutrition and of the value of eggs' nutrients provide new opportunities to market eggs for their functional qualities. Education was also extended to media relations activities explaining the benefits of orderly marketing and a made-in-Canada egg industry.

beyond gold:

Long-known for having complete and high quality protein that is the gold standard upon which the protein found in other foods is measured, eggs are increasingly being recognized for the vitamins, minerals and antioxidants they contain. Working together with our provincial board partners, CEMA's ability to enhance the image of eggs has never been greater.

We launched our nutrition programs in 2002 by promoting the Heart and Stroke Foundation's Health Check™ program to graders. CEMA was granted a license by the Heart and Stroke Foundation in December 2001 so the Health Check™ symbol could be placed on all cartons of shell eggs. Throughout 2002, graders signed sub-license agreements with CEMA and by year's end, 21 were able to use the Health Check™ symbol on their shell egg products. Together with provincial marketers, CEMA contacted graders to encourage them to use the symbol in their advertising as well.

We continued to produce new resources to help consumers make healthy food choices and to help health professionals advise their clients properly:

- > **Eggs for Healthy Eating** was developed to describe our relationship with the Health Check™ program and why eggs are an ideal food. The resource was distributed to home economists attending the Canadian Home Economics Association Conference in Ottawa in September. A mailing of the resource was also sent to members of Dietitians of Canada and the Ordre professionnel des diététistes du Québec.
- > **Eggs For the Young at Heart** was designed for the mature adult and provides food safety tips, recipes and information on the benefits of eating shell eggs. It was distributed to dietitians, doctors and other health professionals.

To determine whether our resources are used by physicians, we conducted a survey of 100 general practitioners. CEMA and the provincial egg marketing boards were considered very credible sources of nutrition information and the majority of the respondents look for information pamphlets that can be distributed to their patients.

- > **The Resourceful Egg** was developed to describe the many resources distributed by CEMA and the provincial egg boards. A faxable order form makes it easy for health professionals to order the resources from us.
- > We published the 13th and 14th editions of our newsletter **Nutrition in Your Practice** to address protein, egg allergies and the prevention of osteoporosis and promoted the newsletter in the Physicians' Hotline catalogue.
- > **Egg Allergy – The Facts** was designed at year end with the Allergy and Asthma Information Association. It addresses allergies to eggs and when consideration, in consultation with appropriate medical professionals, could be given to trying eggs again, as children often grow out of allergies.

To determine whether our resources are used by physicians, we conducted a survey of 100 general practitioners. CEMA and the provincial egg marketing boards were considered very credible sources of nutrition information and the majority of the respondents look for information pamphlets that can be distributed to their patients.

A Nutrition Month fact sheet was developed with Dietitians of Canada and releases were developed and distributed by CEMA to media across the country in order to promote eggs during Nutrition Month in March. The releases to magazines, newspapers and broadcasters provided information on eggs' nutritional benefits and our new partnership with the Health Check™ program.

Our work ensuring safe handling of eggs continues. In 2002, we worked closely with the Canadian Partnership for Consumer Food Safety Education, of which CEMA is a founding member, to develop a 16-page publication full of helpful tips on safe handling and preparation of foods, including eggs.

The success of the egg industry in recent years has been the result of new scientific advances in the understanding of eggs' functional attributes. Our consultations with Health Canada communicate these scientific advances to decision makers and regulators.

In addition, CEMA agreed in 2002 to sponsor the 3rd International Symposium on Egg Nutrition and Health scheduled for 2004 as a means to encourage further scientific advances. Like its predecessors, the third symposium will provide a forum for exchanging ideas between the scientific and business communities on ways to increase the value of eggs for those at home and abroad.

taking it to the media:

An emphasis was given to media relations in 2002 in response to objectives in our Strategic and Operational Plan to enhance the image of the egg industry and of supply management. To assess the existing image upon which we must build, CEMA conducted a media content analysis and interviewed a national representative sample of Canadians to determine what the existing impressions were on marketing boards, food safety and humane handling of laying hens.

The media content analysis of 277 articles from consumer publications across Canada over a 14-month period confirmed there were only slightly more negative stories about supply management and/or the egg industry than positive ones. Given the mandate of journalism to cover the new and unusual, the leaning toward negative news was not surprising. Eggs were generally seen by the media to be a safe food while critical analysis of supply management was generally tied to articles about trade.

NUMBER OF REGISTERED PRODUCERS PER PROVINCE
As of Dec 31/02

PROV	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
BC	133	138	132	133	136	140	142	144	144	147	153
AB	169	180	170	167	171	176	186	192	196	202	214
SK	66	67	68	74	74	76	76	77	76	78	79
MB	171	174	178	181	194	208	207	211	214	218	219
ON	408	404	407	430	446	466	499	541	570	589	612
QC	111	109	111	115	117	128	129	136	144	144	149
NB	18	18	18	18	18	18	18	18	18	18	18
NS	24	24	24	24	25	27	30	30	34	35	35
PE	14	15	19	18	18	18	18	18	19	19	21
NL	12	15	15	15	17	18	18	20	20	21	24
NT	2	2	5	2	0	0	0	0	0	0	0
CAN	1,128	1,146	1,147	1,117	1,216	1,275	1,323	1,387	1,435	1,471	1,524

The national opinion survey of Canadians overwhelmingly showed support for the egg industry and for the principles of supply management: an independent and stable food supply, fair returns for farmers and predictable prices. The survey found that:

- > Virtually all Canadians believe this country should produce enough food to meet its needs.
- > An overwhelming majority feel Canada should defend its farmers against unfair foreign competition.

> 85 percent are willing to pay a premium to ensure consistent, high quality food, as well as the livelihood of Canadian farmers.

> 97 percent believe farmers are an essential part of Canadian life that should be retained.

> 91 percent say farmers can be trusted to provide high quality food.

> In terms of the way we manage our food, most believe marketing boards provide Canadians with a safe supply of food and help ensure self-sufficiency.

> Most believe egg farmers treat their livestock humanely.

It was clear by these results that Canadian agriculture and Canadian supply-managed agriculture in particular enjoy the respect of Canadians. The high degree of support was shared by Canadians in all regions, regardless of age, gender or socioeconomic status. The results were a wonderful vote of confidence in Canadian farmers and in the food regulatory and production systems in this country.

CEMA commissioned two professional spokespeople to participate in a media tour across Canada bringing these results to reporters and to their readers, listeners and viewers. In addition, CEMA was honoured to have former national agriculture minister John Wise volunteer his time to speak to reporters about these survey results.

Our efforts were met with interest at all levels of media: national television, print and radio as well as local dailies, local radio stations, community press and the trade publications. Overall, the total audience reach was well over six million Canadians.

The national opinion survey of Canadians overwhelmingly showed support for the egg industry and for the principles of supply management: an independent and stable food supply, fair returns for farmers and predictable prices.

PROV	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
BC	18,163	17,233	17,798	17,067	16,814	16,277	16,019	15,750	15,513	15,123	14,818
AB	9,467	8,918	9,342	8,742	8,695	8,289	7,844	7,599	7,444	7,296	7,036
SK	12,504	12,405	12,160	11,103	10,913	10,273	10,274	10,140	10,274	10,010	10,104
MB	12,866	12,560	16,243	12,134	11,271	10,213	10,263	10,068	9,927	9,745	9,891
ON	17,962	18,140	18,504	16,272	15,644	14,642	13,674	12,608	11,945	11,553	11,347
QC	31,226	31,704	29,828	27,905	26,146	23,657	23,467	22,112	20,883	20,883	20,589
NB	23,544	23,383	22,816	22,279	21,999	21,639	21,369	21,639	21,639	21,639	22,081
NS	31,344	31,344	31,197	29,854	29,479	27,356	24,621	24,621	22,965	22,309	22,738
PE	8,957	8,245	5,767	6,941	6,854	6,641	6,641	6,641	6,292	6,292	5,809
NL	27,651	21,066	20,698	22,466	19,584	18,496	18,497	18,103	18,103	17,241	15,394
NT	57,500	57,500	23,000	57,500	0	0	0	0	0	0	0
CAN	17,340	17,026	17,596	15,821	15,126	14,176	13,658	13,028	12,589	12,281	12,096

AVERAGE NUMBER OF LAYERS PER PRODUCER

While the number of egg farmers is declining, consistent with farmers generally, Canadians are demonstrating much appreciation for Canadian agriculture and supply management. As Canadians increasingly move off the farm, becoming further removed from agriculture, the need to explain modern agriculture intensifies.

As of Dec 31/02
Note: Grow For and Special Permit allocation are not included.

We are confident the success of our 2002 media relations program will be repeated for our 2003 program. Our media relations will again focus on the benefits of supply management and an independent Canadian egg industry, this time as told by farmers themselves.

Our education programs benefit from the recent formation of a CEMA-provincial public affairs advisory committee. Made up of provincial and CEMA representatives, committee members advise their respective Boards of Directors on the appropriate strategies and messages. Frequent consultation among members of the committee allows expertise and strengths to be shared. Such an approach promotes strong, nationally consistent messages that resonate clearly with audiences, while allowing for some adaptation according to local needs.

CEMA partners not just within the egg industry, but outside of it as well to educate consumers through the media and other venues. As a member of the Canadian Federation of Agriculture, we promote the development of the Growing Canada initiative, a program supported by producers and processors of various commodities. Growing Canada is designed to share knowledge with Canadians about Canadian agriculture and its importance to our economy, our environment and our health.

As a founding member of the Canadian Partnership for Consumer Food Safety Education, we have demonstrated leadership in the development and promotion of clear, concise messages about ways to keep food safe. The not-for-profit Partnership is a useful resource for media. It answers media calls directly and refers specific requests to member organizations that can speak to these requests.

24 education

Since its inception in 1997, membership has grown to over 65 organizations, all committed to help Canadians enjoy food safely. Its FightBAC! consumer campaign is the country's farthest reaching consumer education program on safe food handling practices. Food safety information for Canadians of all ages has been developed. A website offers simple and effective information; a teacher's guide assists with learning activities in the classroom and information directed specifically at older adults has also been developed by the Partnership.

30+



December 15, 2002, marked an important milestone for the Canadian Egg Marketing Agency and national supply management. Thirty years earlier, CEMA was established to bring stability to the industry. Research will help build our future.

three decades:

Overcoming challenge is nothing new to Canada's egg farmers. It seems each new challenge has been met with innovation to enhance the industry for the benefit of all stakeholders, indeed all Canadians.

In the late 1960s, egg producers banded together to develop marketing boards, provincially and nationally. In 1968, under the leadership of the Canadian Egg Producers Council and the Canadian Federation of Agriculture, the first national conference of egg producers was held, recommending a national supply management agency by special federal legislation.

The early 1970s were marked by a dip in North American egg consumption and the fledgling Agency had to manage through some difficult times. CEMA introduced programs which are the roots to today's Industrial Products Program and national hen inventory monitoring system. To encourage egg consumption, we launched our marketing campaigns, many which won regional, national and international awards, and also developed a long-term strategy to promote the nutritional image of eggs.

On the trade front, too, we were challenged. As governments at home and abroad called for opening up domestic markets to foreign imports, CEMA and

its provincial board partners consulted with federal and provincial governments to assure the country's right to implement domestic agriculture programs. The Canada-United States Free Trade Agreement, though resulting in increased imports, recognized limits on imports of eggs and other supply-managed commodities. Effective border controls were also upheld in the development of the North American Free Trade Agreement and the Agriculture Agreement of the World Trade Organization.

To promote food safety, Canada's egg producers developed an on-farm biosecurity program, second to none in the world. The program encouraged egg farmers to establish restricted zones on their operations in ways that had not been seen in commercial food production before.

Whatever the challenge – and there have been many – our history is marked by aggressive and progressive response. Here are some of the milestones:

- 1968 The Canadian Egg Producers Council and the Canadian Federation of Agriculture sponsor the first national conference of egg producers.
- 1971 The Farm Products Marketing Agency Act – today the Farm Products Agencies Act – becomes law.

1972 The Canadian Egg Marketing Agency is formed.

1975 National hen monitoring system comes into being.

1976 Roles and responsibilities of CEMA identified through a Federal Provincial Agreement.

1985 CEMA builds a multi-media marketing campaign around Olympic gold medal winner Alex Baumann.

1990 CEMA launches Safe from Salmonella, the predecessor to today's HACCP-based Start Clean-Stay Clean™ program.

1992 40,000 Canadian farmers, egg producers among them, march on Parliament Hill in support of import controls and supply management.

1993 Table demand strengthens.

1996 The United States launches a tariff challenge against Canada – eventually won by Canada – under the North American Free Trade Agreement. CEMA's board of directors is enlarged to include grader, hatchery and breaker representatives and an appointment from the Consumers' Association of Canada. National allocation goes over the base established in 1972.

1998 CEMA verifies ability of its computerized information system to function for Year 2000 requirements. Also, the Supreme Court of Canada rules supply management is consistent with the Charter of Rights and Freedoms.

1999 Northwest Territories joins national egg supply management.

2001 Canadian Poultry Research Council is established.

2002 CEMA invites Canada's top scientists to collaborate on research enhancing the shell egg. Canadian farmers lead the development of a global farmers' trade alliance.

Egg producers can look back proudly at the many successes of national supply management over a 30-year period. We can fully anticipate we will meet the future with equal success as we continue to respond with innovation and cooperation to challenges faced.

toward the future:

CEMA was excited by the research developments of 2002. Scientific research is the backbone of the egg industry's success and significant foundations were laid to ensure future progress.

Directors of the fledgling Canadian Poultry Research Council (CPRC), of which CEMA is a member, held their inaugural meeting early in 2002. Under the capable chairmanship of Dr. Peter Hunton, a member of CEMA's Research Committee, the Council organized the first national poultry research symposium. The symposium, largely financed by a grant from National Farm Products Council, brought about 100 poultry and egg researchers and government and industry representatives together to determine the future direction of poultry and egg research in Canada.

The priorities established during that symposium for all poultry sectors were highly consistent with CEMA's own priorities supporting the development of innovative shell egg products, safe food production, poultry health and humane handling. In addition, consensus was reached that the Council should be involved in long-term research programs, should initiate or facilitate programs as a result of discussions with industry or discussions at research symposiums and should support existing programs which are successful and fulfilling a need.

The CPRC will ensure that all of the poultry sectors work together on programs that

THE CPRC WILL ENSURE THAT ALL OF THE POULTRY SECTORS WORK TOGETHER ON PROGRAMS THAT HAVE APPLICATION TO POULTRY GENERALLY, AND NOT JUST ONE TYPE OF PRODUCTION, AVOID DUPLICATION AND ACCESS RESEARCH FUNDING. THE CPRC IS HELPING TO PLAN FOR A SAFE, SECURE AND STABLE FUTURE FOR THESE SECTORS.

have application to poultry generally, and not just one type of production, avoid duplication and access research funding. The CPRC is helping to plan for a safe, secure and stable future for these sectors.

In addition to its support for the CPRC, CEMA also directly contributes to research. In 2002, we provided about \$35,000 to two projects examining on-farm slaughter of spent fowl. One of these projects is also studying carcass processing and uses. In addition, two centres were provided grants to enhance poultry research infrastructure.

Maintaining its poultry representative position on the Expert Committee on Farm Animal Welfare and Behaviour, CEMA assists in establishing priorities for welfare research in several commodity sectors. We have received the recognition of our industry, government and academic colleagues on the Expert Committee for the support we provided in both 2002 and 2001 to projects designed to improve layer well-being.

Toward the end of the year, CEMA's Research Committee focussed its attention on facilitating research on the enhancement of shell eggs. We invited world-renowned Canadian scientists in the field of functional foods to speak to the committee about the work they are doing. Their work holds much promise in developing a new generation of shell egg. CEMA believes much can be gained by a cooperative approach among the laboratories experimenting in this area and consequently we have invited scientists in the field to submit a joint research proposal for our consideration in 2003.

The research contributions of CEMA are in addition to those of provincial egg boards that provide project and building grants, scholarships, honorariums and donations in support of teaching and research positions. The value to the egg industry and the economy of this support from the country's egg farmers is immeasurable.

accountability



The Canadian Egg Marketing Agency is a body corporate established by parliamentary proclamation and the Farm Products Agencies Act. It is governed by a 16-member Board of Directors, including its Chairman, made up of producer representatives from the provinces and the Northwest Territories, a director from the Consumers' Association of Canada and directors representing the grading, hatching and breaking sectors.

financial analysis:

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

Increases in hen inventories, egg supplies and costs of production, together with continued low United States-based prices, combined to place significant pressure on the Agency's financial resources. The Pooled Income Fund (PIF), used to operate the Agency's Industrial Products Program had a deficit balance through much of the second half of 2002. To sustain operations, the Agency borrowed from its Administration Fund and at times during the year, used a portion of its \$5 million line of credit.

The Agency is mandated to supply Canadian eggs to breakers in Canada at United States-based prices to ensure breakers are treated similarly to their United States counterparts. The average price received by CEMA for eggs sold to breakers in 2002 was \$0.50 a dozen.

A Cost of Production Formula is used to determine the price paid, or the "buy-back" price paid by CEMA for eggs sold to breakers. A producer survey of costs is conducted once every three to four years and cost components are updated monthly or quarterly — monthly for feed and interest and quarterly for pullets, labour and overhead. The average price paid by CEMA for eggs in 2002 was \$1.367 a dozen.

Improvements in price anticipated to begin in June and to be sustained for the rest of the year did not materialize in the United States. An apparent leveling off in the size of the U.S. national layer flock beginning in March was short-lived and supplies remained high to the end of the year, depressing prices. By mid-August, Canadian breaker prices were \$0.03 a dozen lower than CEMA's budget projections, the buyback was higher by \$0.03 a dozen and there was no relief to the high supplies in sight.

The Board of Directors applied to NFPC for, and was granted, a four-cent a dozen levy increase, bringing the average national levy rate to 25 cents a dozen.

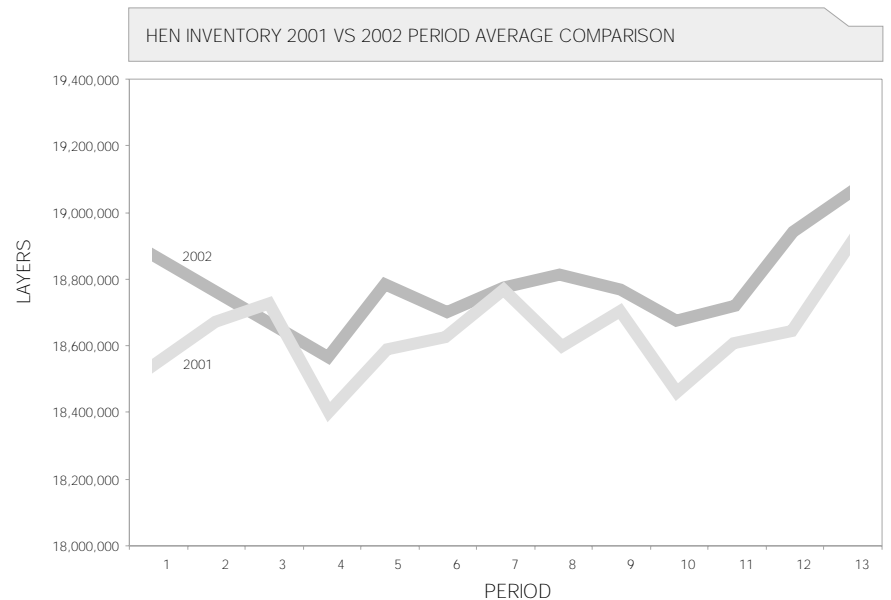
Negative market conditions persisted or worsened and at year's end, the PIF had a deficit of (\$88,000). Further pressure is anticipated early in 2003 to manage the traditional post-Christmas peak in supplies.

Period	Processor Sales
1 + 2	1,054,924
3	565,016
4	395,045
5	655,898
6	555,777
7	640,692
8	616,038
9	593,476
10	556,511
11	579,501
12	513,457
13	584,086
2002	7,310,421
2001	6,824,089
Change	486,332

CEMA SALES TO BREAKERS:

CEMA sales to breakers have gradually increased over the years, increasing the revenues required by CEMA to operate its Industrial Products Program. CEMA sold 486,332 more boxes to breakers in 2002, compared to 2001.

- > Increased productivity. Layer productivity is estimated to improve annually by about 0.5% due to improvements in breeding.
- > An apparent decline in shell egg disappearance. Actual consumption of fresh table eggs will not be known until the annual release of Statistics Canada consumption data in the spring.



Supplies of industrial product sold to breakers in 2002 were 7.3 million boxes of 15 dozen, up 7.1% from the previous year. Major reasons for the increase are:

- > Hen inventories increased. Provincial egg boards issued more available quota than they had previous years.

As we enter 2003, the Agency will examine results from price discovery, product substitutability and end-use pricing studies to determine a course of action.

BUYERS SELLERS													TOTAL SALES
	YK	BC	AB	NT	SK	MB	ON	QC	NB	NS	PE	NL	
YK	-	0	0	0	0	0	0	0	0	0	0	0	0
BC	0	-	600	0	0	0	0	0	0	0	0	0	600
AB	14,032	263,089	-	26,927	19,157	16,998	31	0	0	0	0	0	340,234
NT	0	0	12,949	-	0	0	0	0	0	0	0	0	12,949
SK	0	0	476,235	0	-	12,867	1,407	0	0	0	0	0	490,509
MB	0	126,786	238,155	0	107,483	-	146,100	0	0	0	0	0	618,524
ON	0	0	0	0	0	0	-	474,327	0	0	0	0	474,327
QC	0	0	0	0	0	0	126,409	-	2,850	0	0	175	129,434
NB	0	0	0	0	0	0	0	411	-	8,252	1,421	3,139	13,223
NS	0	0	0	0	0	0	0	0	49,573	-	4,858	21,874	76,305
PE	0	0	0	0	0	0	0	0	0	0	-	0	0
NL	0	0	0	0	0	0	0	0	0	0	0	-	0
TOTAL PURCHASES	14,032	389,875	727,939	26,927	126,640	29,865	273,947	474,738	52,423	8,252	6,279	25,188	2,156,105

2002 INTERPROVINCIAL MOVEMENT

The Canadian Egg Marketing Agency also moves product interprovincially under its Industrial Products Program.

Data in boxes of 15 dozen.
CEMA table movement included.
Subject to revision.

Results from our negotiations with the Agency's breaker customers to establish new prices and supply commitments are expected. Implementation of an Early Fowl Removal Program for peak supply periods of January and February and May to July will remove some excess supplies. In addition, the Agency will take measures to restore the PIF balance to its minimum of \$7.5 million to cushion against ever changing market conditions.

The Administration Fund used for the Agency's marketing, communications, policy development, financial administration and information services remained strong throughout the year, entering 2002 with a surplus of \$4.5 million and ending the year with a surplus of \$6.2 million.

The Agency also maintains restricted funds. At year's end, the fund used to operate a National Quota Exchange rested at \$0.3 million while the Risk Management Fund totalled \$1.2 million. The Research Fund, used for grants to research programs or institutions of benefit to the egg industry, was \$2.3 million at the end of 2002.



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 28, 2002 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 28, 2002 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.

The logo for KPMG LLP, featuring the letters 'KPMG' in a large, bold, black, handwritten-style font, followed by 'LLP' in a smaller, black, handwritten-style font.

Chartered Accountants
Ottawa, Canada
February 14, 2003

34 statement of financial position

DECEMBER 28, 2002, WITH COMPARATIVE FIGURES FOR 2001 (IN THOUSANDS OF DOLLARS)

	POOLED INCOME FUND	ADMINISTRATION FUND	2002 TOTAL	2001 TOTAL
ASSETS				
Current assets:				
Cash	\$ 745	\$ (247)	\$ 498	\$ 10,096
Accounts receivable (note 3)	6,205	5,022	11,227	9,798
Inventory	334	—	334	246
Prepaid expenses	—	581	581	427
	7,284	5,356	12,640	20,567
Restricted investments (note 4)	1,482	2,271	3,753	3,437
Capital assets (note 5)	—	533	533	653
	\$ 8,766	\$ 8,160	\$ 16,926	\$ 24,657
LIABILITIES AND FUND BALANCES				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 8,854	\$ 1,958	\$ 10,812	\$ 9,079
Fund balances:				
Unrestricted	(1,570)	3,398	1,828	11,488
Restricted (note 4)	1,482	2,271	3,753	3,437
Investment in capital assets	—	533	533	653
	(88)	6,202	6,114	15,578
Commitments and contingencies (notes 7 and 8)				
	\$ 8,766	\$ 8,160	\$ 16,926	\$ 24,657

See accompanying notes to financial statements.



Chairman of the Board of Directors



Chairman of the Audit Committee

On behalf of the Agency:

statement of operations and fund balances

FIFTY-TWO WEEK PERIOD ENDED DECEMBER 28, 2002, WITH COMPARATIVE FIGURES FOR 2001 (IN THOUSANDS OF DOLLARS)

	POOLED INCOME FUND	ADMINISTRATION FUND	2002 TOTAL	2001 TOTAL
Revenue:				
Egg sales	\$ 49,035	\$ -	\$ 49,035	\$ 47,356
Levy, service fees and contributions	78,232	14,565	92,797	85,712
Net levy contribution (note 1(d))	3,153	-	3,153	6,225
Interest and other income	176	115	291	398
Other income – restricted (notes 4(b) and 4(c))	433	50	483	474
	131,029	14,730	145,759	140,165
Expenses:				
Trade operations:				
Egg purchases	132,214	-	132,214	118,271
Buyback allowance	2,949	-	2,949	2,892
Transportation and handling	3,839	-	3,839	3,263
Food safety program	72	-	72	111
Bad debts	-	-	-	32
Third party verification	686	-	686	593
Interest	38	-	38	-
Other	517	-	517	(2)
	140,315	-	140,315	125,160
Marketing	-	6,855	6,855	5,997
Salaries	-	2,821	2,821	2,487
Professional fees and consulting	-	702	702	668
Meetings and travel	-	1,262	1,262	1,113
Public affairs and communications	-	658	658	415
Office and other administrative	-	544	544	487
Marketing research	-	224	224	250
Research (note 4(c))	-	164	164	6
Rent	-	304	304	280
Per diems	-	390	390	316
Amortization	-	284	284	249
Uncollected levy, service fees and contributions	441	75	516	(34)
Transfer of administration expenses	1,297	(1,297)	-	-
Donations of eggs	184	-	184	169
	142,237	12,986	155,223	137,563
Excess (deficiency) of revenue over expenses	(11,208)	1,744	(9,464)	2,602
Fund balances, beginning of period	11,120	4,458	15,578	12,976
Fund balances, end of period	\$ (88)	\$ 6,202	\$ 6,114	\$ 15,578

See accompanying notes to financial statements.

36 statement of cash flows

FIFTY-TWO WEEK PERIOD ENDED DECEMBER 28, 2002, WITH COMPARATIVE FIGURES FOR 2001 (IN THOUSANDS OF DOLLARS)

	POOLED INCOME FUND	ADMINISTRATION FUND	2002 TOTAL	2001 TOTAL
Cash flows from (used in) operating activities:				
Excess (deficiency) of revenue over expenses	\$ (11,208)	\$ 1,744	\$ (9,464)	\$ 2,602
Amortization, which does not involve cash	–	284	284	249
	(11,208)	2,028	(9,180)	2,851
Decrease (increase) in non-cash working capital	3,404	(3,342)	62	1,867
	(7,804)	(1,314)	(9,118)	4,718
Cash from (used in) financing and investing activities:				
Sale of marketable securities	–	115	115	50
Purchase of restricted investments	(430)	–	(430)	(942)
Purchase of capital assets	–	(171)	(171)	(174)
Disposal of capital assets	–	6	6	13
	(430)	(50)	(480)	(1,053)
Net change to cash	(8,234)	(1,364)	(9,598)	3,665
Cash, beginning of period	8,979	1,117	10,096	6,431
Cash, end of period	\$ 745	\$ (247)	\$ 498	\$ 10,096

See accompanying notes to financial statements.

notes to financial statements

FIFTY-TWO WEEK PERIOD ENDED DECEMBER 28, 2002 (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% (2001 – 99%) of their province's industrial product declarations. The difference of 1% (2001 – 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) Restricted investments:

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) 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.

(h) Transfer of administration expenses:

In 2002, the Agency made an allocation to transfer \$1,297 (2001 – \$Nil) of administrative expenses from the Administrative Fund to the Pooled Income Fund. This transfer provides for the full cost, including administration and overhead, of operating the Agency's industrial product program.

38 notes to financial statements (continued)

FIFTY-TWO WEEK PERIOD ENDED DECEMBER 28, 2002 (IN THOUSANDS OF DOLLARS)

3. Accounts receivable:

	POOLED INCOME FUND	ADMINISTRATION FUND	2002 TOTAL	2001 TOTAL
Levy, service fees and contributions, net of allowances for uncollected amounts of \$738 (2001 – \$222)	\$ 5,714	\$ 1,189	\$ 6,903	\$ 6,089
Egg sales, net of allowances for uncollected amounts of \$170 (2001 – \$174)	3,838	–	3,838	3,291
Other	58	428	486	418
Interfund receivable	(3,405)	3,405	–	–
	\$ 6,205	\$ 5,022	\$ 11,227	\$ 9,798

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	
	2002	2001	2002	2001
Pooled Income Fund:				
Cash	\$ 1,252	\$ 859	\$ 1,252	\$ 859
Bonds	230	193	241	204
	1,482	1,052	1,493	1,063
Administration Fund:				
Cash	2,271	2,385	2,271	2,385
	\$ 3,753	\$ 3,437	\$ 3,764	\$ 3,448

(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 (NOE) 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	NOE FUND	2002 TOTAL	2001 TOTAL
Beginning balance	\$ 793	\$ 259	\$ 1,052	\$ 247
Interest income	20	12	32	34
Administration expense	–	(3)	(3)	(5)
Reissuance of quota retirement layers	401	–	401	347
Transfer from 2001 unrestricted year-end balance	–	–	–	429
Ending balance	\$ 1,214	\$ 268	\$ 1,482	\$ 1,052

(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:

	2002	2001
Beginning balance	\$ 2,385	\$ 2,298
Interest income	50	93
Research activities	(164)	(6)
Ending balance	\$ 2,271	\$ 2,385

5. Capital assets:

	2002		2001	
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	NET BOOK VALUE
Computer hardware and software	\$ 1,882	\$ 1,472	\$ 410	\$ 595
Office equipment	443	355	88	53
Leasehold improvements	50	15	35	5
	\$ 2,375	\$ 1,842	\$ 533	\$ 653

Cost and accumulated amortization amounted to \$2,257 and \$1,604 respectively in 2001.

notes to financial statements (continued)

FIFTY-TWO WEEK PERIOD ENDED DECEMBER 28, 2002 (IN THOUSANDS OF DOLLARS)

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 28, 2002, loans under this facility were \$Nil (2001 – \$ 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:

2003	\$	295
2004		295
2005		295
2006		295
2007		295
2008		295
	
		\$ 1,770
	

(b) The Agency is committed under contract for the purchase of advertising in fiscal 2003 for \$2,745 (2002 – \$2,147).

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 received a favourable 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.

(c) In 2001, an arbitration hearing between CEMA and Burnbrae Farms Ltd. and Les Œufs Bec-O was held. The plaintiffs claim that CEMA had breached their industrial product supply contract by failing to maintain an equalization fund and failing to treat processors fairly and equally. CEMA denies breaching the contracts and states that it went beyond its contractual obligations in an effort to accommodate the plaintiffs.

The arbitration panel released its award on August 30, 2001. The panel ruled that there was no breach of contract and no compensation payable by CEMA. The panel went on to state that CEMA had an obligation to maintain the equalization fund but failed to do so, and should therefore proceed to take whatever action necessary to restore the fund and provide the plaintiffs with their share of the fund. The plaintiffs appealed the award and we are currently waiting for a hearing date which is expected to be sometime later in 2003. The outcome of the hearing is not determinable at this time.

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 2002, these customers purchased 72% (2001 – 66%) of the eggs sold by the Agency.

40 notes to financial statements (continued)

FIFTY-TWO WEEK PERIOD ENDED DECEMBER 28, 2002 (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 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.

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

	2002	2001
Revenue:		
Egg sales	\$ 56,653	\$ 52,468
Levy, service fees and contributions	94,524	89,312
Interest and other income	176	353
Other income – restricted	433	364
	151,786	142,497
Expenses:		
Trade operations:		
Egg purchases	152,055	132,003
Buyback allowance	3,394	3,196
Transportation and handling	4,310	3,471
Food safety program	72	111
Bad debts	–	32
Third party verification	686	593
Interest	38	–
Other	517	(2)
Transfer of administration costs	1,297	–
Uncollected levy, service fees and contributions	441	(14)
Donations of eggs	184	169
	162,994	139,559
Excess (deficiency) of revenue over expenses	\$ (11,208)	\$ 2,938

11. Pension plan:

The Agency sponsors and administers The Pension Plan for the Employees of the Canadian Egg Marketing Agency (the "Plan"), 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 2002 fiscal period, the Agency contributed \$106 (2001 – \$96) to the Plan, which is included in salaries expense in these financial statements.

12. Comparative figures:

Certain 2001 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2002.