

32nd annual report of the Canadian Egg Marketing Agency for presentation to the Honourable Andy Mitchell, Minister of Agriculture and Agri-Food, the National Farm Products Council and the 32nd annual meeting, Tuesday, March 22, 2005.



Canadian Egg Marketing Agency  
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laurent souigny chairman

**Report of the Chairman** Our achievements in 2004 are made even better by the size and scope of the challenges we faced during the year. The commitment to collaboration demonstrated by all industry partners has seen us through these difficult times and helped us turn the year into an overall success story that should make all in the egg industry proud.

Once again, CEMA has tackled challenges head-on for the benefit of Canada's whole egg industry. When the year started, CEMA did not have a quota or levy order for 2004. In March, the National Farm Products Council (NFPC) approved the quota and levy through to July; in July, the orders were approved through the remainder of 2004 thereby ensuring stability to the egg industry.

In February, the poultry industry in the Fraser Valley of British Columbia was dealt a particularly hard blow. The discovery of the avian influenza H7N3 virus on more than 40 farms in the region led to the depopulation of 1.4 million layers.

The egg industry has not yet made a full recovery. Egg

production is expected to return to normal by December 2005. An amount of \$35 million has been paid by the federal government to compensate the egg producers in the region for their losses. In addition, a repopulation adjustment program (RAP) was approved by CEMA and an amount of up to \$13 million has been approved by the Board of Directors to support the RAP program and assist the egg producers towards an orderly repopulation of their barns.

Through it all, and as we continue to recover from the outbreak, the industry worked well together. Initially, CEMA acted as the information link between the Canadian Food Inspection Agency (CFIA) and the provincial board so that producers would know what

needed to be implemented in order to stop the spread of the disease.

CEMA is thankful for the team effort shown in dealing with this situation. The British Columbia Egg Producers marketing board is to be commended for its relentless collaboration. As I am sure you all can appreciate, the outbreak has been demanding on the industry and extremely stressful for all of the families and communities affected.

CEMA is now working on several fronts to improve our preparedness for poultry diseases. We recently participated in several activities designed to prepare all parties to be better able to respond to similar events in the future. We attended a debriefing session in Abbotsford, B.C. In January 2005, CEMA presented recommendations

to improve the industry's response to avian influenza to the House of Commons Committee on Agriculture. Currently, CEMA is working closely with CFIA and the other poultry industries in developing a preparedness plan for future outbreaks. While the outbreak has been very difficult for many in the egg industry, dealing with it has made us better prepared to manage situations like this in the future.

The cooperative spirit continued as we worked to renew the Federal-Provincial Agreement (FPA). In 2003, a draft of the Agreement was provided to the provincial-territorial marketing boards and supervisory boards for comments and in 2004, the boards provided feedback on the text. However, progress was halted when Saskatchewan signatories applied for a Judicial Review of the Agency's 2004 quota order and a subsequent review of the 2005 order. Discussions on the FPA are now at a standstill pending the outcome of that Review. We will nonetheless continue to work towards resolving the issues with

Saskatchewan and ratifying the Agreement in 2005.

At the beginning of 2004, the U.S.-based industrial product price was quite high, hovering around the \$1.00 CDN mark. The industry continued to prosper and in fact, at the beginning of the year, the \$0.02 per dozen producer contribution was discontinued. In August 2004, CEMA was able to request a decrease in the levy by \$0.02 per dozen as a result of healthy fund balances from higher breaker prices in the early part of the year. However, by mid-year, the trend changed dramatically and was not in our favour. By the end of 2004, the industrial product price had dropped from \$1.00 CDN to around \$0.31 CDN.

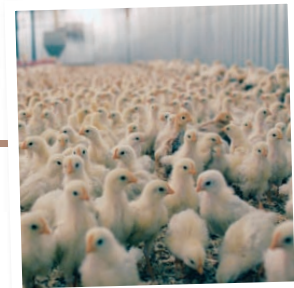
Together with our colleagues in the Canadian Poultry and Egg Processors Council, we continued the end-use pricing study and the yield study that will create an equitable, science-based approach to pricing industrial eggs. I am confident that a new contract with processors will be in place by June 2005.

FROM THE FARM TO YOUR TABLE

PART 1

## At the hatchery

At the hatchery, eggs from breeding flocks are placed in incubators. After 21 days, the eggs hatch and the chicks are housed in a pullet barn (a pullet is a young hen). At 19 weeks of age, the hens are transferred to a farm to begin producing eggs and continue for at least 12 months.



Similarly, the team effort of the provincial boards has produced an "Eggs for Processing" bridging policy that allows CEMA to manage this component of the business fairly and consistently across the country while, at the same time, working to develop a longer term approach.

In 2004, we continued to work closely with governments, both federal and provincial, directly and in concert with other national supply management organizations, and with provincial supply management coalitions to ensure that our needs are addressed at the World Trade Organization negotiations. We have been in close contact with the Canadian negotiating team, the Ministers of International Trade and of Agriculture, and various Members of Parliament. Our goal is to maintain a political environment in which our producers can continue to provide the Canadian consumer with a stable supply of safe, reasonably priced eggs while earning a reasonable financial return. Supply management has allowed egg producers to achieve this goal for more than 30 years.

In 2004, CEMA organized its first national Breakfast on Parliament Hill for Members and Senators with the assistance of Ontario Egg Producers who had hosted very successful events in previous years. As the

national organization representing Canadian egg producers, CEMA took on the project in order to broaden the reach of the event to include representation from across the country. At the breakfast held in February, CEMA's Board of Directors hosted Members of Parliament and Senators and used the opportunity to emphasize the importance of maintaining the Canadian supply management system for eggs.

In 2004, the feather industry engaged the George Morris Centre, an agricultural think-tank, to quantify the importance of supply management and the egg industry in Canada. The results were impressive: Canada's egg and poultry production and processing industries make a significant contribution to the Canadian economy and society. The industries contribute to rural Canada's enduring vitality. With farm cash receipts in 2003 of more than \$565 million, the egg industry contributed \$1.5 billion to the Canadian economy and employed almost 12,000 workers across the country. A media relations program

to communicate these realities to Canadians reached close to a million people.

On the world stage, negotiators turned their attention away from developing a full set of modalities for agricultural trade, and instead focused on the first step: developing a framework for the establishment of modalities. Intense negotiations resulted in agreement by all WTO member countries on the Framework for the Establishment of Modalities in Agriculture on August 1, 2004.

For the rest of the year and leading up to the sixth WTO Ministerial Meeting scheduled for Hong Kong in December 2005, negotiators are working towards fleshing out the Framework.

This is an achievable but ambitious deadline. Import control will prove to be the most challenging supply management pillar to maintain in the agricultural negotiations. We will continue to reinforce the importance of all three pillars—import control, producer pricing and production

discipline. All three are required for supply management to operate efficiently and effectively for Canadian consumers and Canadian egg producers.

This past year, farmers and non-government organizations from all over the world expressed interest in supply management. The interest is acute now as international commodity prices are particularly low. We have been working with interested parties around the world to better explain our system and how the principles and objectives may be relevant for their commodities and countries.

Of course, the successes we've accomplished in 2004 were only possible because of the dedication and hard work of CEMA's directors. They continue to sacrifice time from their businesses and families to serve this Agency. It's an honour and privilege to serve as their Chair.

I would also like to thank all of our CEMA employees. Under the exemplary leadership of our Executive Director, Tim Lambert, they have carried out their duties

with diligence and dedication to Canada's egg industry. CEMA continues to benefit from their expertise and from their commitment to putting the interests of the egg industry at the forefront of all that they do.

If I were to choose a theme for the year to come, it would be collaboration. Our experiences with both avian influenza and international negotiations have taught us that together we are better and stronger. The principle applies to all that we hope to accomplish in the coming year.

We already have a strong foundation for the coming year. Quota and levy orders for 2005 were approved in November 2004, including a \$0.04 per dozen levy increase that is covered in the cost of production.

I hope that we can resolve the concerns of the Saskatchewan producers so we can move on with the Federal-Provincial Agreement. CEMA is committed to discussions among all signatories to resolve these difficulties.

The strength of the Canadian egg industry lies in the fact that producers have been given the tools to largely control our own destiny. As with any family, there will be times when we may disagree. However, we must never lose sight of the fact that we need to resolve our differences as producers, and not rely on outside groups to solve our problems for us. Our strength lies in our solidarity, and whatever else may occur, we need to work together to preserve the system of production that we all benefit from. It is with these thoughts that I encourage us all to move ahead in the coming year, to resolve these outstanding issues, and move forward to successfully finalize the Federal-Provincial Agreement.

We must continue to work with our processor colleagues to conclude an agreement on end-use pricing and to complete the yield study so that we can establish equitable pricing for eggs sold to breakers.

All egg producers should be prepared to work within their farm



organizations to seek support for a fair and equitable world trade deal. I encourage you to meet with your Member of Parliament and with Members of your provincial legislatures to seek their support for our industry.

Many voices carrying the same message will make a lasting impression with those who influence the future of our industry.

A handwritten signature in blue ink, reading "Laurent Souligny". The signature is written in a cursive style with a large, sweeping initial 'L'.

Laurent Souligny, Chairman



tim lambert executive director

**Report of the Executive Director** I would like to open my remarks by thanking the CEQA staff team, Board of Directors, provincial staff and industry for their hard work and dedication during this past year, and on a personal note, their support to me. It takes the skills, talents and will of every single person involved in this great industry to make a difference and to make the Agency a success. In the face of the challenges we have faced together this past year, it is appropriate to lead off my remarks with an expression of thanks to everyone for their professionalism and commitment to the egg industry.

No doubt every Executive Director report will make reference to challenges, and coping with change, in the introductory paragraph, as these are reality. This past year, however, was surely one where we had to face some particularly difficult circumstances, especially the avian influenza outbreak in Abbotsford, British Columbia.

The process of facing and overcoming challenges should also serve to remind us of the value and importance of having a clear sense of our goals and directions, and remind us of the need to analyze and reflect on future trends, or future challenges. We need to reflect on the issues and opportunities that we can and must, not only anticipate, but be prepared for.

Our business is such that a significant percentage of our time will always be consumed dealing with immediate challenges or solving short term problems. However, while it is true that not every challenge can be predicted, it is also equally true that with planning and forethought, many things can in fact be anticipated and prepared for in advance of there ever being an issue. Further, development of a pro-active stance will generally reduce the amount of time necessary to fix problems that do arise. A saying that I have often reflected on is "fortune favours the prepared mind". It seems to me that this saying captures the significance of looking ahead and being ready for what may come next.

During this past year, we spent time and effort on a process to accomplish what is being described above: plan, prepare and become more pro-active. In the spring of 2004, the Board of Directors discussed future trends and challenges that the industry would face over the next five years. From this process emerged a set of priorities for the Agency, in order to deal with current and anticipated challenges. The top priorities that resulted from this strategic planning session were as follows:

- Protect and strengthen the fundamentals of supply management, including pushing forward with our role in international trade negotiations
- Make the industrial product

program more cost-effective and efficient

- Prepare for emerging production issues, e.g. food safety, animal welfare, bio-security
- Research ways and means for producers to share in value-added opportunities and integration
- Develop enhanced risk management programs
- Strengthen CEMA's role in marketing and nutrition
- Involve CEMA in new product research and development.

For more details on the priorities that emerged from the strategic planning process, please refer to the next section of this annual report.

For any producer, industry, business or marketing agency to be successful, it is absolutely imperative that its Board at a governance level establish a vision and direction for the organization. From that point, the challenge is shared with staff to ensure that we are organized and prepared to meet the direction as established by the Board.

From this framework of broad goals, we have developed a more detailed business and strategic plan in order for CEMA to move forward on all of these key areas. In addition, achieving success in meeting our objectives requires several other pieces of the puzzle, including:

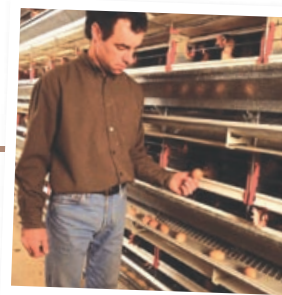
- Strengthening our ability to work effectively as a team, not only within the CEMA staff team but nationally, with staff of the entire provincial and territorial team as well.
- Constructing an effective policy development strategy that involves all stakeholders in order that we can deliver to the Board well thought out options for achieving the Board's goals.
- Ensuring that we have the right resources, in the right place, at the right time to achieve what is expected of the staff team.
- Ensuring we have the internal processes and communications in place that

FROM THE FARM TO YOUR TABLE

PART 2

## On the egg farm

Canadian egg farmers treat their hens with care. The farmer makes sure that the hens have adequate light and air, a well balanced, nutritious diet, fresh water and comfortable surroundings—all the essentials for health and production. Farmers follow sound animal welfare practices based on a national code of practice and an animal care program.



will enable staff to develop and execute our work plans.

Therefore, following the strategic planning work of the Board, attention has now been turned towards development of the above items. In terms of building

a national team and in terms of policy development, the provincial managers have been working on a project to revitalize the Eggs for Processing (EFP) Program. The managers will present to the Board a series of options for the Directors to consider in adopting a new policy that better meets the needs of provinces delivering this program. As well, however, our plan is to use this format of gathering input and using the experience and knowledge of both the CEMA staff team and provincial staff teams to develop options for the Directors on a variety of policy issues. This enhanced level of collaboration is being developed in other areas of CEMA as well, from planning for future avian influenza outbreaks, to market operations, to marketing. Success is all about teamwork.

To ensure the Agency has adequate resources, late in 2004 I launched a complete operational review. In considering the strategic priorities of the Board, I am studying all of our business units to make sure that not only do we

have adequate resources, but all of our resources are aligned and organized to best fit the direction of the organization. All staff were interviewed and asked to comment on how we work together, how we are organized and what we need to do differently in order to move forward. Staff input will be an important part of re-organizing our CEMA team to ensure that we have the right people, in the right place, at the right time, doing the right things. For this to happen, staff must be equipped with all of the tools, training and support necessary. This process will continue through the first part of 2005.

Finally, as we work on completing our organizational review, we will focus on development of specific ideas to improve communications and information flow. As part of the interviews, staff was also asked to identify barriers and possible solutions for improving these areas of CEMA operations.

My thanks to all of you for your part not only in making CEMA the

success it is, but for contributing to make the Canadian egg business a great industry to be part of as well.



Tim Lambert, Executive Director



Strategic planning sets the stage for growth

**Strategic Planning** CEMA's ongoing mission is to manage the supply of eggs in order to address our producer and customer requirements, by optimizing the supply to the traditional and new markets and ensuring a fair return to producers across Canada.

Strategic planning is an essential activity of any successful organization. In 2004, the Canadian Egg Marketing Agency (CEMA) focused a considerable amount of energy on planning for the future by assessing trends, challenges and opportunities. With this groundwork in place, goals were then established that our directors and staff, together with CEMA stakeholders, can achieve to take advantage of these trends, manage the challenges and enhance opportunities.

Following a planning session of the Agency's Board of Directors in April, the Agency's ongoing mission was affirmed and a new Business Plan developed. The 2005–2007 Business Plan encourages a team approach that fosters increased participation and development

among the provinces and CEMA. It enhances our ability to develop and consistently implement policies, marketing programs and industrial product initiatives while strengthening supply management overall.

A strong national approach developed by continuous consultation among all stakeholders is required to ensure success for the Canadian egg industry. This approach necessitates mutual respect that recognizes the equality of CEMA and all of the provincial-territorial egg marketing boards to take advantage of the opportunities afforded by our national supply management system and to accept responsibility for its continued success.

Over the next three years, CEMA will develop a consensus

on a far-reaching vision for the Canadian egg industry. We will collaborate with our industry partners by developing a risk management program and focusing on increasing egg consumption through marketing based on positive nutrition and other messages. We will move forward on policy development and ensure developed policies are updated regularly so they are in tune with our rapidly evolving industry and provide clearer direction to CEMA. The fundamental movement of CEMA is toward integration: of our people, processes, policies and practices.

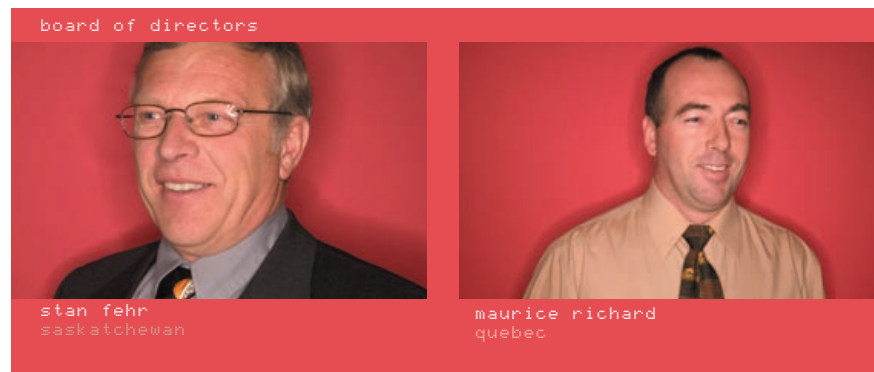
#### **TRENDS...**

Several trends emerging over recent years were identified by the Board in February as necessitating

increased planning. It is clear that the environment for our egg industry is changing rapidly. Some of these trends are clear challenges to the future of supply management and an independent Canadian egg industry. Other trends are opportunities to build our egg business in Canada.

Among the challenges are the changes we have seen in recent years in the marketplace resulting from the introduction of new industrial and specialty egg products. We must find ways to adapt to these changes. In addition, there is an increasing realization that it will be necessary to pave the way for new entrants in the egg supply management system. We are also challenged by the continuing pressure both within and outside of Canada to open our markets to increased trade. Finally, production issues such as food safety, animal care and environmental stewardship continue to emerge in the minds of Canadians.

However, opportunities are accompanying many of the challenges. There is increasing understanding among processors



that a new pricing structure must be developed in response to the changing marketplace. On the trade front, the processing sector supports our position that the pillars of supply management—import controls, producer pricing and production discipline—be maintained in the next Agriculture Agreement of the World Trade Organization. In addition, we are seeing support for supply management in other countries. Marketing opportunities stem from new science which continues to identify health attributes of eggs, providing a solid basis on which to promote increased egg consumption. Our ability to manage emerging issues is enhanced by an increased desire among stakeholders to come

together by ensuring common policy positions.

### **PRIORITIES...**

In response to the trends, the Board of Directors has identified several strategic priorities. The fundamentals of supply management need to be protected and strengthened. Our trade program needs to be improved to ensure supply management's requirements are recognized in the new World Trade Organization agreement. The Industrial Products Program must be made more cost-effective and efficient. We need to deal with emerging production issues such as food safety, animal welfare, protection of the environment and biosecurity. We need to investigate how Canadian



## Comfortable, safe housing

The cage system is the preferred housing system for today's egg production, ensuring the highest possible food safety and egg quality standards. Cages provide a safe, healthy environment for hens.

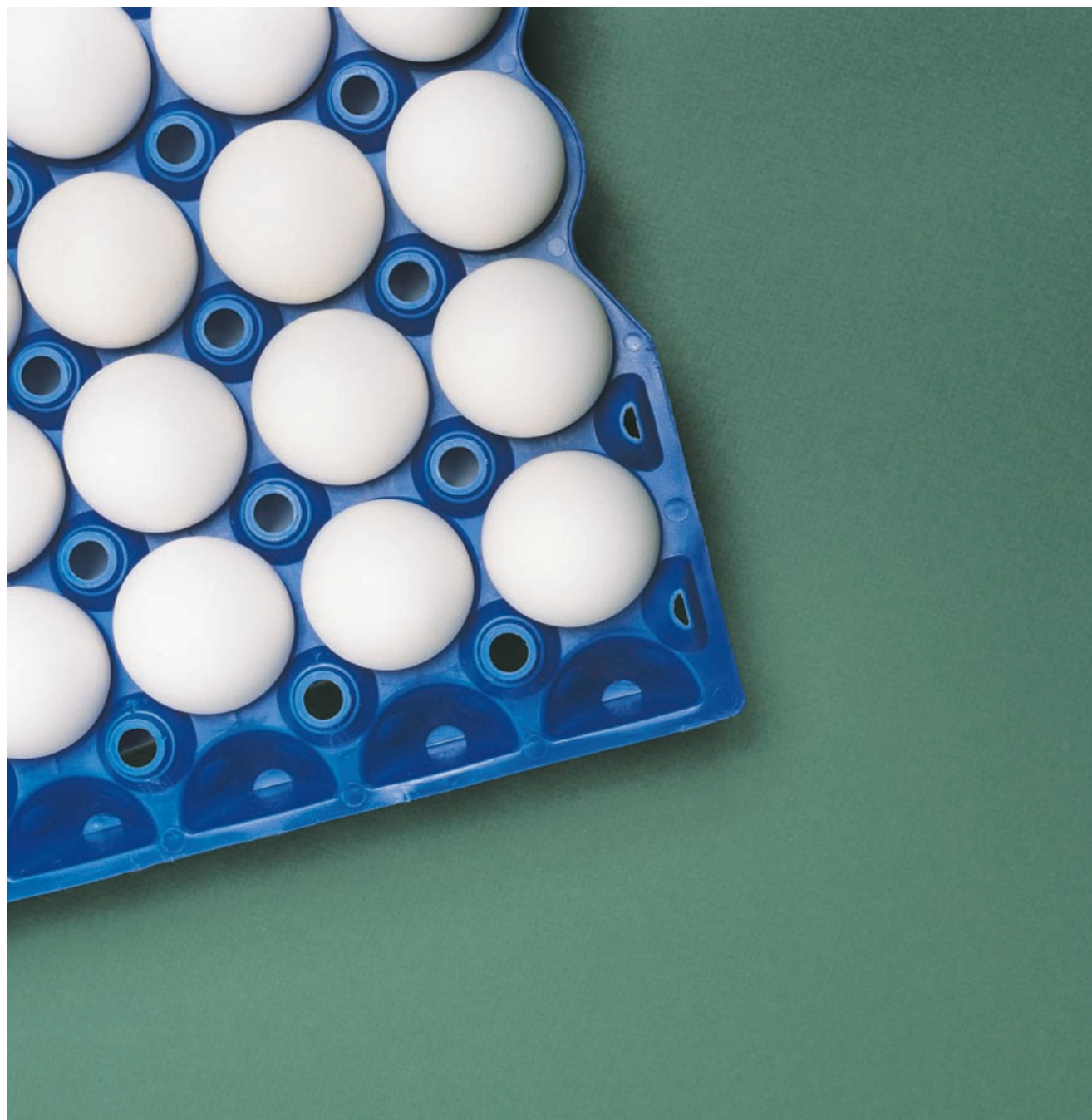


egg producer groups can become more integrated into the food chain process. Improved risk management programs must be developed; CEMA's role in marketing needs to be strengthened; CEMA must become involved in research, new product development and setting of standards. Finally, improvements are required in system-wide communications and data to address ever-increasing challenges.

These are ambitious priorities but with a new annual planning process now in place, substantial progress can be made on each of these priority areas. CEMA stands ready to increase its ability to respond quickly to market pressures and emerging issues.

For 2005 specifically, 19 goals were identified. These range from implementation of an issues management protocol, to re-orienting the marketing function so gaps in the national marketing of eggs are filled, to instituting a full training and development program for both elected officials and hired staff.

While the plan is ambitious, effective planning saves time, energy and money in the long run. Each successive year should bring a sharpening of the planning focus, a more clearly articulated vision and more specific performance benchmarks aimed at moving CEMA forward as a lead supply management agency.



Increased efficiency a high priority

**Managing Supplies** The major functions of the Canadian Egg Marketing Agency are establishing national production allocations, managing an Industrial Products Program and equitably ensuring adequate supplies. Undoubtedly our biggest operational challenges in 2004 were associated with the avian influenza outbreak in the Abbotsford area of British Columbia, and the subsequent depopulation of 1.4 million layers. This is described in this report (see page 25). Despite the demands imposed by avian influenza, we moved forward with several other initiatives to improve efficiency in our operations.

A review of the Eggs for Processing (EFP) policy developed in 2001 was launched in conjunction with the provincial egg marketing boards. Provincial egg boards operate EFP programs that produce eggs dedicated to the breaker market at breaker prices.

The Board of Directors and national and provincial general managers held a special meeting in September to review the policy and concluded that there are varying interpretations of the policy among the provinces. All managers were directed to define the differences and bring recommendations to the Board to ensure the policy is interpreted and implemented consistently coast to coast. We recognize that this will necessarily occur in stages with the first stage focussed on short-term measures to

improve operations and the second stage focussed on longer term solutions.

Also, in 2004, we re-examined our National Quota Exchange program which began about a decade ago and opened discussions with the provincial/territorial egg boards on the feasibility of a National Quota Leasing program. The Exchange has been operating for several years, however, some provinces remain reluctant to permit production quotas to leave their jurisdictions. Consequently, we are examining the feasibility of interprovincial/territorial quota leasing which, like an exchange, would facilitate increased production where required. It would allow greater flexibility to make temporary adjustments

without having to transfer quota formally from one province to another.

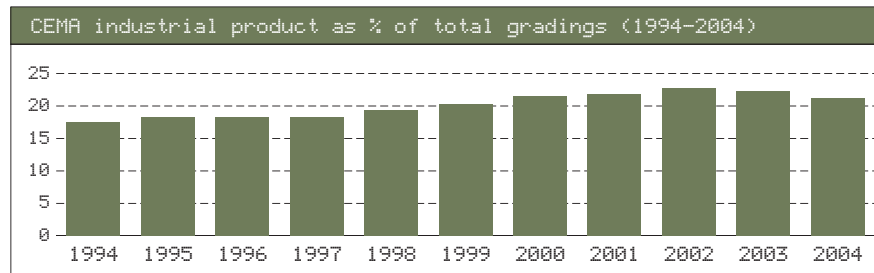
Our Early Fowl Removal program in the first quarter was highly successful in reducing the traditional post Christmas surplus. For the first 12 weeks of 2004, an equivalent of 268,082 layers were taken out of production early, reducing industrial product supplies by 100,634 boxes of 15 dozen eggs.

#### **PROCESSORS JOIN CEMA IN MARKET STUDIES**

In 2004, we moved forward with two studies in cooperation with the Canadian Poultry and Egg Processors Council (CPEPC): a yield study and an examination of the feasibility of end-use pricing for breaking stock. It is important that producers are fairly compensated

for these eggs used by breakers so the industry remains profitable. Both of these studies would not be possible without the cooperation of individual processors and the CPEPC. CEMA acknowledges the desire of our customers to ensure a sound pricing structure for the continued operation of national egg supply management.

The end-use feasibility pricing study is the third phase in a series of processor contract issues. The first phase examined United States pricing structures and different price discovery mechanisms. The second investigated the costs of moving



Industrial product declarations were down in 2004 over 2003. Nonetheless, the trend has been for the industrial product share of total Canadian egg production to increase, necessitating new pricing structures for long-term growth.

breaking stock, bulk liquid and processed egg products between key processing locations and further food processing markets in Canada. The relationship between these costs and regional pricing differentials were examined.

This third phase builds on the

earlier work with the objective of determining the potential for the design and implementation of a pricing system on end-use of industrial product. Essentially, an end-use pricing structure would require the market for processed egg products to be priced according

interprovincial movement of eggs, 2004													
sellers	BUYERS												total sales
	YK	BC	AB	NT	SK	MB	ON	QC	NB	NS	PEI	NL	
YK		0	0	0	0	0	0	0	0	0	0	0	0
BC	0		17,052	0	0	0	0	0	0	0	0	0	0
AB	25,843	183,502		28,794	104,437	18,559	0	0	0	0	0	0	0
NT	0	0	5,280		0	0	0	0	0	0	0	0	0
SK	0	0	518,331	0		27,874	1,572	0	0	0	0	0	0
MB	0	276,835	451,793	0	190,150		185,271	0	0	0	0	0	0
ON	0	0	0	0	0	0		585,045	4,530	0	0	0	0
QC	0	0	0	0	0	0	317,634		30,829	1,323	0	160	0
NB	0	0	0	0	0	0	0	7,924		26,116	1,294	6,417	0
NS	0	0	0	0	0	0	0	0	36,587		9,243	29,678	0
PEI	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
<b>Total purchases</b>	<b>25,843</b>	<b>460,337</b>	<b>992,456</b>	<b>28,794</b>	<b>294,587</b>	<b>46,433</b>	<b>504,477</b>	<b>592,969</b>	<b>71,946</b>	<b>27,439</b>	<b>10,537</b>	<b>36,255</b>	<b>3,092,073</b>

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

Temporarily changing production among provinces and territories would decrease the need to move product interprovincially, resulting in some efficiency gains.

to where the eggs are ultimately utilized or sold. Breaking stock prices would be set to reflect the characteristics of demand in these segments and the price elasticity of the demand. CEMA recognizes that end-use pricing would be a significant change in its current pricing method and that substantial negotiation will be required with the breaking sector to make this change work.

The yield study, begun in 2003, will put in place an equitable pricing formula that will balance prices for industrial product eggs while considering grade and location in Canada. This information can help in determining fair prices for eggs sold by CEMA to breakers.

## QUOTA AND LEVY ORDERS ESTABLISHED

In 2004, we entered the year without prior approval of quota and levy orders. National Farm Products Council delayed providing approval to our orders as a result of complaints filed about the Agency's quota orders by British Columbia and Saskatchewan. A hearing was held where Council considered the

complaints. In March, they agreed to review the Agency's 2004 quota and levy orders again to ensure a sound legal foundation for the operation of the system. Interim quota and levy

orders were approved to the end of July 2004.

An increase in the allocation was approved for the new quota order approved effective August 1 for two

eggs for processing (efp) quota allocation (in dozens)			
province	2005 allocation*	2004 allocation	2003 allocation
BC	2,486,923	2,440,000	2,440,000
AB	621,731	610,000	0
NT	0	0	0
SK	4,973,846	4,880,000	4,880,000
MB	9,947,692	9,760,000	9,760,000
ON	17,408,462	17,080,000	17,080,000
QC	2,486,923	2,440,000	2,440,000
NB	0	0	0
NS	0	0	0
PEI	0	0	0
NL	0	0	0
<b>Total</b>	<b>37,925,577</b>	<b>37,210,000</b>	<b>36,600,000</b>

\*2005 allocation has been prorated to reflect 53 weeks.

federal quota allocation (in dozens)				
province	2005 allocation*	2004 allocation to december 25	2004 allocation to july 31	2003 allocation
BC	66,013,460	64,767,923	63,961,064	63,961,064
AB	46,698,047	45,816,952	44,879,943	44,879,943
NT	2,882,493	2,828,106	2,806,000	2,806,000
SK	24,362,395	23,902,727	23,732,805	23,732,805
MB	58,144,208	57,047,147	56,620,562	56,620,562
ON	202,767,127	198,941,332	197,018,490	197,018,490
QC	96,572,975	94,750,843	91,775,995	91,775,995
NB	11,245,730	11,033,546	10,860,745	10,860,745
NS	19,956,499	19,579,961	19,434,122	19,434,122
PEI	3,302,595	3,240,282	3,215,858	3,215,858
NL	8,837,156	8,670,417	8,603,244	8,603,244
<b>Total</b>	<b>540,782,685</b>	<b>530,579,236</b>	<b>522,908,828</b>	<b>522,908,828</b>

Note: Does not include EFP and special market development quota.  
\*2005 allocation has been prorated to reflect 53 weeks.

Increases in table disappearance over three years (2001-2003) was one of the factors considered in establishing the new quota order of August 2004.

reasons. One, new non-registered production numbers provided from the 2001 census of agriculture were implemented. This adjustment is made as part of the Agency's recoverable regular allocation process. It resulted in an increase of 188,000 layers. Also approved was the Agency's recoverable levy which remained unchanged from 2003 at a rate of \$0.25 per dozen. In 2003, producers contributed an additional \$7.0 million which was restricted in 2004 as part of the Agency's risk management program.

Two, federal quota was increased by 292,000 layers. This was based on the application of the Quota Allocation Committee recommendations that require changes to quota based on changes in market demand. The increase reflected stronger table disappearance over the past three years.

The Agency also requested and received a \$0.02 per dozen reduction to its levy rate approved earlier in 2004. The new \$0.23 per dozen levy was allocated on the following basis: three cents to administration, one quarter cent

to research and 19.75 cents for the Pooled Income Fund, used to operate our Industrial Products Program. In establishing the lower levy, the Board considered the falling U.S. price for breaker eggs which forms the current basis for the price CEMA charges Canadian breakers for eggs. Both orders were prior approved by Council.

#### **INCREASING PARTNERSHIPS REQUIRED FOR NEW FEDERAL- PROVINCIAL AGREEMENT**

Two complaints filed with National Farm Products Council (NFPC) in 2004 slowed progress on achieving a new Federal-Provincial-Territorial Agreement for egg marketing. British Columbia and Saskatchewan signatories filed complaints against the quota order approved by CEMA at the end of 2003, for 2004. Just before hearings were held in March, a settlement was reached with B.C. when CEMA agreed to put "on hold" a decision to remove EFP quota from that province and consider the results of an independent study on B.C.'s requirements for processing eggs. The complaint filed by

FROM THE FARM TO YOUR TABLE

PART 4

## Egg production

In today's modern egg production, the eggs roll from the cages onto a conveyor belt leading to a central packing area. The eggs are placed on plastic, sanitized flats then on pallets and stored immediately in a cool room to retain their freshness and quality while awaiting shipment to a registered grading station. The eggs are transported from the farm to the grading station in temperature-controlled trucks.



Saskatchewan proceeded.

In its report supported by NFPC, the complaints committee made several useful findings that largely supported the way CEMA reached decisions on quota allocation. It specifically said the use of hen to population ratios found in the Quota Allocation Agreement

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was a relevant consideration in determining overbase allocations, or those provincial shares of national production which are over and above those established when CEMA was first developed in 1972. While CEMA must consider the five criteria stipulated in the current Egg Marketing Plan, it isn't limited to those alone—other relevant information may be considered.

The Committee disagreed with Saskatchewan's position that comparative advantage does not mean comparative cost of production. In fact, the report notes, when supply management was introduced it was understood by participants that prices were to be based on the cost of production rather than being market driven.

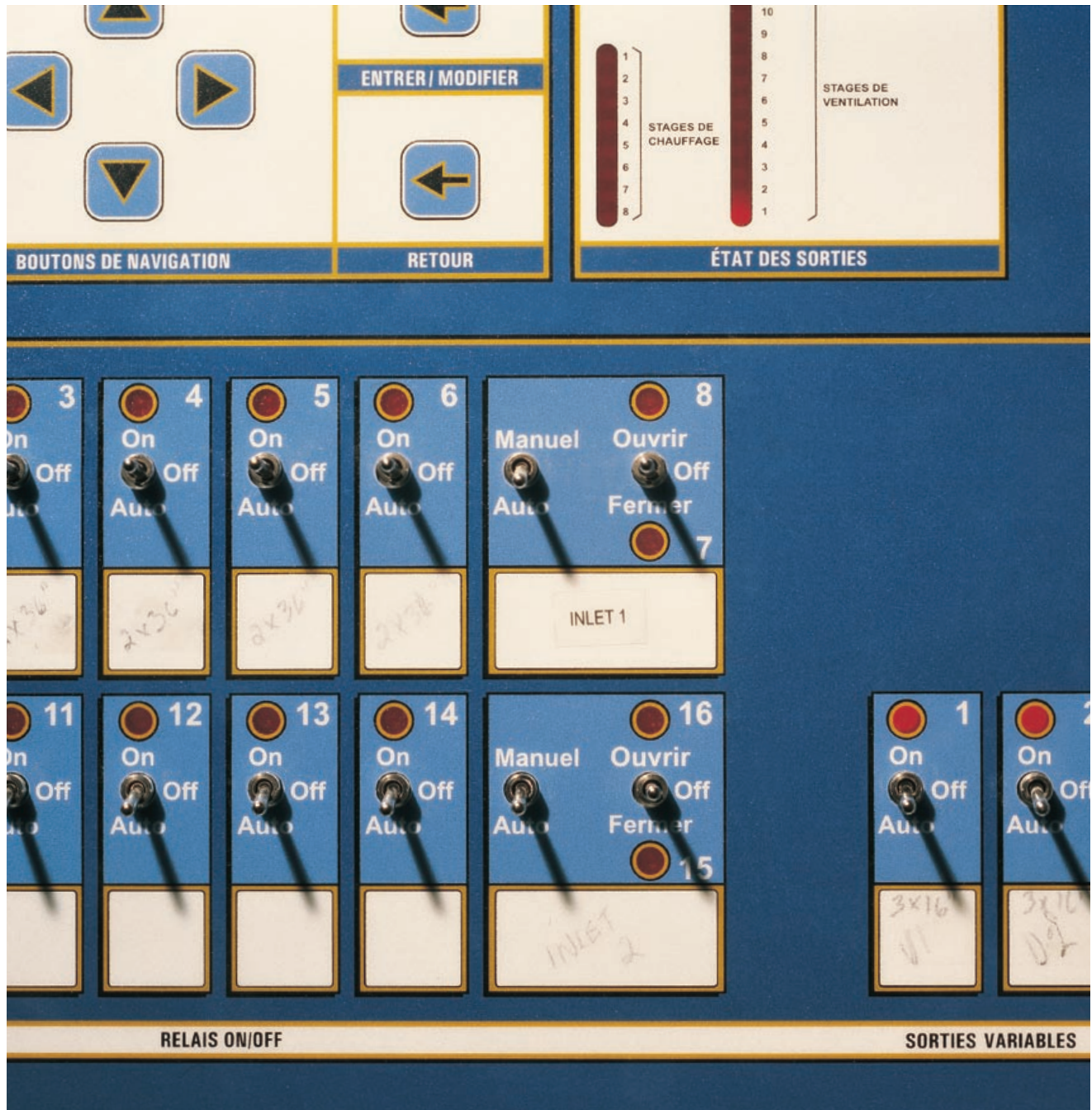
In short, the decision recognized

that CEMA has considerable flexibility in making overbase quota allocations. The Agency may take into account any information that it finds relevant and appropriate, providing we can demonstrate it is consistent with the *Farm Products Agencies Act*. CEMA does need to provide detailed written rationale for its quota allocation decisions which sets out the information relied upon and how the Agency considered the five criteria set out in the Egg Marketing Plan.

As helpful as the complaints committee report was, it did not end the allocation dispute with the province as Saskatchewan signatories applied for a Judicial Review of the 2004 quota order and subsequently applied for a review of the Agency's 2005 quota order.

The review may provide further guidance on the information and criteria that are to be considered in establishing allocations.

CEMA is disappointed that the Saskatchewan signatories have chosen this further step. Rather, we would prefer to see Saskatchewan work within the discussions to renew the Federal-Provincial/Territorial Agreement as the best way to achieve change acceptable to all signatories. In the meantime, CEMA will continue to encourage signatories to provide comments on the draft of a new Agreement.



Egg safety and layer care: top priorities



**Field** Food safety is of paramount importance to Canada's egg producers. In 1990, the Canadian Egg Marketing Agency (CEMA) introduced an on-farm food safety program which continues to evolve as new science paves the way for an ever-safe food supply. Major revisions incorporated principles of the Hazard Analysis Critical Control Point (HACCP) system adopted by the World Health Organization's food safety committee.

The goal of the HACCP system, and consequently of CEMA's Start Clean—Stay Clean™ program, is to identify risks and then take all reasonable measures to prevent problems. If problems should occur, however, the system facilitates discovery of the cause and subsequent correction.

By incorporating Start Clean—Stay Clean™ into their farming practices, producers can know they are following a HACCP-based program, fulfilling customer expectations for a safe food supply.

In 2004, following recognition by the Canadian Food Inspection Agency that Start Clean—Stay Clean™ was a technically sound HACCP-based program, CEMA re-designed the rating sheets used by our field personnel when inspecting

farms and also issued a revised producer manual to all regulated egg farmers in Canada.

These revisions were required to incorporate processes ensuring the safe production of egg producers' second food product—fowl meat—as well as to describe required production management practices specific to free run, free range and organic systems, recognizing that some producers are adopting these systems in response to consumer demands for specialty product. A new part documenting an examination of records was added to the rating sheets to facilitate auditing. Qualifying operations may be audited by one of CEMA's auditors if this is requested by the producer. As in the past, any regulated

producer achieving 90 percent or more on the Start Clean—Stay Clean™ program receives a Certificate of Achievement.

Canadian egg producers accept their responsibility for providing consumers with eggs of the highest quality possible. The standards developed in the voluntary Start Clean—Stay Clean™ program lead the world. The task ahead is to ensure Canada maintains, and even improves upon, its enviable reputation both at home and abroad.

## **ANIMAL CARE**

Another major component of CEMA's on-farm work is our new Animal Care Program. CEMA established the voluntary program to help regulated egg farmers

produce eggs according to science-based welfare guidelines. It followed several months of consultation and study by CEMA's Production Management Committee, the provincial and Northwest Territories egg boards, the Canadian Poultry and Egg Processors Council and CEMA's Board of Directors.

The Program is based on the 2003 Code of Practice developed by several stakeholders, including many scientists and representatives of the Canadian Federation of Humane Societies, the Canadian

Veterinary Medical Association, the Canadian Council on Animal Care, government and industry, including producers, processors and transporters. The Code, facilitated and published by the Canadian Agri-Food Research Council, remains the cornerstone for poultry care in the egg industry as it is based on science and was developed through the cooperation of a wide range of stakeholders. CEMA was a major partner in its

number of registered operations per province		
province	2004	2003
<b>BC</b>	127	132
<b>AB</b>	167	167
<b>SK</b>	64	66
<b>MB</b>	168	166
<b>ON</b>	379	394
<b>QC</b>	107	108
<b>NB</b>	18	18
<b>NS</b>	24	24
<b>PEI</b>	11	12
<b>NL</b>	11	11
<b>NT</b>	2	2
<b>Canada</b>	<b>1,078</b>	<b>1,100</b>

2003 data as audited;  
2004 data as reported Dec 31, 2004

CEMA's field staff are responsible for rating Canada's regulated egg operations according to the criteria established in our voluntary HACCP-based Start Clean-Stay Clean™ program.

average number of layers per registered operation		
province	2004	2003
<b>BC</b>	18,363*	17,667
<b>AB</b>	9,536	9,225
<b>SK</b>	12,381	12,118
<b>MB</b>	12,454	12,809
<b>ON</b>	18,768	17,929
<b>QC</b>	30,537	30,439
<b>NB</b>	22,642	22,697
<b>NS</b>	29,662	29,656
<b>PEI</b>	11,221	10,212
<b>NL</b>	30,770	31,046
<b>NT</b>	34,399	42,184
<b>Canada</b>	<b>17,477</b>	<b>17,108</b>

2003 data as audited; 2004 data as reported Dec 31, 2004  
Excludes inventory for EFP, Stand Down, Special Permits, and Early Fowl Removal.  
\*Adjusted for AI situation: utilizes 2003 average audited inventory divided by 2004 reported number of operations.

A new egg industry Animal Care Program for layers based on the Code of Practice is being delivered across the country by CEMA's field staff.

## Making the grade

The grading process begins with flats of 30 eggs being lifted onto an assembly line. Metal arms with suction cups gently lift the eggs from the flats onto a moving track. The eggs are then washed and sanitized in a high-speed washer that gently scrubs the eggs. The quality of the eggs is examined using a process called candling or scanning. In candling, the egg passes over a strong light which makes the interior of the egg visible to see the condition of the shell, the size of the air cell and whether the yolk is well centered. Using an electronic sensor, eggs are divided into three streams: Grades A, B and C.

### Canada Grade 'A'

- sold in retail stores for household use

### Canada Grade 'B'

- sold for commercial baking or further processing
- can be sold at retail

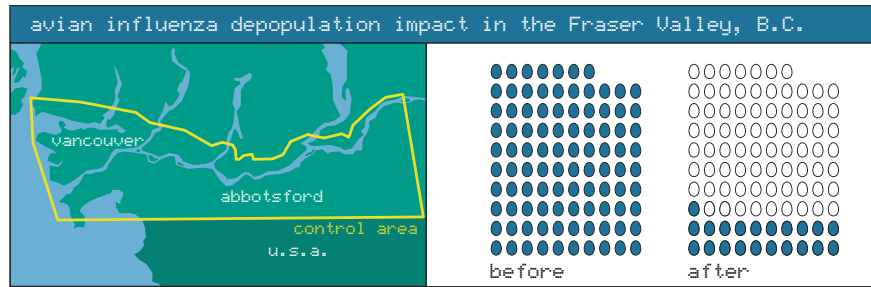
### Canada Grade 'C'

- sold to commercial processors for further processing only

development, serving as secretariat for a revision committee of 20 participants.

The Animal Care Program was developed to be credible and realistic, the main tool for conveying to producers the major guidelines found in the Code. Farms are inspected against 14 criteria pertaining to density, water and feed, beak trimming, house temperature, lighting, air quality, moulting, generators and layer condition.

The retail and restaurant sectors are encouraging producer groups to develop common verification systems, such as the egg industry's Animal Care Program. Otherwise, individual retailers and restaurateurs may develop their own animal welfare purchasing specifications, thereby forcing producers to abide by different criteria depending on who they are supplying. Science-based animal care specifications provide assurances to consumers, retailers, restaurateurs and producers that market competitiveness is not driving animal care programs.



76 of 97 regulated egg operations in the control area were depopulated.

### AVIAN INFLUENZA THE MAJOR PRODUCTION CHALLENGE OF 2004

A highly pathogenic H7N3 strain of avian influenza in the Abbotsford region of British Columbia was the major production and supply challenge of 2004. All sectors in the industry pulled together to contain this disease which is highly contagious in poultry and progress was made to return the B.C. production sector to its pre-outbreak status.

The federal government established the Fraser Valley Control Area to contain the disease by restricting movement of products and poultry. Subsequently, the Minister of Agriculture and Agri-Food ordered the largest poultry depopulation in Canada's history.

Of the 97 regulated egg operations in the Control Area,

76 were depopulated. Seventy percent of the egg production in the Control Area, or 60 percent of the province's egg production, was removed. CEMA does not anticipate production returning to normal in B.C. until December 2005.

Throughout the crisis, CEMA exercised its social responsibility to tell regulated egg producers what the law was during this very critical time and what they could do to help contain the spread. Working very closely with the Canadian Food Inspection Agency (CFIA), which was responsible for on-the-ground management of the outbreak, we found out as much as possible about containment, movement restrictions and biosecurity and conveyed that information to producers.

Communication is very important in the management of any crisis. It will be important for

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CFIA and industry to establish the best means to relay information that is critical to the containment of disease and necessary to properly supply markets.

Throughout 2004, CEMA arranged shipments of imported eggs to supply the B.C. market. At year's end, 17.7 million dozen eggs graded to Canadian standards were imported from the U.S. These imports ensured a steady supply of eggs to the B.C. graders and the Abbotsford breaker. Our colleagues in the retail sector have reported that CEMA did an excellent job keeping retail shelves stocked with high quality eggs. With B.C. consumers eating eggs as before, the industry is in a good position to complete its recovery in 2005 and early 2006.

B.C. producers would have lost at least \$48 million dollars if it had not been for \$35 million in compensation provided by the federal government under the authority of the *Health of Animals Act*. In addition, CEMA set aside \$13 million to ensure an orderly return to production to meet market requirements.

As the province recovers from this crisis, attention must turn to improving the country's preparedness for another outbreak. Highly pathogenic avian influenza is no longer just a contagious poultry disease resulting in high mortality among birds. Some strains are now known to be causes of serious illness in humans. Even though the only two cases of human infection in B.C. were mild, Canada must accept its

responsibility as a member of the global community to reduce both the animal and human health risks of avian influenza.

CEMA, the other national poultry agencies and the Canadian Poultry and Egg Processors Council began work in 2004 so avian influenza can be better addressed in the future. Development with government of pre-emptive cull protocols is of the highest priority. Such protocols will ensure suspicious flocks are destroyed prior to laboratory tests confirming the presence of highly pathogenic avian influenza.

Part of these protocols must include compensation to cover the loss of birds and business interruption. Standard operating procedures are needed to outline

what is to be done during the first 24 to 72 hours after identification of a suspicious flock. These procedures should cover carcass and manure composting and disposal, labour, protective equipment, cleaning and disinfection, movement restrictions and mechanisms for ensuring a steady flow of pertinent information among all concerned.

CEMA will continue to work with poultry industry stakeholders and government to develop these protocols in 2005.



Reaching Canadians with the good news about eggs

**Marketing** The main focus of our marketing and nutrition programs in 2004 was strategic review. All activities were reassessed in order to develop a new strategic and integrated marketing approach.

Agency marketers and those from the provincial-territorial egg boards reviewed research and trends and initiated a strategy paralleling the new direction which had resulted from the Board of Directors' April strategic planning session. The new strategic marketing approach is based on assessing consumer needs through research, integrating marketing programs and deriving profits through customer satisfaction. Knowledge of the egg consumer and what is likely to appeal to that consumer needs to be understood so the most appropriate marketing messages and tools can be developed.

Health and nutrition trends identified in 2004 pointed to a very different marketing climate for foods, particularly eggs, than existed just 10 years ago. There

are major indications that obesity is increasingly becoming a problem in Canada. One trend that had some significant interest from the Canadian consumer in order to try to fight obesity was the high protein/low carbohydrate diet, which began to lose steam toward the end of the year.

These trends put eggs in a very favourable position to be marketed for their nutritional benefits. Eggs are an excellent source of high quality protein; one large egg has only 70 calories; there are only 1.5 grams of saturated fat in a large egg and zero *trans* fat.

Retail trends may be indicative of consumers' increased awareness of health and nutrition matters as well. Measurements of retail trends show that specialty eggs, some of which are nutritionally enhanced,

are growing in popularity, now accounting for 11 percent of the market share, up from three percent just a few years ago. Canadians are showing that they appreciate choice at the egg case.

Research shows women are still the major buyer of food for families. Heavy egg buyer households, or those households buying more than 25 dozen eggs a year, tend to be maturing families, established families and empty nesters. Indications show that we can expect an increase in these types of households as our population ages. Therefore, they must be targeted if we want to sustain them as typical heavy egg buyer households and take advantage of the opportunities posed by our aging population. Marketers concluded this necessitates a change in our target

audience and broadened it from women aged 25 to 54 with children to women aged 25 or more with or without children.

The next step was to find out what will best drive consumption growth. Our national-provincial marketing team launched a two-stage “concept optimization” research project. Four concepts were tested: Eggs for Dinner, Eggs Provide Healthy Energy, Eggs are Simple and Eggs are Versatile.

The first stage included four focus groups across the country to determine which of these concepts most appealed to egg consumers. This allowed us to refine the concepts in order to move into a quantitative survey. Two of the concepts were quantitatively tested: Eggs Provide Healthy Energy and Eggs are Versatile. The research was done on-line with 1,400 respondents. Through this research, we were able to determine one optimal message that can be used to increase egg consumption because of its consumer appeal. The research clearly showed that Eggs Provide Healthy Energy is what Canadian

consumers are looking for. With this research behind us, we are now in a position to develop a new creative based on that concept early in 2005 for launch in the spring.

### **BUSINESS AS USUAL**

Though we focused in 2004 on reassessing our strategic marketing direction, we maintained several programs throughout the year to ensure maximum exposure of eggs to consumers.

We extended our 2003 television advertising campaign “Your Dinner—Starring Eggs” into 2004, airing it from the first week in January and continuing to the end of December. In the fall, two new 60-second spots were created to be aired on specialty channels. The spots showed a young girl demonstrating how very easy it is to make two different egg dishes: Giant Stuffed Pasta Shells and Tortilla Quiche. Two 15-second spots accompanied these commercials to remind viewers to visit our consumer website [www.eggs.ca](http://www.eggs.ca) for more recipe ideas. Typical of the team approach used by the provincial and national marketers, these

commercials were developed from conception to delivery under the supervision of the Ontario marketer on behalf of CEMA while we underwent staffing changes in our marketing unit.

Eggs.ca was updated several times in 2004 to incorporate new recipes, newsletters, family activities and nutrition information. The number of visits to our website increases monthly but we must continue to expand it to keep consumers returning, giving us yet another marketing opportunity to encourage increased use of eggs.

Also in 2004, we continued our retail programs with three in-store recipe promotions. These promotions feature the distribution of recipe booklets in about 2,000 stores across Canada for six weeks each. Each edition of the recipe booklets contains five new egg recipes, a mail-in offer as well as a sweepstake contest. A new feature for our in-store promotions was the use of a floor graphic display, coinciding with the September promotion in English Canada. In Quebec, we enhanced the September promotion with the use



of an advertisement in grocery carts.

Resource development remained a major feature of our marketing program's education and nutrition education components. A new edition of our health professional newsletter Nutrition in Your Practice was published in March in health professional journals. The focus of this issue was *trans* fatty acids and how eggs do not contain any. Canada's Food Guide to Healthy Eating was also addressed and a reminder to health professionals about the importance of eating animal foods, specifically eggs, was featured.

Teaching children that eggs are both fun and nutritious is the objective behind our new resource E is for Eggs. This booklet is designed to teach children aged

2 to 5 all about eggs through the use of crafts, games, songs, experiments and recipes. For older children and adults, we redesigned and re-wrote our popular Extraordinary Egg booklet which brings the reader along the journey of the egg from the farm to table.

Other resource development projects in 2004 included printing of a teacher's guide to accompany the Extraordinary Egg; revision of Eggs: Nature's Treasure, a booklet explaining basic egg cooking techniques and other egg information; updating of the high school teaching modules and creation of Unscrambling Cholesterol, a collection of dietary cholesterol research and reports targeted to a health professional

audience. Unscrambling Cholesterol was developed to assist health professionals in making sense of the many recommendations that exist on dietary cholesterol and as a reminder that eggs are an important part of a healthy diet.

A major portion of CEMA's nutrition education is directed at health professionals who advise consumers on appropriate eating habits. We remain in close contact with health professionals to provide them with credible, scientific information about eggs.

### **NUTRITION FOCUS REMAINS STRONG**

Eggs are an exceptionally nutritious food. For decades, scientists have recognized that eggs contain the highest quality protein of any food.

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canadian poultry and  
egg processors council



peter vriends  
prince edward island



robert sexty  
consumers' association  
of canada

They have established that eggs contain many important minerals and nutrients for good health. Now, increasingly in recent years, they are coming to learn the value of both the macro- and micro-nutrients found in eggs. Whether its protein for building and repairing tissue, folic acid for protecting against neural tube defects or lutein for eye health, eggs are one of the most nutritious foods available to human beings.

Scientific research continues to show that the dietary cholesterol in eggs is not a risk factor for increasing heart disease. In April, CEMA was the platinum sponsor of the 3rd International Symposium on Egg Nutrition for Health Promotion held in Alberta. Eighteen speakers discussed the health benefits of eggs and research being done internationally to that regard.

In December, the Journal of the American College of Nutrition published a supplement based on the First International Scientific Symposium on Eggs and Human Health: The Transition from Restrictions to Recommendations. The supplement in this credible

scientific journal published all of the research studies that were presented at the 2003 Symposium held in Washington, D.C. The research showed the nutritional benefits of eggs from their potential role in disease prevention to protein for older adults and the role of choline in eggs for brain development.

Our important relationship with the Heart and Stroke Foundation was recognized by the International Egg Commission when CEMA was invited to the Commission's Annual Marketing and Production Conference to speak about the partnership. During the conference, we focused on the Foundation's Health Check™ Program. The Health Check™ symbol on egg cartons recognizes eggs as a healthy food choice.

As well in 2004, we co-sponsored the 2005 Healthy Living Calendar published by the Heart and Stroke Foundation and the Health Check™ program. The calendar contains several egg recipes, tips for healthy living and information on the important role of eggs in a healthy diet. The calendar

FROM THE FARM TO YOUR TABLE

PART 6

## Packaging

The eggs are separated by size and packaged in foam, fibre or clear plastic cartons. The cartons are stamped to indicate the *Best Before* date which lets you know how long the eggs will maintain their quality, usually set at 35 days after grading.

A hen lays very few peewee and small eggs, some medium and jumbo, and mostly large and extra large eggs. After being packaged in cartons, fresh eggs are again refrigerated until they are sent to stores and restaurants.

Before the eggs are shipped, federal inspectors take random samples for individual testing to ensure the eggs are high quality. The eggs you buy at the store usually arrive there within approximately four to seven days of being laid.



was circulated nationally through *Homemaker's* magazine and *Madame au foyer* and reached over 1.2 million readers.

In 2004, we responded to Health Canada's proposed new Nutrition Recommendations for Canadians. In particular, we expressed concern with the recommendation on fat as it calls for minimizing the intake of saturated fat, *trans* fat and dietary cholesterol. While we agree the intake of saturated fat and *trans* fat needs to be minimized, the science does not support the need to minimize the intake of dietary cholesterol. We will pursue this with all vigour in 2005 as we participate in further consultations with Health Canada on the Nutrition Recommendations as well as revisions to Canada's Food Guide to Healthy Eating.



Trade talks move forward under new chairman

**Trade** Out of the ashes of the Cancun ministerial meeting, World Trade Organization negotiations in Geneva picked up momentum, particularly in agriculture in 2004. The December deadline for achieving a new multilateral trade agreement was not met, but progress was made as countries pressed forward to reach a framework on what a new Agriculture Agreement might look like.

It was at the General Council meeting in February that countries reiterated their desire to reach a new broad trade agreement. Later, the new agriculture chair, Tim Groser of New Zealand, rallied negotiators to re-affirm the Doha Round mandate for agriculture: comprehensive negotiations aimed at substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support.

Negotiations reached a critical turning point in July, culminating in the Framework for the Establishment of Modalities in Agriculture on August 1. Canada's negotiating team—including its Minister of Agriculture and Agri-Food, Andrew Mitchell, and

Minister of International Trade, James Peterson—were successful in removing from the draft text a provision that would have made cuts in over-quota tariffs, which are the lifeblood of our supply management system for eggs, mandatory. In addition, the Framework recognizes that sensitive products need to be treated separately.

Despite these accomplishments, there are several areas of the Framework agreement which threaten the three pillars of supply management—import controls, producer pricing and production discipline—and are, therefore, detrimental to the dairy, egg and poultry industries in Canada.

**Treatment of sensitive products:**

It is unknown how sensitive products will be defined or treated. The agreement introduced the concept

“deviations from the tariff formula” when dealing with sensitive products. However, there is no agreement on what this concept means.

**Expansion of market access:**

The Framework calls for increases in market access but does not provide detail on how countries should provide additional access. This leaves open the possibility of percentage increases, for which some countries have been calling, and would result in a situation where the inequities found in the current WTO agriculture agreement continue. All countries must grant the same level of market access. Canada's supply-managed sectors are among the most generous globally in granting access to our domestic markets.

### Caps on domestic support:

CEMA opposes product-specific caps on domestic support as world-wide equity can be achieved by reducing all trade-distorting domestic support combined.

However, the Framework calls for caps on product-specific support. Given this reality, it is important that Canada make clear such caps must be based on the value of production, and not based on historic supports, as that would simply entrench inequity.

### Over-Quota Tariffs:

Although the Framework does not make cuts in over-quota tariffs mandatory, there is no guarantee that this concept will not re-emerge during the next level of negotiations.

Late in the year, Mr. Groser launched a three-level negotiating process to ensure negotiations continued to move forward. The first level consists of an informal reading or scoping of issues by the entire membership. Each subject dealt with in the first level must move forward into the second level where more detailed technical

work occurs in smaller groups. The third level consists of an even smaller group tasked with drafting wording which is then brought back to the entire membership for consideration.

These discussions will culminate with the sixth ministerial meeting in Hong Kong in December 2005. It is possible that a modalities agreement will be reached at that time. Such an agreement would define the measurable means to liberalize trade world-wide.

### **FIGHTING FOR SUPPLY MANAGEMENT AT HOME AND ABROAD**

A major portion of our government relations activities within Canada is dedicated to promoting supply management and our trade position. In February, CEMA held the first national *eggscellent* breakfast on Parliament Hill during which producers made omelettes for Members of Parliament and Senators. Ontario Egg Producers (OEP) had held several successful breakfasts on Parliament Hill and CEMA took this project over as a



The first national *eggscellent* breakfast gave producers the opportunity to meet with Members of Parliament and Senators and explain the benefits of national egg supply management.

national effort, with the experienced assistance of OEP.

The breakfast gave us an excellent opportunity to meet with parliamentarians and express how important it was for our politicians to continue to support supply management. In addition, CEMA's Chairman held several meetings with key Members of Parliament throughout the year.

In May, we participated in a WTO symposium on agriculture entitled Multilateralism at a Crossroads. We participated in several agriculture sessions including one organized by the Canadian Federation of Agriculture, of which CEMA is a member. The symposium was a forum for civil society organizations having an

interest in the WTO negotiations. The program included a broad plenary session, a session on agriculture organized by the WTO and several round table discussions, including one organized by the CFA and the other signatories to the Declaration for Fair and Equitable Agricultural Trade Rules at the WTO. These signatories are farmer organizations around the world concerned about the inequities in the current WTO Agriculture Agreement.

Also in the month of May, we met with Geneva-based representatives of key WTO-member countries including Brazil, India, the United States and Switzerland. These meetings gave us the opportunity to promote the ideas of Canada's supply-managed industries while gaining a better understanding of other countries' objectives for the negotiations.

When trade talks intensified in July, so too did the efforts of Canada's supply-managed sectors. Egg producers joined farmers from the other supply-managed commodities in meetings with

Canada's trade negotiating team so ongoing feedback could be provided as the Framework Agreement came closer to reality. These efforts were supported by extensive activities at home as producers conveyed to their provincial ministers of agriculture the need for a flexible agreement so Canada's supply management systems could continue to operate. Provincial ministers, in turn, expressed support for supply management while meeting by conference call with the Canadian negotiating team in Geneva and encouraged the federal ministers to continue to press forward on behalf of the supply-managed industries.

Following the July agreement, CEMA again participated in a symposium in Geneva, this one for non-government organizations. During this symposium, CEMA and others explained our system of supply management to producers and other leaders from several different countries. A source of pride for us was that many renowned speakers from countries other than Canada spoke on the

merits of the Canadian supply management system as a solution to the distortions in agricultural markets. It became clear that the Canadians were well respected for their technical expertise on trade issues and for their supply management systems. Other countries have begun to explore supply management as a potential model for them.

In November, we were again in Geneva and continued to promote our ideas and learn more about objectives of other countries. We met with a number of government representatives and negotiators and also met with the chair of the negotiations, Tim Groser.

### **EGG SUPPLY MANAGEMENT: STUDIES SHOW IT CONTRIBUTES A LOT**

Studies commissioned by CEMA in 2004 demonstrated how important the egg industry is to the Canadian economy. The purpose of the "Assessment of the Economic and Social Value of the Egg Industry in Canada" was to identify the economic and social contributions

## At the store

The eggs are rotated so those that arrive at the store first are the first ones sold. Stores have a cold storage area where eggs are briefly held before being displayed in a refrigerated area of the stores.



made by the Canadian egg industry to agriculture, to national and provincial economies and to the wider Canadian society.

The results of this assessment completed by the George Morris Centre are significant and show that primary egg production generates over \$565 million in farm cash receipts a year and directly employs almost 12,000 Canadians. Our

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laurent souigny  
chairman



roy fabian  
northwest territories

regulated egg operations produce almost 535 million dozen eggs, meeting Canadian consumers' requirements for fresh shell eggs.

The studies also assessed the contribution of all of the supply-managed poultry sectors combined: eggs, chicken, turkey and broiler hatching eggs. These industries have total annual revenues in excess of \$6.9 billion, contribute almost \$13 billion to the Canadian economy and provide employment to nearly 72,000 Canadians.

In addition to the economic study, the Centre completed a qualitative assessment to determine the social contributions made by the poultry and egg industries. Rural community leaders were surveyed and asked several questions

to gauge their views on what supply management offered their communities. An overwhelming majority of those surveyed stated that communities with heavy concentrations of supply-managed industries enjoyed economic stability.

In addition, they believed that financial investments in community projects by farmers in supply-managed industries were consistent from year to year, that there is a low risk in repayment of receivables to input suppliers and that some rural communities would be less vibrant without neighbouring farmers in supply-managed industries. Overall, the research found that supply management created a favourable environment for farmers who



wanted to pass the farm onto the next generation, providing some assurances of an independent Canadian food supply in the future.

CEMA distributed the results of this study to media with a press release and several interviews with key spokespersons. It is important that both our governments and Canadian consumers appreciate the importance of the egg and poultry industries to the economy and community vitality throughout rural Canada.

In 2005, we will proceed with a new Cost of Production survey, which will further tell us what contributions farmers are making to the economy and their communities. In particular, the survey results are expected to better define the number of farmers supported by each regulated egg operation.



Growing our industry through research and innovation

**Moving Forward** CEMA supports research on animal welfare, food safety and egg nutrient enhancement including the development of innovative shell egg products. This is all part of our commitment to the future as is our vaccine program for the protection of human health.

In 2004, and with the financial support of CEMA, researchers at the University of Manitoba continued to investigate the most effective strategies for enhancing the folate content of table eggs. Folate, a vitamin which has been known to reduce the risk of neural tube defects in infants as well as reduce the risk of developing heart disease in adults, is recommended by Health Canada in the amount of 400 micrograms daily.

To date, the researchers have been able to incorporate a significant amount of folate into the feed of laying hens, thereby enhancing the folic acid of their eggs with no negative effects on egg quality or production. Over the next three years, this project will focus on the human component:

looking at blood folate levels in women of child-bearing age consuming folate-enhanced eggs. CEMA's contribution over the past two years toward this project has been \$90,000.

Likewise, researchers at the University of Guelph are focusing on enhancing eggs with lutein. Lutein is an antioxidant that has been linked to improving eye health and preventing age-related macular degeneration, the leading cause of blindness in older adults. Preliminary findings have shown that lutein may also boost the immune system of hens. The contribution made by CEMA towards this project is \$140,800 over a three-year period.

In 2004, CEMA contributed \$5,000 to the University of Saskatchewan to continue

research on beak trimming of laying hens in order to assess animal welfare and productivity of the birds. Researchers from the University of Alberta were also given \$5,000 to study the effect of midnight feeding on the bone density and egg quality of brown and white layers.

CEMA continues to support the Canadian Poultry Research Council. The CPRC was developed in 2000 as a result of increasing recognition among the national poultry agencies and the Canadian Poultry and Egg Processors Council that poultry research was diminishing in Canada. It was understood that benefits across all of the poultry sectors could be realized by collaboration on research in common areas of interest.

## At home

Eggs should be stored in their carton in the main body of the refrigerator. Keeping eggs in the main body of the refrigerator rather than on the door ensures they are stored at a more consistent and cooler temperature.



In 2004, four projects, under CPRC's AVIMICRONET program relating to the microbiology of the avian gut were partially supported by CEMA in the amount of \$22,500 per year for a period of three years. In December, CEMA's Research Committee agreed to support CPRC's recommendation to request full proposals for seven projects under the CPRC Environmental Program.

Bringing researchers together and presenting results to the industry increases knowledge and strengthens industry ties to the research community. In April, CEMA sponsored the Third International Symposium on Egg Nutrition for Health Promotion. Over 200 people from all over the world came to Alberta to attend a three-day egg symposium. Findings on egg research being conducted in Canada, Germany, the United States, Sweden, Japan, Belgium and Australia were presented. Dr. Jeong Sim, one of the first researchers in Canada to investigate the opportunity of enhancing the egg with omega-3 fats, was presented with an award for his contribution to the egg industry. The results of all of the symposium presentations are being collated in a textbook that will be available to the industry in 2005.

CEMA's commitment to research will continue in 2005 when we begin to promote our available funds for egg-related research. Working with CPRC and potentially other funding sources, we will be able to enhance

our understanding of the shell egg and the opportunities it brings to the table.

### VACCINES

In 2004, we saw extensive media coverage related to influenza on several fronts: the shortage of influenza vaccines in the United States and investigations into the possibility of human-to-human transmission of avian influenza in the future. While these issues concerned readers and listeners across the country, the Canadian egg industry continued its active role in protecting Canadians and livestock against diseases.

The Canadian egg industry has been actively involved in producing influenza (or flu) vaccines since the 1960s. Since that time, the egg industry's vaccine production numbers have risen substantially by close to 75,000 layers since the late 1990s. Four operators in Ontario and Quebec currently raise 175,000 layers for vaccine production, producing 75 percent of the influenza vaccine supplied to Canadians each flu season. Nearly

board of directors



peter clarke  
nova scotia



harold froese  
manitoba



ian mcfall  
canadian poultry and  
egg processors council

ten million doses of flu vaccine were distributed in Canada during the 2002/2003 flu season.

Vaccine manufacturing is complex and time-consuming. Flocks involved in vaccine production are managed under very particular protocols to protect against antibodies for bacteria and other viruses developing in the eggs. Producers must also keep roosters to fertilize the eggs during the production period. Eggs produced outside the vaccine production period are sold into CEMA's Industrial Products Program.

Thanks to supply management, the egg industry is not only able to keep pace with the growing demand for vaccines, but the

orderly supply of eggs is also a contributor to the stability of the vaccine production business.

In addition to regular flu vaccine production, Canada is one of the few countries in the world to have a program in place that assures a state of national readiness in case of an influenza pandemic. The federal government, the country's largest manufacturer of vaccines, and Canada's egg producers have created the infrastructure and capacity to provide influenza vaccine for 100 percent of domestic vaccine needs in the event of an influenza pandemic.

**Financial Analysis:** 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.

The main story of 2004 was the significant swing in United States (U.S.) breaker egg prices, upon which the industrial product prices in Canada are based. Even though we experienced significant changes in our market conditions, the Pooled Income Fund (PIF) recorded an increase of \$14.1 million. As a result, the PIF ended the year with a fund balance totaling \$38.6 million.

2004 will go down as a year of extremes as the Agency experienced industrial product prices from a high of \$1.22/dozen in week 13 to a low of \$0.31/dozen in week 47. Also impacting the fund balance negatively was the appreciation of the Canadian dollar versus the U.S. dollar. A stronger Canadian dollar results in decreased revenues to the Agency as it calculates its industrial product

prices off a U.S. base price. In 2004, the Canadian dollar ranged from a high of \$1.3879 in week 21 to a low of \$1.1804 in week 49. On average, the U.S. dollar converted into Canadian currency averaged \$1.2813, down from the 2003 average of \$1.4103.

Other factors impacting the PIF balance included: In 2004, the average selling price of industrial product in Canada was \$0.63 per dozen, down from the 2003 average of \$0.69 per dozen; industrial product volumes decreased by 696,996 boxes or 9.4 percent. Much of the decrease was related to the depopulation of 1.4 million layers in British Columbia due to the avian influenza outbreak and an early fowl removal program operated by the Agency early in 2004.

In addition, the average levy

rate per bird decreased in 2004 (\$0.0983/bird/week) as compared to 2003 (\$0.1070/bird/week), resulting in a decrease in levy revenues of \$15.7 million. The average buyback costs were mostly the same year over year, averaging \$1.4375 in 2004 versus \$1.451 in 2003.

The Administration Fund used for the Agency's marketing, communications, policy development, financial administration and information services recorded an increase of \$1.7 million to end the year with a balance of \$6.0 million.

The restricted fund used to operate a National Quota Exchange closed the year at \$288,000 while the restricted Risk Management Fund totaled \$8.74 million. In 2004, the Agency restricted \$7.0 million of producer contributions

collected in 2003. This accounts for the significant increase in the Risk Management Fund balance in 2004. The Research Fund, used for grants to research programs or institutions of benefit to the egg industry, ended the year with \$3.23 million. The increase to the Research Fund balance is mainly the result of the \$0.0025/dozen levy accrual which started in 2004.

The Agency's total fund balance closed the year at \$44.6 million of which the unrestricted portion rested at \$32.1 million.

The weak U.S. prices upon which the financial stability of our market operations is dependent are expected to improve slightly as we move through 2005. In the coming year, the Canadian dollar is forecast to remain strong which will continue to put pressure on the cost of operating the national Industrial Products Program. We will also see increased industrial product declarations resulting from repopulation of layers in British Columbia and placement of quota allocations made by CEMA in 2004. As a result of these factors,

CEMA requested a \$0.04 per dozen increase to the national levy for 2005, from \$0.23 per dozen to \$0.27 per dozen. The increase in levy will ensure that the PIF operates with sufficient balances throughout the year.

In 2005, \$0.03 per dozen will be accrued to the Administration Fund, \$0.0025 per dozen will be accrued to the Research Fund with the remainder used to finance the national Industrial Products Program. As in previous years, a mid-year review of the PIF balance will be completed to ensure the adequacy of the levy rate.



Greg Pearce, Chief Finance and  
Operations Officer

Auditors' Report to The Minister of Agriculture and Agri-Food • Government of Canada • The National Farm Products Council • The Members Canadian Egg Marketing Agency

We have audited the statement of financial position of the Canadian Egg Marketing Agency as at December 25, 2004 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 25, 2004 and the results of its operations, the changes in its fund balances and its cash flows for the fifty-two week period then

ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Ottawa, Canada  
February 17, 2005



statement of financial position  
 December 25, 2004, with comparative figures for 2003  
 (In thousands of dollars)

	Pooled Income Fund	Administration Fund	2004 Total	2003 Total
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 26,336	\$ 1,284	\$ 27,620	\$ 16,463
Accounts receivable (NOTE 4)	17,188	2,100	19,288	16,502
Inventory	122	—	122	492
Prepaid expenses	—	71	71	169
	43,646	3,455	47,101	33,626
Restricted investments (NOTE 5)	9,031	3,228	12,259	4,012
Capital assets (NOTE 6)	—	230	230	307
	\$ 52,677	\$ 6,913	\$ 59,590	\$ 37,945
<b>Liabilities and Fund Balances</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 14,119	\$ 867	\$ 14,986	\$ 9,181
Fund balances:				
Restricted (NOTE 5)	9,031	3,228	12,259	4,012
Investment in capital assets	—	230	230	307
Unrestricted	29,527	2,588	32,115	24,445
	38,558	6,046	44,604	28,764
Commitments and contingencies (NOTES 8, 13 AND 14)				
	\$ 52,677	\$ 6,913	\$ 59,590	\$ 37,945

See accompanying notes to financial statements.

On behalf of the Agency:

  
 Chairman of the Board of Directors

  
 Chairman of the Audit Committee

statement of operations and fund balances

Fifty-two week period ended December 25, 2004, with comparative figures for 2003

(In thousands of dollars)

	Pooled Income Fund	Administration Fund	2004 Total	2003 Total
<b>Revenue:</b>				
Egg sales (NOTE 10)	\$ 86,003	\$ —	\$ 86,003	\$ 67,492
Levy, service fees and contributions	83,783	15,679	99,462	110,664
Net levy contribution (NOTES 1(D) AND 10)	8,786	—	8,786	9,696
Interest and other income	652	113	765	345
Other income—restricted (NOTES 5(B) AND 5(C))	187	54	241	428
	179,411	15,846	195,257	188,625
<b>Expenses:</b>				
Trade operations:				
Egg purchases (NOTE 10)	150,763	—	150,763	141,470
Buyback allowance (NOTE 10)	2,792	—	2,792	2,953
Transportation and handling (NOTE 10)	5,231	—	5,231	4,083
Food safety program (NOTE 14)	4,005	—	4,005	360
Third party verification	811	—	811	760
Interest	—	—	—	59
Other	338	—	338	486
	163,940	—	163,940	150,171

	Pooled Income Fund	Administration Fund	2004 Total	2003 Total
<b>Expenses (cont'd):</b>				
Marketing and nutrition	—	7,633	7,633	7,618
Salaries	—	2,883	2,883	2,819
Professional fees and consulting	—	970	970	688
Meetings and travel	—	1,200	1,200	1,293
Public affairs and communications	—	835	835	881
Office and other administrative	—	601	601	630
Marketing and nutrition research	—	208	208	276
Research (NOTE 5(C))	—	199	199	165
Rent	—	311	311	309
Per diems	—	531	531	511
Amortization	—	158	158	264
Uncollected levy, service fees and contributions	(198)	(33)	(231)	201
Transfer of administration expenses (NOTE 3)	1,377	(1,377)	—	—
Donations of eggs	179	—	179	149
	165,298	14,119	179,417	165,975
Excess of revenue over expenses	14,113	1,727	15,840	22,650
Fund balances, beginning of period	24,445	4,319	28,764	6,114
Fund balances, end of period	\$ 38,558	\$ 6,046	\$ 44,604	\$ 28,764

See accompanying notes to financial statements.

statement of cash flows

Fifty-two week period ended December 25, 2004 with comparative figures for 2003

(In thousands of dollars)

	Pooled Income Fund	Administration Fund	2004 Total	2003 Total
<b>Cash flows from (used in) operating activities:</b>				
Excess of revenue over expenses	\$ 14,113	\$ 1,727	\$ 15,840	\$ 22,650
Amortization, which does not involve cash	—	158	158	264
	14,113	1,885	15,998	22,914
Decrease (increase) in non-cash working capital	4,184	(697)	3,487	(6,652)
	18,297	1,188	19,485	16,262
<b>Cash from (used in) financing and investing activities:</b>				
Sale of restricted investments	—	—	—	104
Purchase of restricted investments	(7,186)	(1,061)	(8,247)	(363)
Purchase of capital assets	—	(86)	(86)	(39)
Disposal of capital assets	—	5	5	1
	(7,186)	(1,142)	(8,328)	(297)
Net change to cash and cash equivalents	11,111	46	11,157	15,965
Cash and cash equivalents, beginning of period	15,225	1,238	16,463	498
Cash and cash equivalents, end of period	\$ 26,336	\$ 1,284	\$ 27,620	\$ 16,463

The Agency considers 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 as cash and cash equivalents.

See accompanying notes to financial statements.

notes to financial statements  
Fifty-two week period ended December 25, 2004  
(In thousands of dollars)

## 1. ACTIVITIES OF THE AGENCY:

### (a) Objective of the Agency:

In 1972, Parliament enacted the Farm Products Marketing 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 98% (2003—96%) of their province's industrial product declarations. The difference of 2% (2003 – 4%) 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) Restricted investments:

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

### (c) Inventory:

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

notes to financial statements (cont'd)  
 Fifty-two week period ended December 25, 2004  
 (In thousands of dollars)

**(d) 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

**(e) 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.

**(f) Use of estimates:**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the periods in which they become known.

**3. TRANSFER OF ADMINISTRATION EXPENSES:**

In 2004, the Agency made an allocation of administrative expenses of \$1,377 (2003—\$1,308) 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.

**4. ACCOUNTS RECEIVABLE:**

	Pooled Income Fund	Administration Fund	2004 Total	2003 Total
Levy, service fees and contributions, net of allowances for uncollected amounts of \$354 (2003—\$939)	\$ 10,081	\$ 1,822	\$ 11,903	\$ 7,595
Egg sales, net of allowances for uncollected amounts of \$146 (2003—\$170)	6,877	—	6,877	8,539
Other	134	374	508	368
Interfund receivable	96	(96)	—	—
	\$ 17,188	\$ 2,100	\$ 19,288	\$ 16,502

## 5. 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 5(b) and 5(c). The carrying values and market values of the investments are as follows:

	Carrying Value		Market Value	
	2004	2003	2004	2003
Pooled Income Fund:				
Cash	\$ 4,777	\$ 1,605	\$ 4,777	\$ 1,605
Bonds	4,254	240	4,265	254
	9,031	1,845	9,042	1,859
Administration Fund:				
Cash	3,228	2,167	3,228	2,167
	\$ 12,259	\$ 4,012	\$ 12,270	\$ 4,026

### (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		2004 Total	2003 Total
	Management Fund	NQE Fund		
Beginning balance	\$ 1,567	\$ 278	\$ 1,845	\$ 1,482
Interest income	176	11	187	48
Administration expense	—	(1)	(1)	(4)
Transfer of producer contributions (included in opening unrestricted fund balance)	7,000	—	7,000	—
Reissuance of quota retirement layers	—	—	—	319
Ending balance	\$ 8,743	\$ 288	\$ 9,031	\$ 1,845

### (c) Restricted fund balance—Administration Fund:

In 1997, the Agency was directed by the Board of Directors to set up a restriction in the Administration Fund to fund research. Minimum and maximum fund balances of \$2,000 and \$5,000 respectively have been directed by the Board of Directors. In 2004, the Agency accrued \$0.0025/dozen of levy to the restricted fund. Use of the funds is at the discretion of the Board of Directors. The transactions in the fund are as follows:

	2004	2003
Beginning balance	\$ 2,167	\$ 2,271
Interest income	54	61
Research activities	(199)	(165)
Levy accrual (\$0.0025/dozen), collected in current year	1,206	—
Ending balance	\$ 3,228	\$ 2,167

notes to financial statements (cont'd)  
 Fifty-two week period ended December 25, 2004  
 (In thousands of dollars)

## 6. CAPITAL ASSETS:

			2004	2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and software	\$ 1,868	\$ 1,731	\$ 137	\$ 206
Office equipment	464	382	82	78
Leasehold improvements	50	39	11	23
	\$ 2,382	\$ 2,152	\$ 230	\$ 307

Cost and accumulated amortization amounted to \$2,376 and \$2,069 respectively in 2003.

## 7. DEMAND LOANS:

The Agency has a revolving demand loan facility with a total approved limit of \$5,000 at an interest rate of prime on the first \$2,500 and prime plus 0.5% on the remainder. The facility is secured by a general assignment of book debts and a demand debenture agreement. As at December 25, 2004, loans under this facility were \$Nil (2003—\$Nil).

## 8. COMMITMENTS:

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

2005	\$ 311
2006	311
2007	311
2008	311
2009 and thereafter	—
	<u>\$ 1,244</u>

(b) The Agency is committed under contract for the purchase of advertising in fiscal 2005 for \$60 (2004—\$2,974).

## 9. CONCENTRATION OF CREDIT RISK— ACCOUNTS RECEIVABLE:

As described in note 4, the Agency's receivables are from two main sources: egg sales to egg processors and levy, service fees and contributions collected by Provincial Boards. 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 3 groups of related companies. In 2004, these customers purchased 74% (2003—69%) of the eggs sold by the Agency.



## 10. SUPPLEMENTARY INFORMATION:

Egg sales revenue and egg purchases 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 egg purchases, 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:

	2004	2003
Revenue:		
Egg sales	\$ 92,755	\$ 76,284
Levy, service fees and contributions	101,301	117,467
Interest and other income	652	225
Other income — restricted	187	368
	194,895	194,344
Expenses:		
Trade operations:		
Egg purchases	165,568	158,879
Buyback allowance	3,105	3,340
Transportation and handling	5,597	4,470
Food safety program	4,005	360
Third party verification	811	760
Interest	—	59
Other	338	282
Transfer of administration costs	1,377	1,308
Uncollected levy, service fees and contributions	(198)	204
Donations of eggs	179	149
	180,782	169,811
Excess of revenue over expenses	\$ 14,113	\$ 24,533

## 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 2004 fiscal period, the Agency contributed \$116 (2003—\$118) to the Plan, which is included in salaries expense in the statement of operations and fund balances.

## 12. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values because of the relatively short period to maturity of the instruments. The fair values of restricted investments are disclosed in note 5.

notes to financial statements (cont'd)  
Fifty-two week period ended December 25, 2004  
(In thousands of dollars)

### **13. CONTINGENT LIABILITY:**

In 2004, the Agency was served with a statement of claim from the Court of Queen's bench in Alberta. The plaintiff, Highland Produce Ltd., claims that the Agency breached its fiduciary duties, that its actions put the company at an uncompetitive disadvantage forcing the company out of business and that it conspired with others to force the company out of the egg processing business. The statement of claim is seeking damages of \$9,000,000, additional exemplary damages in the amount of \$2,500,000, interest and costs of the action. The Agency's view is that this claim is the continuation of a legal process that has already been dealt with in the Alberta court, the outcome of the statement of claim is not determinable and has not been accrued in the financial statements.

### **14. FOOD SAFETY PROGRAM:**

Included in food safety program expenses is an accrual of \$3,600 for downtime related to repopulation of layers in British Columbia. The Agency established a Repopulation Adjustment Program ("RAP") to assist producers whose layers were depopulated during the avian influenza outbreak in early 2004. The accrual for the period ended December 25, 2004 is management's best estimate based on information provided from the British Columbia Egg Producers as of the date of the auditors' report.

The program will continue to provide downtime payments to producers in British Columbia in 2005 as the orderly repopulation process continues through November. The payments to be made in 2005 cannot be reasonably estimated at this time as repopulation has not been completed.