



33<sup>rd</sup> annual report of the Canadian Egg  
Marketing Agency for presentation  
March 22, 2006 at the 33<sup>rd</sup> annual meeting,  
and to the Minister of Agriculture and Agri-Food,  
the Honourable Chuck Strahl, and the National  
Farm Products Council.

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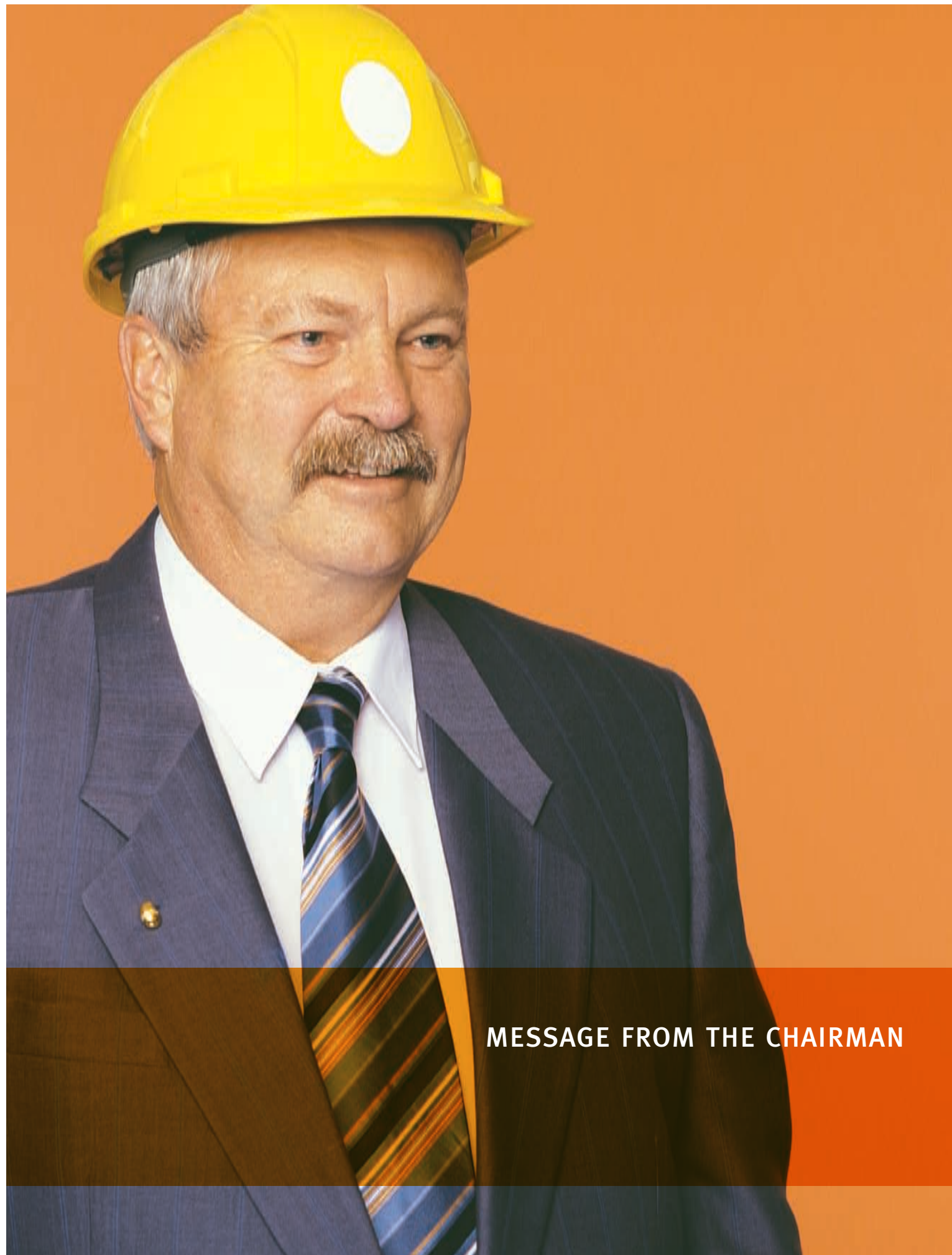


**BUILDING STRATEGIC PARTNERSHIPS**

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## MESSAGE FROM THE CHAIRMAN

**WITH SO MANY DIFFERENT ISSUES AFFECTING MANY SIDES OF OUR INDUSTRY IN 2005, THIS HAS BEEN ONE OF THE BUSIEST YEARS I CAN REMEMBER. AMONG THE HIGHLIGHTS, WE'VE REPOPULATED FLOCKS THROUGHOUT THE FRASER VALLEY AND STRENGTHENED START CLEAN-STAY CLEAN™.**

**We've worked hard to secure a new processor contract, launch a brand new national egg marketing campaign and update the Eggs for Processing (EFP) program. With your help, we also made our voices heard in a big way in the run-up to the winter election campaign and trade negotiations in Hong Kong.**

It is on this note that I would like to extend a warm thanks to those producers and stakeholders who contacted their respective MP to demonstrate the importance of supply management to Canada's regulated egg industry. Your valuable support has placed agricultural concerns back on the political map, as was quite evident in the recent unanimous passing of a motion on supply management in the House of Commons and during the second round of the English-language leaders' debates—both firsts for our industry. Producers and stakeholders at the national and provincial level should be proud of what we have achieved together as a team.

On the international trade file, our negotiating team helped win an important battle in Hong Kong, but we're not out of the woods yet. Critical decisions affecting the future of supply management will likely be taken in the second quarter of 2006, so we'll need your help more than ever in the coming months to raise this very important issue with your MP.

Out west, we're turning the corner on avian influenza. Since the 2004 Fraser Valley outbreak, we've gained a lot of knowledge about prevention and containment. Many thanks are due to our producers, whose strict biosecurity helped us contain a minor H5 strain to two Yarrow-area duck farms in December. Throughout 2005, our Fraser Valley egg farms were repopulated and the last of the Repopulation Adjustment Program payments were issued to producers in October. As well, we're working together with the other national feather agencies to ensure adequate compensation for producers whose flocks are pre-emptively culled.

In Saskatchewan, the judicial review over quota is well underway. As far as I'm concerned, the CEMA family is made up of 11 unique members, and from time to time these members disagree. That's the reality of family dynamics. In the meantime, we'll continue to work fairly with every one of our partners and look forward to a satisfactory solution for all parties.

South of the border, I've had the pleasure of reaffirming ties with United Egg Producers, our industry cousins in the United States. Although they don't supply manage eggs as we do in Canada, we have a lot in common, including work we do in marketing, research and animal welfare. In 2006, I'll continue to strengthen this relationship and look for opportunities to cooperate on issues of mutual concern.

I'm very pleased to see how much progress the National Egg Strategy Team has made. The team developed an EFP bridging policy and is currently reviewing the Industrial Products (IP) Program. When the Team presented an interim report to the Board in July, no one thought it would be easy to develop a supply policy given the interrelationship between provincial EFP programs and the national IP program. Thanks to our directors and provincial managers, as well as to the processors we consult with on a regular basis, we're very close to getting a much-improved National Egg Supply Program off the ground.

From experience, we know that this industry never slows down. We know how much time and energy it takes to make progress. We also know that our achievements are the direct result of dedication from so many people on so many fronts. Each and every one of you should be extremely proud of what we have accomplished as a team in 2005. With your continued support and hard work, I feel that we can build on this success and accomplish even more in 2006.

Laurent Souigny, Chairman

**“UNDER CONSTRUCTION” IS THE THEME OF THIS YEAR’S CEMA ANNUAL REPORT. NOW, AS A FIRST IMPRESSION, IT MAY SEEM A BIT ODD FOR AN ORGANIZATION SUCH AS CEMA, THAT HAS THE RICH HISTORY AND TRADITIONS OF A NATIONAL AGENCY FOUNDED IN 1972, TO CHOOSE THIS THEME. HOWEVER, CLOSER CONSIDERATION MAKES CLEAR THE REASON FOR THE CHOICE OF THE “UNDER CONSTRUCTION” THEME.**

**Virtually every company annual report produced these days contains reference to change: the challenges of understanding change, the pace of change and the impact of change on a company, its clients and stakeholders. Ultimately, what distinguishes successful companies from unsuccessful companies is not how often they talk about change, but how they construct, or re-construct, their business in order to embrace change.**

Successful companies adapt their business and organization to respond to new and different opportunities and challenges. Does the company understand the changes it is facing? Have its directors and senior managers given due consideration to what may happen down the road and are they preparing scenarios and contingencies to deal with these uncertainties? Do the people that make up the Board and staff understand the forces shaping the market place they work in? Does the company have the right skill set in its employees and the right resources in terms of people, technology and funding to meet the challenges the company will face?

Being a successful company is really all about the “4 P’s”— Planning, Process, People and being Pro-active. And that is what CEMA is becoming.

There are no shortcuts in constructing any business to become pro-active. In the case of CEMA, it takes the engagement and commitment of the entire staff, Board and the provinces that make up the Canadian Egg Marketing Agency to put the time and effort into analyzing and assessing our future, the challenges we expect to face and consideration of how we will deal with these eventualities. The concept of embracing change and investing in the necessary up-front planning has received a tremendous level of commitment from the Board, CEMA Staff, provincial Board staff and industry. The results of this work are becoming very evident.

Last year, my report focused on the strategic planning process and operational review. During 2005, the Agency made great strides in accomplishing the stated objectives identified in the plan.

In 2005, we successfully completed a significant restructuring project within the Agency. The objective was to review our entire staff structure to ensure we were properly aligned with Board priorities and to ensure we were adequately equipped with the correct resources. From this work, we have added key additional resources in the areas of human resource management, the Industrial Products Program, animal care, food safety and the environment.

In addition, we have made significant progress towards revitalizing our contractual arrangements with processors. This work will carry over as a key area of priority in 2006. Trade also continues to play a key role in CEMA work. We have developed an organized, strong network of producers who are working across the country with officials at all levels of government in support of supply management. The success of this network in 2005 is witnessed by the presence of virtually all of the provincial agriculture ministers at the Hong Kong Ministerial meeting in December. While in some ways Hong Kong was successful, it really just set the stage for us to continue to defend supply management through the 2006 negotiations.

For this coming year, we have developed a detailed set of objectives that will feature trade, marketing, improving the effectiveness of our industrial product operations and hopefully a resolution to our outstanding issues surrounding the Saskatchewan judicial review process.

As you read through this year’s annual report, I would encourage you to note the level of accomplishment and the orientation towards results. I draw attention to this for a couple of reasons, first, in order to thank all the staff for their outstanding efforts on behalf of the Agency this past year; second, to thank our Chairman, Laurent, the Executive Committee and the entire Board of Directors for refining our strategic direction in order that we have clear direction and, finally, to underscore my primary message—that good planning, good people and good process leads inevitably to good results. As Yogi Berra said many years ago, “If you don’t know where you are going, you will probably end up somewhere else.”

Tim Lambert, Chief Executive Officer

**MESSAGE FROM THE CHIEF EXECUTIVE OFFICER**

## 1

## STRATEGIC PLANNING

PLANNING FOR THE FUTURE AT THE CANADIAN EGG MARKETING AGENCY INVOLVES AN INDUSTRY-WIDE TEAM EFFORT. AS PART OF OUR ONGOING COMMITMENT TO PROMOTE AND MAINTAIN SUPPLY MANAGEMENT, WE VALUE THE INPUT OF ALL OUR STAKEHOLDERS. IN FACT, OUR COLLABORATIVE APPROACH TO STRATEGIC PLANNING IS AIMED AT ENSURING THAT ALL WITHIN THE EGG INDUSTRY HAVE AN IMPORTANT ROLE TO PLAY IN ASSESSING NEEDS, MAKING RECOMMENDATIONS AND BRINGING ABOUT POSITIVE CHANGE.

This past year, we finalized CEMA's 2006–2009 Business Plan and developed work plans to meet strategic objectives. As part of our strategy over the next three years, we will continue our efforts to build consensus through team building, strengthen our policy positions and solidify relationships with our industry partners and government. We are also improving CEMA's national marketing campaigns and streamlining supply and pricing of industrial product. Achieving these goals will help protect supply management, ensure fair and consistent income for regulated Canadian egg farmers, and provide high-quality products to consumers at competitive prices.



As part of the first phase of our organizational restructuring in 2005, we achieved a number of objectives set forth in the 2005–2008 Business Plan. For example, CEMA:

- worked with the provinces to strengthen our national marketing strategy by eliminating duplication;
- made adjustments to the Eggs for Processing and Industrial Products Program to improve collaboration among industry partners;
- developed common avian influenza emergency response protocols and worked in conjunction with the other national feather agencies to ensure adequate compensation for producers;
- expanded the Corporate and Public Affairs Unit to make recommendations on emerging issues facing supply management;
- combined the nutrition and marketing units to improve efficiency;
- realigned human resources, information services and administration units into a new Corporate Services Unit;
- combined the market operations and business analysis units into a new Industrial Products Program Unit;
- created the Board Services Bureau to maintain Board and committee meeting minutes, agendas, and work plans;
- began work on clarifying roles, responsibilities and terms of reference for Board committees;
- issued regular letters from the Chairman to producers in order to improve communication;
- established a policy review and development team, in support of the Board, comprised of CEMA's Chief Executive Officer, Chief Finance and Operations Officer and the provincial managers; and
- updated EIMS (Egg Information Management System) and CEMID (Canadian Egg Market Information Database) applications.

CEMA's success lies in our ability to anticipate market trends and respond to changes affecting the egg industry. We conduct a comprehensive annual planning cycle, which consists of an environmental scan that looks ahead and evaluates industry trends and practices, a review of the previous year's achievements, consultations with Agency staff and directors, and planning sessions with the Board of Directors. The annual planning cycle also entails drafting business plans and publishing the annual report. These processes are very much a team effort, involving Board members, the Board's committees, Agency staff, provincial egg board staff and other industry stakeholders.

CEMA's ongoing mission is to manage an orderly marketing system of eggs in Canada's traditional and newer markets, ensuring a fair return to producers and fair prices for consumers. To make this a reality, we must be able to respond to trends and factors that influence all facets of our industry. The major trends and factors affecting CEMA in 2005 included continued pressure on our levy, changing markets due to increases in industrial and specialty products, improved cooperation from processors on trade and pricing, increased consensus on policy positions by CEMA stakeholders, new data demonstrating eggs' healthy attributes, the growth of egg consumption, increasing awareness of supply management in developing nations, consumer quality issues such as food safety and animal care, and pressure on supply management from an international trade perspective. We will continue to move forward on policy development and program implementation to address these trends.

Change presents both challenge and opportunity for CEMA. Our organization is always positioning itself to anticipate emerging trends, such as the significant growth and restructuring of the American egg breaker industry, increased demand for liquid product, the ongoing consolidation of the egg industry in North America, an increasingly diversified egg marketplace, the potential for specialty eggs as well as the impact of foreign animal diseases and international practices on the Canadian industry.

Of particular importance in 2006 are the ever-evolving WTO agriculture negotiations and the impact a settlement may have on Canada's farmers operating under supply management. In 2005, CEMA worked to improve its ability to manage risk and respond to crises. In response to global concerns about certain forms of avian influenza, CEMA continues to play a key role in planning for disease detection and containment as well as ensuring compensation and insurance for producers.

In the coming years, CEMA will strengthen the foundations of supply management by enhancing its government relations strategy, and we will work to ensure the sustainability of the sector by continuing our direct consultation with trade negotiators. On the home front, CEMA will move forward on quota allocation by resolving outstanding provincial issues and renewing the Federal-Provincial-Territorial Agreement.

FEDERAL QUOTA ALLOCATION (IN DOZENS)				
PROVINCE	PROPOSED 2006 ALLOCATION	2005 ALLOCATION*	2004 ALLOCATION TO DECEMBER 25	2004 ALLOCATION TO JULY 31
BC	64,767,923	66,013,460	64,767,923	63,961,064
AB	45,816,952	46,698,047	45,816,952	44,879,943
NWT	2,828,106	2,882,493	2,828,106	2,806,000
SK	23,902,727	24,362,395	23,902,727	23,732,805
MB	57,047,147	58,144,208	57,047,147	56,620,562
ON	198,941,332	202,767,127	198,941,332	197,018,490
QC	94,750,843	96,572,975	94,750,843	91,775,995
NB	11,033,546	11,245,730	11,033,546	10,860,745
NS	19,579,961	19,956,499	19,579,961	19,434,122
PEI	3,240,282	3,302,595	3,240,282	3,215,858
NL	8,670,417	8,837,156	8,670,417	8,603,244
<b>Total</b>	<b>530,579,236</b>	<b>540,782,685</b>	<b>530,579,236</b>	<b>522,908,828</b>

\*2005 allocation has been pro-rated to reflect 53 weeks.

CEMA assesses allocation requirements at least once annually. Quota allocation figures for 2006 are marginally lower due to 2005 figures being pro-rated to reflect a 53-week year.

We will promote the positive aspects of eggs in relation to food safety, animal welfare, nutrition and the environment in our upcoming marketing and communication campaigns. As well, a key priority for CEMA is the development of a long-term processor contract to increase the efficiency of our Industrial Products Program. In addition, as opportunities for future growth arise within our organization, business and industry, we will proceed only after thoughtful consideration of possible implications.

The values of a given organization can often dictate success or failure over the long-term. At CEMA, we believe in our staff and empower them with tools to bring their ideas to fruition. We also value coalitions, and strive to build consensus with our stakeholders and partners in the egg and supply management industry. Above all, we value an efficient supply management sector that benefits producers and consumers alike.

In closing, CEMA is confident that our team-based, collaborative approach will continue to be a model of success in 2006 and in the years ahead.

## 2

## MARKETING AND NUTRITION

OUR ABILITY TO PROMOTE EGGS AS EFFECTIVELY AS POSSIBLE THROUGHOUT CANADA THIS PAST YEAR WAS GIVEN A BOOST BY A MOVE TOWARD A COMMON MARKETING STRATEGY. WORKING TOGETHER WITH CEMA, THE PROVINCIAL BOARDS STREAMLINED ADVERTISING, PROMOTIONS AND WEB SITE CONTENT IN ORDER TO DRIVE HOME A BRAND NEW CONCEPT: “EGGS PROVIDE HEALTHY ENERGY.”

#### TEAMWORK: THE REAL SUCCESS STORY OF 2005

In 2005, CEMA worked actively to better understand the Canadian consumer. We surveyed more than 2,000 people about their attitudes toward eggs, their consumption habits, and their openness to increasing egg consumption in relation to a variety of marketing concepts. Based on these findings, the national-provincial marketing and nutrition team drew up a media plan that promoted the healthy energy concept and introduced a new tag line: “Rich in Protein. Eggs. For Energetic People.” A public relations campaign was launched in June that focused on the importance of protein and eggs during the active summer months. This was followed by magazine and television advertisements, as well as direct mail to two million homes. With this common strategy in place, CEMA and its partners continue to move forward with efforts to increase egg consumption across the country.

#### Working Together to Increase Egg Consumption

According to recent AC Nielsen market research, egg consumption volume in Canada is in decline after several years of consistent growth. The potential reasons for this trend can be attributed in part to the declining popularity of the low-carbohydrate high-protein diet phenomenon and the fact that CEMA temporarily suspended advertising and promotions in July 2004 to conduct research and formulate a relaunch of marketing activities.

To optimize its media budget in 2005, the marketing and nutrition team used consumer surveys in order to adopt a more demographic-based marketing strategy. By determining which Canadians were more or less likely to eat eggs, efforts were made to focus directly on target markets in strategic urban locations. This fresh approach gave CEMA the direction it needed to launch extensive creative promotional events in Montreal, Toronto, and many points in between—events that generated considerable excitement and sparked national media attention.







Egg World advertisements were produced over the summer for a fall launch.

**Creating a Buzz**

For four weeks in August, large egg-shaped decals were placed strategically in Montreal and Toronto-area subway stations to encourage energetic commuters to take the stairs instead of the escalator. The Eggstreme Transit Team breakdancers were also on hand for six exciting days to reinforce the message that eggs provide healthy energy for busy people. Clad in their yellow and white “Powered by Eggs” gear, the four-person team performed high-energy breakdance routines and handed out “Get Cracking” Energy Eggs, much to the delight of curious commuters. Write-ups about this unique marketing venture appeared in *Marketing* magazine and *The Globe and Mail*, reaching an estimated 1.6 million consumers. A subsequent evaluation of this promotion revealed that more than 8,000 commuters were given Energy Eggs—most under the impression that the squeezable rubber replicas were in fact real eggs. The demand was such that the crew could easily have given away more than 50,000 Energy Eggs during the six-day campaign.

Also in July, CEMA issued 50 Egg Power Pack baskets to select media outlets across the country. These baskets contained “Get Cracking” Frisbees, pedometers, water bottles, gold balls, cookbooks, aprons and oven mitts. Fact sheets and egg-related trivia questions were also included to ensure that CEMA’s key messages were relayed.

Energy Egg and Power Pack basket giveaways were not the only method used to raise awareness of the healthy energy concept during the summer months. While the Eggstreme Transit Team breakdancers were preparing to showcase their moves in Montreal and Toronto, CEMA launched the very successful nationwide Eggcellent Energy Media Tour at the end of July. Registered Dietitian and Sports Nutritionist Andrea Holwegner set off from Toronto for all key English-speaking markets, where she championed the nutritional benefits of eggs during a series of scheduled radio and television interviews. The English-language media tour, which concluded in Victoria, was immediately followed by a French-language media tour featuring Odile Dumais, a specialist in nutrition and physical

education, who delivered the “Eggs Provide Healthy Energy” message to Quebecers in August. In total, the Egg-cellent Media Tour reached an estimated 7.3 million consumers, while coverage for the entire summer public relations campaign is estimated to have reached 15.3 million. The marketing and nutrition team is confident that the Energy Egg promotion, Power Pack basket giveaway and national media tour effectively conveyed the healthy energy message in the weeks leading up to the debut of new television advertisements in September and two nationwide direct mailings to roughly one million households each.

In the realm of television, CEMA’s Egg World advertisements went to air in September and ran nationally until mid-November. Recent ad tracking results revealed that awareness of these ads reached an all-time high. A separate television promotion, the “Spot the Eggtivity” contest, was launched in the fall and ran until mid-October on Breakfast Television and Caféine. To further promote the healthy energy theme, we also sponsored the closed captioning for the very popular Amazing Race Family Edition program, which concluded in mid-December.

Another significant aspect of the new campaign was a redesign of the eggs.ca Web site in July to incorporate the new “Rich in Protein. Eggs. For Energetic People” healthy energy concept. The redesign featured new recipes, pertinent information about the benefits of egg protein and a number of animated Egg World characters. That same month, consumers requesting information from CEMA began to receive regular e-recipes promoting the healthy energy theme.

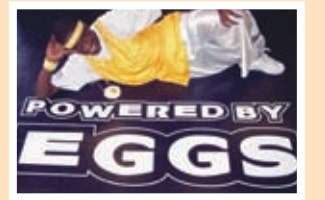
**Recipes: Still a Key Part of the Program**

CEMA began 2005 with its “Win a Nest Egg” campaign, which offered consumers a chance to win a contribution toward their RRSP or RESP for 2006. To complement the campaign, six new egg recipes were unveiled and there was a significant media push: press releases were issued to all major newspapers and magazines across the country, Free Standing Inserts (FSI) were sent to roughly six million households, and a second FSI was sent to approximately 1.2 million *Homemakers*

**BREAKFAST AND LEARN**

THE “HEALTHY ENERGY, TURN IT ON!” BREAKFAST CONFERENCE FOR DIETITIANS AND FOOD AND HEALTH WRITERS TOOK PLACE ON SEPTEMBER 7 AT THE GRAND HOTEL IN TORONTO. THE CONFERENCE, HOSTED BY THE HEART AND STROKE FOUNDATION OF CANADA AND SPONSORED BY CEMA, FOCUSED ON THE ROLE OF PROTEIN IN THE DIET AND FEATURED KEY SPEAKERS SPECIALIZING IN NUTRITION AND PHYSICAL

ACTIVITY. PARTICIPANTS LEARNED THAT PROTEIN DERIVED FROM EGGS AND MILK IS IMPORTANT FOR INDIVIDUALS STRIVING TO MAINTAIN MUSCLE MASS, MANAGE WEIGHT AND CONTROL APPETITE. IT WAS THE FIRST TIME CEMA SPONSORED AN EVENT OF THIS KIND AND CERTAINLY NOT THE LAST. WE RECEIVED MANY POSITIVE COMMENTS FROM CONFERENCE PARTICIPANTS AND WILL STUDY THE POTENTIAL FOR SIMILAR CONFERENCES IN THE FUTURE.



CEMA’s Eggstreme Transit Team entertained rushing commuters as part of a revised strategic approach to marketing.

*Magazine* subscribers. This promotion was inspired by work done previously by the British Columbia Egg Marketing Board and Alberta Egg Producers.

CEMA also sponsored a recipe in the *Baking is Back* holiday booklet, a promotion coordinated by Smuckers and Robin Hood. The booklet was distributed in stores in October and inserted in various magazines. In addition, CEMA sponsored three recipe pages and two ads in the *2006 Heart & Stroke Healthy Living Calendar*, which was distributed to 525,000 households as a magazine insert and is being given out at Heart and Stroke Foundation events.

**Health Professionals: Delivering the Message**

In 2005, research indicated that some Canadians were continuing to limit egg consumption due to health concerns. The advice of certain health professionals and the influence of the media were widely seen as being behind this phenomenon. In order to disseminate the facts and dispel myths about eggs, CEMA sponsored three conferences for physicians and dietitians where they could learn more about the importance of eggs as part of a healthy diet. CEMA also sponsored a display panel and massage area at a medical conference where physicians and delegates could receive a complimentary massage. In addition, CEMA collaborated with the Heart and Stroke Foundation last year on several key health professional initiatives.

In an effort to raise awareness of the health benefits of eggs, CEMA, along with the Heart and Stroke Foundation, developed a Continuing Medical Education Program (CME) and worked with a medical company to accredit the program. Made possible by an educational grant from CEMA, it was hosted successfully by the Heart and Stroke Foundation in Toronto on December 10 and was attended by approximately 200 doctors, dietitians and other health professionals.

**Wrapping Up the Year**

A tremendous amount of creative energy was expended in 2005 to make CEMA’s marketing and nutrition campaigns a great success. Eggs were championed as a healthy energy food to increase consumption nationwide and the proof was everywhere: in our stores, on our radios and televisions, in our mailboxes, at health conferences, in subway stations and on the Internet. Our focus on teamwork and consumer research will remain a vital part of the strategy to increase egg consumption across Canada in 2006.

CANADIAN PER CAPITA CONSUMPTION OF EGGS AND EGG PRODUCTS			
YEAR	DOZENS PER CAPITA		
	SHELL	PROCESSED	TOTAL
1994	11.9	2.6	14.5
1995	11.7	2.7	14.4
1996	11.9	3.1	15.0
1997	12.1	3.0	15.1
1998	12.0	3.3	15.3
1999	12.0	3.3	15.3
2000	11.9	3.8	15.7
2001	12.2	3.7	15.9
2002	11.5	3.9	15.4
2003	11.8	3.8	15.6
2004	11.9	3.5	15.4

Source: Statistics Canada - Total per capita egg consumption Shell / Processed split calculated by CEMA based on Statistics Canada and AAFC data.

*With a new national marketing strategy in place, we are moving forward with efforts to increase egg consumption levels that have remained relatively consistent since 1994. Overall egg consumption experienced a 0.8% increase in 2005 while per capita consumption remained stable. More growth is expected as CEMA moves forward with the new national marketing strategy.*

## 3

## ENSURING QUALITY IN FOOD SAFETY AND ANIMAL WELFARE

CANADA'S REGULATED EGG PRODUCERS ARE WORLD LEADERS IN EGG PRODUCTION, FOLLOWING PRINCIPLES SET OUT BY THE WORLD HEALTH ORGANIZATION'S FOOD STANDARDS CODEX ALIMENTARIUS COMMISSION. THEY ARE COMMITTED TO PRODUCING THE HIGHEST QUALITY EGGS POSSIBLE AND THEIR FARMS ARE INSPECTED ANNUALLY BY CEMA OR ITS PROVINCIAL AND TERRITORIAL COUNTERPARTS. PRODUCERS OBSERVE A NUMBER OF KEY BIOSECURITY, FOOD SAFETY AND ANIMAL WELFARE MEASURES — EFFORTS THAT ENSURE THE SAFETY OF THE FOOD SUPPLY AND CONTRIBUTE TO THE HIGH REGARD CANADIAN CONSUMERS HAVE FOR THE INDUSTRY.

### FOOD SAFETY: START CLEAN-STAY CLEAN™

One important reason for Canada's resounding success in the production of safe, high-quality eggs is the Start Clean-Stay Clean™ food safety management system. Launched in 1990 as the Safe From Salmonella program, it was renamed Start Clean-Stay Clean™ in 1996 and modified two years later to incorporate Hazard Analysis Critical Control Point (HACCP) guidelines. This food safety program ensures that hazards and control points are identified and assessed and that mechanisms for mitigating risks are in place. The program has been recognized as technically sound by the Canadian Food Inspection Agency (CFIA).

With the technical review complete, the CFIA will now undertake a review of the Start Clean-Stay Clean™ management system and its related documents. There are four components to the management system:

- General Management: consists of resources, administration, delegating roles and responsibilities, processing documentation, document control and reviews, internal auditing, management reviews and handling complaints
- Technical: includes producer manual development, program implementation, identification and establishment of Good Management Practices and annual reviews to determine if changes are required
- Conformance: entails evaluation of potential auditors, monitoring delivery agents and auditors, planning and conducting audits, assigning auditors and certification of production units
- Auditor Training: consists of training auditors



When government requirements are met, a letter of no objection will be issued that approves the implementation of the program and preparation for a third-party audit of our management system. To be approved, the CFIA must be satisfied that both field inspectors and producers are keeping accurate records. At present, CEMA has decided to continue developing its management system and is preparing for the CFIA review and third-party audit.

#### **Revising the Start Clean-Stay Clean™ Producer Manual**

Last year, CEMA reviewed all elements pertaining to issues of biosecurity on the farm. In May, our HACCP team, made up of both provincial and national industry representatives, identified several areas for adjustment. In keeping with similar good management practices for filling cracks in walls and foundations at laying facilities, producers are also being asked to fill floor cracks measuring 1/4 inch or more—efforts that will deny entry points for insects such as darkling beetles and prevent bacteria accumulation. In addition, producers are now required to pre-soak their barns with a detergent or foaming agent prior to cleaning and disinfecting, as water alone is not sufficient.

Barn access is considered an important control point for sound biosecurity. It is imperative that producers and visitors alike change or completely cover clothing and footwear before entering the lay facility. Although most producers insist that visitors observe these practices, CEMA reminds producers to ensure they themselves practice them so harmful contaminants on the farm are not introduced into the lay facility. Essentially, it is the producer's responsibility to provide visitors with coveralls or freshly laundered clothing, as well as entirely new footwear or footwear reserved specifically for the lay facility. Producers must be vigilant and consider the frequency of their movement into the lay facility on a given day. The national-provincial team is looking seriously at establishing an audit process to ensure compliance on this important issue.

#### **Producers Opting for Audit**

Every year, CEMA's field operations personnel visit Canada's regulated egg farms and inspect them against the criteria established

in the Start Clean-Stay Clean™ program. Although the program is completely voluntary, a full 96% of regulated producers participate.

Until 2003, inspectors would simply visit, inspect and rate a farm. Today, inspectors are also able to audit producers, which includes the examination of production and other records. This audit portion of Start Clean-Stay Clean™ has been embraced by producers and more are audited every year. By the end of 2005, 142 producers had successfully completed the full audit process and received Certificates of Conformance.

#### **Developing a HACCP-based Pullet Industry Program and Pre-lay Insurance Program**

If Salmonella enteritidis (SE) is discovered in a Canadian lay facility, the eggs are diverted to breaking plants for pasteurization. This procedure eliminates harmful bacteria that can be found inside eggs in extremely rare cases, as well as possible doubts about the safety of the food supply. When the affected lay facility is depopulated, it is then cleaned and disinfected.

In conjunction with the provincial boards, CEMA is providing resources to develop an on-farm food safety program for pullets. One component of the program involves provincial staff testing pullet barns for SE. We have proposed that environmental samples like dust and feathers be collected for analysis. To encourage testing for SE, the industry is considering some form of compensation for pullet producers whose flocks are culled if salmonella is found and several insurance options are being considered. This process has been challenging because no national association exists to represent pullet growers.

#### **CEMA's Animal Care Program**

As the egg industry's livelihood is completely dependent on the health and well-being of its animals, providing them good care is CEMA's first priority. Egg producers are constantly in search of new ways to improve production practices.

Every year, CEMA contributes to poultry research to advance the industry's understanding of hens and knowledge of hen care. We believe strongly that improvements can always be made—which is why CEMA actively participated in the creation of a science-based Code of Practice. Completed in 2003, the Code of Practice is a series of voluntary guidelines agreed upon by a variety of stakeholders, including producers, processors, governments, academics, researchers, veterinarians and the Canadian Federation of Humane Societies.

In addition to the Start Clean-Stay Clean™ program and Code of Practice, CEMA has developed an Animal Care Program—a separate inspection program that rates egg farms on their care and handling of hens based on 14 Code of Practice criteria. When field inspectors visit a farm, they ensure that hens are provided comfort and shelter, fresh water and a healthy diet. They also verify that emergency measures are in place in the event of a hydro failure.

#### **National Farm Animal Care Council**

In 2005, the Canadian Animal Health Coalition (CAHC) produced a business plan to develop a National Farm Animal Care Council (NFACC). From CEMA's standpoint, a separate farm animal care council would be expensive, bureaucratic and time-consuming, duplicating much of what CEMA already accomplishes through its own Animal Care Program. Unable to convince the CAHC that a council would be a waste of resources, CEMA withdrew from the Coalition. In the meantime, we intend to keep an open mind and will cooperate with the CAHC on issues of mutual concern.

#### **The World Organization for Animal Health (OIE)**

In March 2005, the OIE proposed that poultry housing systems be brought under the umbrella of its animal welfare standards protocol. This proposal was confirmed at its General Council in Paris two months later.

In addition, the OIE recognized the International Egg Commission (IEC) in 2005 as the international voice of the egg industry and requested that they nominate a committee of industry stakeholders specializing

in poultry housing. CEMA is a proud member of the IEC and will voice its position on animal welfare issues internationally through the Commission.

#### **Consultant Hired to Review Funding Applications**

In 2004, the Canadian Egg Producers Council (CEPC) applied to Agriculture and Agri-Food Canada for funding under the Canadian Food Safety and Quality Program. The application was made to secure funds for producer awareness sessions on the HACCP-based modifications made to the Start Clean-Stay Clean™ program. Of the initial request for \$124,000, approximately \$82,000 was denied. An appeal was made promptly through CEMA and an additional \$16,000 was granted in October 2004.

In May 2005, we hired a consultant to review all previous funding applications and advise the CEPC of opportunities that may exist to maximize available funding. In response, new ways to achieve consistent success on future applications were suggested.

## 4

## RESEARCH

CEMA'S ONGOING COMMITMENT TO HUMAN NUTRITION AND EGG PRODUCTION RESEARCH WAS EVIDENT ON A NUMBER OF FRONTS IN 2005. WE MONITORED SEVERAL AGENCY-SPONSORED RESEARCH PROJECTS AT LABS ACROSS THE COUNTRY AND LOOKED INTO ESTABLISHING AN EGG-RELATED HEALTH RESEARCH PARTNERSHIP WITH THE CANADIAN INSTITUTES FOR HEALTH RESEARCH (CIHR). IN ADDITION, WE PREPARED IN-DEPTH FACT SHEETS ON ALL CEMA-FUNDED RESEARCH PROJECTS AND SUCCESSFULLY CONDUCTED OUR FIRST COST OF PRODUCTION SURVEY IN FIVE YEARS.

#### CEMA AND THE CANADIAN POULTRY RESEARCH COUNCIL

CEMA is a founding member of the Canadian Poultry Research Council (CPRC) and has been actively involved since its inception in November 2001. We are pleased to support the Council as it provides a forum for Canada's poultry scientists to meet and share information on the latest developments in poultry research. As a policy, the CPRC provides research funding to specific program areas rather than to projects submitted on an ad hoc basis. One such program was the recipient of a \$22,500 funding grant from CEMA in 2005 for its research into avian intestinal microbiology. As for the CPRC's environmental program, it has endorsed four proposals that are being submitted for government funding.



Last year, we explored the feasibility of having the CPRC serve as a peer-review group for CEMA, an arrangement that would enable qualified scientists to assess the validity of specific egg production-related projects under consideration for Agency funding. At present, we are currently working with the CPRC to establish egg-specific research priorities and will be issuing a call for proposals to the scientific community in 2006.

#### **Making Progress**

The Research Committee continued to take great interest in two ongoing egg-related research projects at Canadian universities. Given consumers' increasing interest in specialty eggs as a health food, it is hoped that enriching eggs with additional beneficial nutrients will increase egg consumption in Canada.

In 2005, Dr. Steve Leeson and his colleagues at the University of Guelph received \$51,950 from CEMA to further study lutein—an antioxidant linked to good eyesight that can reduce the chances of macular degeneration in humans. As Canadians currently consume six to eight times less lutein than the optimal amount, CEMA feels that lutein-enriched eggs show potential for their tangible health benefits.

Dr. Leeson and his colleagues initially studied how best to enhance eggs with lutein. Last year, they added marigold extract to test hens' feed in an attempt to strengthen hen immune systems and increase lutein levels in regular shell eggs. They also worked to determine how lutein in egg yolk affects levels of the antioxidant in rats.

At the University of Manitoba in 2004, Dr. Jim House and his team focused their CEMA-sponsored efforts on enriching regular shell eggs with folate, a nutrient shown to be lacking in the diet of Canadian women of child-bearing age. If not consumed in sufficient quantities, studies have shown that women run an increased risk of bearing children with neural tube defects—which can lead to incomplete closures of one or more vertebral arches of the spine (spina bifida). There is also evidence linking low folate levels to the onset of heart disease.

Dr. House's initial research featured an attempt to maximize folate content in eggs by feeding a crystalline form of the nutrient to test hens. Most recently, he and his team have been studying the rate at which folate transfers into the bloodstream of university-aged women with low folate levels. Dr. House has also been working to determine how folate-enriched eggs contribute to increased folate levels, as well as studying the relative bioavailability of egg folate compared to crystalline folic acid.

#### **Building Partnerships**

In March 2005, CEMA looked into collaborating with the Canadian Institutes for Health Research (CIHR) to undertake additional nutrition and health-related egg research. We were interested primarily in working with the Institute of Metabolism, Nutrition and Diabetes—the Institute most directly related to nutrition issues of significance to CEMA. In 2006, CEMA and the CIHR will continue to investigate the potential for future collaboration.

Also last year, CEMA allocated \$23,500 to the Alberta Poultry Research Centre to upgrade its facilities in Edmonton and streamline poultry research. Consideration for an additional grant will be given in 2006.

#### **Research Committee Active on Several Fronts**

The Research Committee continued its work reviewing proposals from researchers seeking funding. One such proposal was submitted by a Quebec-based researcher with plans to test the efficacy of vaccinating laying hens for *Salmonella enteritidis*—a type of bacteria that can be found inside eggs in extremely rare cases.

In addition, fact sheets were prepared on all CEMA-funded research projects undertaken since the Research Committee was established four years ago. Producers can access user-friendly summaries of this research on the Canadian Egg Producers Web site by registering at [canadaegg.ca](http://canadaegg.ca).

#### **Cost of Production Survey**

Conducted every three to five years, the cost of production (COP) survey provides the egg industry with up-to-date information on the actual costs paid by the average Canadian egg producer. Results from the study are used to determine a fair price for Canadian eggs, which helps ensure a reasonable return for producers. In general, COP results tend to reveal consistent improvements in industry efficiency from one survey to the next, such as increased layer productivity due to improved breeding and feed. As the COP study targets a wide cross-section of producers, results are considered highly precise. For this and other reasons, it remains a fundamental tenet of Canada's egg supply management system.

CEMA hired accounting firm Meyers Norris Penny (MNP) to conduct the 2005 COP survey, interview producers and compile the results. In April, an advisory letter was sent to producers encouraging their participation. In total, 104 producers (roughly 10% of Canada's 1,069 producers) provided a representative cost of production sample. From these results, MNP was able to determine the average costs facing producers who put their eggs on the market. Thanks in part to the new survey, consumers and the industry as a whole can rest assured that producers will continue to receive a fair price for their product.

The survey results, which are actually based on 2004 data, are currently being analyzed and will be tabled in a report to the Board of Directors in early 2006.

## 5

## AVIAN INFLUENZA

IN LATE 2005, A LOW PATHOGENIC H5 STRAIN OF AVIAN INFLUENZA (AI) WAS DISCOVERED ON TWO DUCK FARMS NEAR YARROW, BRITISH COLUMBIA. FROM THE OUTSET, THERE WERE SERIOUS CONCERNS THAT BRITISH COLUMBIA WAS ABOUT TO WITNESS A REPEAT OF THE 2004 ABBOTSFORD OUTBREAK. IN RESPONSE, THE DUCK FARMS WERE IMMEDIATELY QUARANTINED AND DEPOPULATED; SURVEILLANCE WAS CONDUCTED ON COMMERCIAL POULTRY FARMS WITHIN A FIVE-KILOMETRE RADIUS; AND MOVEMENT OF POULTRY AND EGG PRODUCTS THROUGHOUT THE PROVINCE CAME TO A COMPLETE STANDSTILL OR WAS RESTRICTED FOR MORE THAN THREE WEEKS. THANKS TO THESE EFFORTS AND THE METICULOUS BIOSECURITY MEASURES PRACTICED BY EGG PRODUCERS AND OTHERS, THE VIRUS WAS CONTAINED TO THOSE TWO FARMS ALONE.

## TURNING THE CORNER ON AVIAN INFLUENZA

With every Fraser Valley egg farm affected by the 2004 outbreak fully repopulated and the Yarrow incident now behind us, CEMA is confident that Canada has turned the corner concerning its management of AI. As avian influenza remains a potentially serious concern for Canada, we will continue working closely with industry and government in 2006 to establish emergency protocols in case of future incidents. We will also intensify our efforts to ensure adequate compensation for producers in the event a pre-emptive cull of their flock is necessary.

## What is Avian Influenza?

Avian influenza is classified into two categories: low and highly pathogenic. Of the three virus types to which humans are susceptible, only Type "A" infects food-producing birds, pet birds and wild birds. Of AI's 16 subtypes, H5 and H7 are worrisome due to their ability to mutate into highly pathogenic strains—strains that are very contagious for poultry and possibly for humans exposed to high concentrations of the virus in infected birds.



### VACCINE PRODUCTION

OVER THE LAST DECADE, THE CANADIAN EGG INDUSTRY'S INVOLVEMENT HAS GROWN IN THE ANNUAL FIGHT TO COMBAT THE "FLU" AND PROTECT THE POPULATION, IF NECESSARY, FROM A HUMAN INFLUENZA PANDEMIC. THE INDUSTRY PROVIDES A STEADY SUPPLY OF FERTILIZED EGGS FOR THE PURPOSE OF VACCINE PRODUCTION, WHICH IS BEING GEARED UP TO IMPROVE THE COUNTRY'S PREPAREDNESS TO MANAGE A PANDEMIC, SHOULD ONE OCCUR. MADE FROM

FRAGMENTS OF THE PREVIOUS YEAR'S THREE MOST VIRULENT WORLDWIDE STRAINS, THE VACCINES ARE GROWN IN FERTILIZED EGGS, INACTIVATED, PURIFIED AND INJECTED INTO HUMANS TO STIMULATE AN IMMUNE SYSTEM RESPONSE.

THE FEDERAL GOVERNMENT AND CANADA'S EGG PRODUCERS ARE CREATING THE INFRASTRUCTURE TO PROVIDE 100% OF DOMESTIC VACCINE NEEDS FOR HUMANS IN CASE OF A SERIOUS VIRAL OUT-

BREAK. FORTUNATELY, THIS HAS NOT BEEN REQUIRED IN CANADA TO DATE. WITH CONTINUED BIOSECURITY VIGILANCE AND A STEADY SUPPLY OF EGGS FOR VACCINE PRODUCTION, CANADA'S EGG INDUSTRY REMAINS A SIGNIFICANT PART OF THE SOLUTION TO PREVENT INFLUENZA.

### Who is at risk?

Humans coming into close contact with high concentrations of live or dead birds infected with the virus are at risk of contracting AI, though this is rare. In southeast Asia, where the highly pathogenic Asian strain H5N1 originated, live birds commonly intermingle with humans in poultry markets and other settings. In Canada, live poultry are kept on farms, generally raised indoors and insulated from wild birds that might carry pathogens. Consumers cannot purchase live poultry. Rather, the birds are sent to processors who prepare the meat in accordance with stringent hygiene and safety standards. The strain of concern in Asia has never been found in North America, and there has never been a known case of a human being acquiring avian influenza by eating eggs.

As of February 27, 2006, known cases of avian influenza infection in humans have occurred in Indonesia, Vietnam, Thailand, Cambodia, China, Turkey and most recently in Iraq. In total, 173 cases have been reported and 93 people have died. To put this into context, the combined population of these countries is more than 1.5 billion.

### Recovering from the Abbotsford Outbreak

In early 2004, Canada suffered its worst outbreak of avian influenza when a highly pathogenic H7N3 strain swept through three distinct clusters of egg and poultry operations in British Columbia's Fraser Valley. In response, approximately 13.6 million chickens, turkeys and other poultry were culled as part of containment measures. Government and industry worked closely together to contain the outbreak to one region, and much was learned about best practices for responding to a potential future outbreak.

### Fast Track Supplementals

With an egg supply shortage looming in the Fraser Valley, CEMA successfully arranged fast-track supplemental shipments of Grade A eggs from the United States. The need for supplementals was substantially decreased in 2005 as Abbotsford-area egg farms were gradually repopulated and returned to production.

### Repopulation Adjustment Program (RAP)

Production was fully returned to normal levels in December 2005. Two reasons existed for this: a pullet shortage in North America and the need to ensure production matched demand. Consequently, CEMA provided compensation to producers through the BC Egg Marketing Board of approximately \$3.6 million in 2004 and \$8.1 million in 2005. The last of these payments in October 2005 signaled the full recovery of the Fraser Valley egg and poultry industry.

During the outbreak, it was unclear whether the Health of Animals Act would adequately address the needs of producers following the crisis. Assuming that normal production levels would return by December 2005, egg producers would have lost at least \$48 million during this span, of which only \$35 million has been compensated by Ottawa. Had a special regulation not been approved by the Minister of Agriculture at the time, producers would have received even less.

### Compensation for Producers

Keeping avian influenza at bay benefits all of society, thus it seems unfair that producers should bear the brunt of the cost—especially considering the unpredictable nature of an outbreak. When a laying hen flock is depopulated, the real losses to a producer are far greater than that which government is willing to compensate. The size of a typical flock on one of Canada's 1,069 regulated egg farms is 17,000 laying hens. If that flock were depopulated early in the lay cycle, its real worth, taking into account the actual value of eggs produced throughout the cycle, is \$266,000. Current government compensation at \$5 per pullet amounts to \$85,000—only 32% of the flock's actual value. CEMA is pressing government to properly compensate producers so livelihood concerns do not interfere with a quick, pre-emptive cull.

In 2005, CEMA and its feather industry partners (Canadian Turkey Marketing Agency, Chicken Farmers of Canada, Canadian Broiler Hatching Egg Marketing Agency, Canadian Egg and Poultry Processors Council) hired a consultant to ensure that producer and processor interests are considered in any avian influenza management strategy. In 2006, we

will continue to focus our government relations activities on improved compensation for producers. To assist us in these efforts, CEMA is calling on egg producers throughout the country to raise this important issue with federal and provincial politicians.

### Biosecurity on Egg Farms

Over the years, Canadian consumers have come to rely on regulated egg producers to protect their flocks from disease. To maintain this trust, producers observe strict biosecurity: clothing and footwear must be changed or covered upon entering laying facilities, vehicles are kept away from barns housing layers and hens are generally kept indoors to avoid contact with wild birds.

All regulated egg producers in Canada adhere to CEMA's Start Clean-Stay Clean™ program, which has been recognized by the CFIA as a technically-sound Hazard Analysis Critical Control Point (HACCP)-based program.

Our HACCP team made two revisions to Start Clean-Stay Clean™ in May. It now recommends that in addition to filling wall and foundation cracks in lay facilities, producers also fill floor cracks of 1/4 inch or more in size. In addition, the team advocates the use of detergent or a foaming agent as a pre-soak, instead of just water, prior to cleaning and disinfecting lay facilities.

### Pre-emptive Cull Protocol

In 2005, CEMA and other feather organizations consulted intensively with CFIA, provincial government officials and politicians to establish a pre-emptive cull protocol.

History has shown that a delay in culling a flock suspected of being infected with an H5 or H7 subtype can result in the virus spreading and an extensive outbreak occurring. Consequently, CFIA developed an interim protocol that allows for immediate action if an H5 or H7 subtype is detected on a Canadian poultry farm. Such action includes establishing a surveillance zone of up to five kilometers in diameter around the affected farm(s). Efforts are made to quickly quarantine and

depopulate the infected flock(s) and carcasses are disposed of in a manner that eliminates the virus. As a precaution, poultry farms within the surveillance zone are also tested for the virus.

With preparedness being the key to any response, several provinces are now using or developing Geographic Information Systems (GIS) to better direct emergency personnel in the event such a response is warranted. In addition, organizations representing poultry and egg farms have conducted, or are planning to conduct, avian influenza outbreak simulations. Provincial health officials in Ontario carried out an actual on-farm simulation in 2004, while a roundtable discussion on emergency protocol took place in Quebec in December 2005.

### House of Commons Standing Committee on Agriculture and Agri-food

On November 16, 2005, CEMA followed up its January 18, 2005 appearance before the House of Commons Standing Committee on Agriculture and Agri-Food in Abbotsford with an appointment before that same committee in Ottawa. Whereas the January session was a fact-finding mission on the part of government, the Ottawa meeting offered CEMA an opportunity to brief federal politicians on our strategy to prevent and limit future outbreaks of highly pathogenic H5 and H7 subtypes.

Working together with our consultant, we reiterated five priority areas considered essential by the poultry and egg industry: improving national minimum biosecurity protocols; establishing an emergency protocol to be implemented in the first 24 to 72 hours following an outbreak; refining the funding framework for compensating producers; developing a sound national surveillance protocol benefiting industry and others; and establishing a plan to dispose of carcasses during outbreaks, including consideration for infected animals and those that cannot be processed due to the outbreak.

## 6

## TRADE AND SUPPLY MANAGEMENT

SEVERAL KEY ISSUES DOMINATED THE TRADE AND SUPPLY MANAGEMENT FILE IN 2005. IN ADDITION TO THE ONGOING AGRICULTURAL NEGOTIATIONS IN GENEVA, CEMA WAS AN ACTIVE PARTICIPANT AT THE WORLD TRADE ORGANIZATION (WTO) MINISTERIAL CONFERENCE IN HONG KONG. IT WAS ALSO A KEY PLAYER IN GOVERNMENT, PUBLIC, AND MEDIA RELATIONS EFFORTS TO RAISE AWARENESS OF SUPPLY MANAGEMENT AS AN IMPORTANT CONTRIBUTOR TO CANADA'S ECONOMY.

**THE SIXTH WORLD TRADE ORGANIZATION MINISTERIAL CONFERENCE:  
HONG KONG, DECEMBER 13–18, 2005**

In mid-December 2005, CEMA's Executive Committee, Chief Executive Officer and International Trade Policy Manager travelled to Hong Kong with provincial egg board representatives for the Sixth World Trade Organization Ministerial Conference. This ongoing Doha round of WTO negotiations is of particular interest to proponents of Canada's supply management.

In the lead-up to the conference, CEMA and its partners in supply management (Chicken Farmers of Canada, Canadian Turkey Marketing Agency, Canadian Broiler Hatching Egg Marketing Agency and Dairy Farmers of Canada) launched an extensive public relations campaign. To raise awareness of key issues, we published full-page ads in major Canadian dailies and weeklies and launched the [farmsandfood.ca](http://farmsandfood.ca) Web site for consumers and producers.





#### HOUSE OF COMMONS MOTION ON SUPPLY MANAGEMENT

*PURSUANT TO STANDING ORDER 81(16), THE HOUSE PROCEEDED TO THE PUTTING OF THE QUESTION ON THE MAIN MOTION—THAT, IN THE OPINION OF THE HOUSE, THE GOVERNMENT SHOULD GIVE ITS NEGOTIATORS A MANDATE DURING THE NEGOTIATIONS AT THE WORLD TRADE ORGANIZATION SO THAT, AT THE END OF THE CURRENT ROUND OF NEGOTIATIONS, CANADA OBTAINS RESULTS THAT ENSURE THAT SUPPLY MANAGEMENT SECTORS ARE SUBJECT TO*

*NO REDUCTION IN OVER-QUOTA TARIFFS AND NO INCREASE IN TARIFF QUOTAS, AND ALSO ENSURE AN AGREEMENT THAT STRENGTHENS THE MARKET ACCESS POSITION OF CANADA'S AGRICULTURAL EXPORTERS SO THAT ALL SECTORS CAN CONTINUE TO PROVIDE PRODUCERS WITH A FAIR AND EQUITABLE INCOME.*

*THIS MOTION WAS CARRIED UNANIMOUSLY IN THE HOUSE OF COMMONS ON NOVEMBER 22, 2005.*

With many WTO member states and conference delegates pushing for easier access to markets and tariff reductions, CEMA and its partners in the Canadian agricultural sector worked together with concerned federal and provincial politicians in Hong Kong to ensure that any final agreement includes measures that do not jeopardize Canada's ability to continue effective supply management.

During the six-day conference, thousands of participants, representing 149 WTO member states, and approximately 1,000 non-governmental organizations (NGOs), attempted to hammer out details that would help them reach a new international agreement on agriculture and conclude the Doha round of negotiations. As was expected, no final agreement governing formulas for tariff reduction and market access emerged, however, and negotiations will continue in the first quarter of 2006. It is expected that a date for the Seventh Ministerial Conference will be determined by the WTO General Council early in 2006.

In any future agreement on farm trade, regulated Canadian egg, poultry and dairy producers must be assured that Canada will maintain the three pillars of supply management, which were supported in the House of Commons in a unanimously approved motion adopted November 22, 2005 and referenced during the January 9, 2006 English-language leaders' debate. The three pillars of supply management assure consumers safe, high-quality "Made in Canada" food products at reasonable and consistent prices. Given that Canada accepted a WTO framework agreement in 2004 recognizing a "sensitive products" category, we must work to ensure that egg, poultry and dairy products are treated as such and remain completely insulated from the general tariff reduction formula that would be applied to non-sensitive products in a final WTO agreement.

CEMA was very pleased that so many provincial ministers attended the Hong Kong meeting to provide advice to their federal counterparts, the Minister of International Trade and the Minister of Agriculture and Agri-Food, who also attended. We enjoy an open relationship with government at both the political and bureaucratic level and are confident that our farm groups, key contributors to Canada's economy, will

continue to have their voices heard in 2006 and beyond. As decisions affecting the future of the supply management sector are being taken now, we must encourage our elected officials, who speak for Canada on the international stage, to stand fast in defense of supply management at the WTO. CEMA and other supply-managed sectors are working hard to ensure that subsequent decisions taken at the WTO support a continuing and effective system of production for Canada's egg, poultry, and dairy industries.

As negotiations on modalities are now scheduled to be finalized at the end of April 2006, producers must continue to remind MPs that the supply management sectors must not be subject to reductions in over-quota tariffs or to increases in tariff quotas.

#### Basics of our Trade Policy

CEMA believes that the WTO should be the principal vehicle for the establishment of fair and equitable trade rules. Along with our concerned industry partners and the producers we represent, CEMA is positioning itself to prevent the erosion of the three pillars required to sustain an effective supply management system in Canada.

Further trade agreements must ensure that Canada retains the flexibility it needs to successfully defend the rights of Canadian farmers to collectively select their marketing system of choice. This objective requires that mechanisms protecting our systems of production not only be maintained but also legitimized in upcoming WTO negotiations.

CEMA is striving to ensure that our farmers' marketing structures are not subject to stricter international trade rules than other corporate structures. We also believe that any future agreement must not include trade-offs between Canada's agricultural sectors or between the agricultural and industrial sectors.

#### Pillars of Supply Management

The supply management industry identifies three fundamental pillars without which the system would be unable to exist in its current form: import controls, producer pricing and production discipline.

The first pillar, import controls, helps us to match supply and demand for eggs and in turn results in stable prices for Canadian producers and consumers. Canada offered significantly more access than other countries in the last round, and we feel that it is unfair to ask us to do more when many others have not provided the same level of access. To maintain effective import controls, Canada's tariff rate quotas are structured as a two-stage tariff: an amount equivalent to approximately 5% of domestic consumption is imported at a tariff of zero, while anything beyond that 5% is subject to an over-quota tariff.

The current WTO agreement was meant to allow over-quota tariffs to be high enough to maintain agreed-to access levels. However, the effectiveness of Canada's tariff framework is very dependent on the relationship between the Canadian and U.S. dollar. As the Canadian dollar continues its rapid rise, the over-quota tariff loses its effectiveness. This was particularly evident in 2005 when the amount of imported eggs where the full over-quota tariff was paid increased from 2004. CEMA and its supply management partners are concerned about the effectiveness of over-quota tariffs and do not advocate a reduction because they are already dangerously low.

In Canada, pricing mechanisms are based on farmers collectively negotiating farm gate prices for milk, poultry and eggs. As the second pillar of supply management, producer pricing enables egg farmers to earn a fair price for their product based on actual costs of production. In any new WTO trade agreement, producers must retain the choice to continue marketing their goods given that, combined with production discipline, their current practice is non-trade distorting.

The third pillar, production discipline, is founded on the basis that farmers plan their production to produce a steady supply of quality food that accurately reflects changes in consumer demand. This approach helps keep prices stable by preventing sudden price shifts caused by the unpredictable ebb and flow in supply and demand that would exist under an unregulated system.

Each of the three pillars complements the other: without import controls, production discipline becomes impossible to maintain. Without production discipline, pricing becomes impossible to regulate.

Throughout 2005, CEMA coordinated its activities on the trade file with the Canadian Federation of Agriculture (CFA). As a CFA member, we stand behind its balanced position on trade that states producers should have the right to choose their own marketing structures. We support the CFA position that over-quota tariffs and tariff quotas must be maintained at current levels while ensuring fair trade rules that are supportive of Canada's export interests.

#### Government Relations

CEMA is active in government relations activities relating to trade and joins its supply management colleagues in such activities. In May 2005, the national supply management groups organized a seminar and lobby day for producers, who were briefed on key trade issues and contacting politicians before meeting their respective MP on Parliament Hill. Because both days were so effective in helping producers reach politicians, CEMA and its partners want to make this kind of event even more successful in the future. In total, 165 producers made appointments with 103 MPs and seven Senators.

In addition to the successful spring lobby day, some producers from the supply management sectors also attended federal political party conventions in order to meet politicians and influence the development of agricultural policy.

In 2005, the feather agencies also rejuvenated a Feather Caucus to provide new opportunities for egg and poultry producers to meet MPs of the governing party, brief them on trade issues and seek their advice on ways to better promote producer interests. At the meeting, CEMA Chairman Laurent Souigny discussed trade issues of concern to the industry. This was accompanied by a slide presentation on the poultry industry's contributions to the Canadian economy.

On occasion, the supply management industry's government relations staff brief political staffers on trade issues affecting our sector. One such meeting took place in 2005 while more are planned for the coming year.

In addition to our work with the national coalition, CEMA maintains its own strong relationship with Members of Parliament. On March 22, we hosted our Parliament Hill Breakfast. Working closely with Ontario Egg Producers, we helped ensure an excellent turnout of more than 50 MPs and Senators. The Hill Breakfast is one of our highlights of the year as it offers politicians a fun and friendly forum in which to discuss issues of mutual importance with CEMA's Board of Directors, who make their omelettes.

On a routine basis, CEMA arranges meetings with federal government ministers and MPs, as well as with opposition shadow cabinet critics. On February 8, CEMA's Chairman, CEO and International Trade Policy Manager met with Minister of International Trade Jim Peterson to discuss the impact of ongoing WTO trade negotiations on the Canadian egg industry. Specific issues raised included: the maintenance of over-quota tariffs at current levels, the importance of achieving minimum market access and a common minimum end-point, maintaining the right to direct imports to the market segment of choice and issues around administered pricing.

In 2005, CEMA representatives met with Minister Peterson and Minister of Agriculture and Agri-Food Andy Mitchell to discuss positions related to trade, avian influenza compensation and the appointing of auditors to the Agency. The representatives also met with Conservative Agriculture Critic Diane Finley and Trade Critic Ted Menzies.

#### **Feather Agencies Offer Government and Media Relations Training**

In August 2005, the four national feather agencies offered six government relations training seminars to producers from across the country. Producers were briefed on trade, animal welfare, avian influenza and food safety. In addition, they were provided tips on how best to make contact, meet and follow up with Members of Parliament. Approximately

80 producers provided positive feedback and the vast majority committed to contact their respective MP in September. In total, close to 20 producers engaged with MPs, making them aware of producer trade concerns before the start of the autumn Parliamentary session and the run-up to the Hong Kong Ministerial Conference.

As part of the strategy to educate journalists about supply management and trade negotiations in the lead up to the Hong Kong Ministerial Conference, representatives from the feather and dairy industries were given media training in Toronto on September 30 and in Longueuil on October 18. In October and November, these spokespersons led editorial board sessions and gave backgrounder interviews with key journalists across the country. The media campaign was considered successful as it reached editors at *The Ottawa Citizen*, *The Globe and Mail* and *The Vancouver Sun*, in addition to other prestigious Canadian dailies.

#### **Coalition Organizations**

The trade work of the five national supply management organizations is directed by the Joint Executive Committee. Comprised of leaders from each of the supply management organizations, the group meets once or twice a year to discuss issues of mutual importance. In 2005, the Committee met to discuss amendments to supply management trade policy, the spring trade seminar and lobby day for producers and to gauge the success of Canada's negotiating strategy leading up to Hong Kong.

To ensure coordination between the national and provincial coalitions, the Coordinating Committee was established in late 2004. Chaired by CEMA Chairman Laurent Souligny, it assists in the creation of a common communications strategy among national and provincial supply management groups. During his time as Coordinating Committee Chairman, Mr. Souligny has been a very effective bridge-builder among stakeholders.

#### **Technical Committee Meetings**

Throughout the agricultural negotiations, the dairy, poultry and egg industries' Technical Committee monitors the technical aspects of the talks on an ongoing basis. The Committee provides technical support and arguments for producers who meet regularly with federal and provincial politicians. Members of the Technical Committee also provide regular trade updates to their Boards of Directors and provincial representatives.

To maximize our efforts on the trade file, a number of technical meetings were held with government representatives of key WTO member countries in 2005. In all, CEMA and its partners in supply management met with representatives from the European Union, France, the G10, India, Benin, Brazil, China and the United States, as well as other countries. Our technical team attends regular meetings in Canada, Geneva or wherever WTO meetings take place.

In April 2005, CEMA's Executive Committee, CEO and International Trade Policy Manager were in Geneva to participate in the WTO Civil Society Symposium, a forum for non-governmental organizations to present and exchange ideas on all facets of trade negotiations. In addition to national representation, producers from British Columbia, Manitoba, Ontario and Quebec also took part.

Attending events such as the WTO Symposium enables us to build strategic partnerships with like-minded farm and civil society organizations at the international level, demonstrating that supply management in Canada is a success story with elements that could be implemented in other countries.

#### **Launch of Regular Trade Updates**

In an effort to strengthen communications between CEMA's Board of Directors and the provincial egg boards, the Corporate and Public Affairs and Trade units issued trade file update newsletters on a regular basis in 2005. Future issues will be prepared on an as-needed basis either preceding or following important negotiation sessions on agriculture.

CEMA also held regular conference calls with the provincial-territorial egg board Chairpersons and General Managers to keep them abreast of developments in Geneva, CEMA's government and media relations activities, and to provide a forum for exchanging ideas.

## 7

## SUPPLIES

AN INCREASE IN EGGS SOLD TO INDUSTRIAL PRODUCT CUSTOMERS, INTENSE DISCUSSIONS WITH CUSTOMERS ABOUT CONTRACT RENEWAL AND THE DEVELOPMENT OF NEW POLICIES TO MANAGE QUOTAS HIGHLIGHTED SOME OF THE MAJOR CHALLENGES AND ACHIEVEMENTS OF INDUSTRIAL PRODUCT OPERATIONS IN 2005.

#### INDUSTRIAL PROGRAM ANCHORS NATIONAL EGG SUPPLY MANAGEMENT

It is through the Industrial Products (IP) Program that CEMA purchases eggs from graders for resale to breakers. The breakers in turn process the eggs into liquid, dried and frozen products, as well as other further-processed egg products. Egg processing has rapidly expanded and is becoming increasingly important in national egg supply management. Recognizing this, CEMA's operational units were restructured in 2005, combining market operations and business analysis functions into the IP Program Unit.

Several factors account for increased sales to breakers in 2005. First, approximately 90% of the 480,000 additional layers from the 2004 quota allocation were placed in 2005. Furthermore, provincial inventory utilization increased from 89.3% in 2004 to 92.9%, due in large part to the repopulation of layers in the Fraser Valley following the recovery from the 2004 avian influenza outbreak in poultry. Finally, data pointed to a marginal decrease in shell egg disappearance after several consecutive years of increased table disappearance:

Years	% increase/decrease
2000 – 2001:	2.35%
2001 – 2002:	2.32%
2002 – 2003:	1.87%
2003 – 2004:	3.57%
2004 – 2005:	(0.5%)



These factors resulted in more eggs being available for processing throughout the year than in 2004. High levels of industrial eggs became particularly challenging in the summer as levels peaked at 190,000 boxes in week 26 and remained high throughout July and August. Breakers reached processing capacity and storage facilities at both grading and breaking stations were filled.

An Early Fowl Removal Program was implemented and producers in Ontario, Quebec and Atlantic Canada participated over a three-month period. The result was a reduction in production of 108,000 boxes of 15 dozen eggs. However, there was a delay in removing these flocks as the rendering plants did not want to build frozen spent fowl inventories. Consequently, CEMA secured commercial refrigerated storage space outside of the egg sector to manage this issue.

During the excess supply period, Ontario graders packed product on disposable materials, delivering them to a commercial warehouse in southern Ontario. Quebec graders cooperated by backing up portions of their weekly industrial product declarations and rotating their stored product. In Atlantic and Western Canada, industrial product was stored on refrigerated trailers and commercial cold storage was rented as well.

Fortunately, the circumstance was very short-lived. By early fall, all stored product had been delivered to breakers in Ontario and Quebec and, in fact, some breaking stock was imported from the United States to meet demand. However, supplies remained congested in some parts of Western Canada.

While increases in supply can be difficult to manage, they are useful in reducing requirements for imported eggs and egg product. If appropriate storage facilities can be accessed, greater control over release of industrial eggs into the market place is assured. Consequently, CEMA continues to explore ways to improve storage capacity for the industry as a means to better supply processing market requirements.

In November, we assessed allocation requirements for 2005 against 2004 shell egg disappearance and determined the Quota Allocation Committee (QAC) Agreement formula. According to the agreement,

disappearance of table eggs over the three previous consecutive years is used to determine if an increase or decrease in allocation is required. The agreement, when taken literally, indicated the national quota order should be amended to increase the allocation by 465,266 layers. However, the Board of Directors concluded it was inappropriate to base an allocation on a trend when there were clear signs that market conditions were changing.

Analysis of allocation requirements continued throughout the following months. At year's end, the Board of Directors determined that allocation levels should be held at current levels for 2006. A new quota order extending the 2005 allocation levels was submitted to the National Farm Products Council for prior approval. The Council, however, delayed its approval. Fortunately, as the industry entered 2006, all partners maintained allocations to producers at 2005 levels to ensure the stability of national egg supply management.

Establishing the most appropriate national allocation and provincial shares of that allocation is a fundamental requirement of the Agency's operations. CEMA was disappointed in 2005 that the Saskatchewan signatories continued to proceed with Judicial Applications for Review before the Federal Court of Canada regarding the 2004 and 2005 quota orders. All parties in this case have consented that CEMA have intervener status.

**Contract Renewal**

CEMA and the breakers began discussions over the summer to review the CEMA–processor price and volume supply agreement. While early talks were disappointing, a work plan was established in the fall so outstanding issues related to the changing market place could be dealt with to benefit the entire egg industry. Such issues include segmented pricing, the coordination of imports and the methodology used to determine the volume of eggs provided to breakers. Consequently, the current price and volume arrangements were extended to September 2006.

Canadian prices paid by breakers for eggs are based on U.S. prices which are often inadequate to cover the costs of purchases. This was

particularly apparent in the latter part of 2004 when the Canadian Processor Base Price fell below 50¢ per dozen. It stayed low throughout 2005, bottoming out at 26¢ per dozen in Week 30. With continued U.S. expansion of in-line production capacity, U.S. integrators producing for both table and industrial customers have been unable to clear the market, resulting in low U.S. breaking stock prices.

When CEMA was first established in the early 1970s, industrial product made up only 5% of Canadian egg production. Today, however, industrial eggs make up about 25% of Canadian egg production and are often used in the manufacture of value-added foods and other products. It is important that both producers and processors, as essential partners in the egg industry, are able to share in the benefits of this growth.

In 2006, CEMA will want to reach an agreement with the breakers regarding the development of a truly guaranteed supply. With this concept, the Agency would supply all breaker requirements, coordinating imports as well as domestically-sourced product.

In addition, we will continue developing an industrial product projection tool to forecast egg production more accurately. The tool will require the integration of data currently held on our Egg Information Management System and Canadian Egg Marketing Information Database to generate accurate projections of egg production in Canada. The goal is to be able to forecast and provide for equitable distribution of industrial product to breakers and balance imports of breaking stock. Successful completion of the project will require direct assistance by all provincial and territorial egg boards.

To assist in the negotiations, the firm KPMG was contracted by CEMA to examine alternative pricing structures for industrial eggs. This followed several studies on price discovery mechanisms, pricing differentials and end-use pricing. In addition, a yield study, a joint collaboration with breakers, continues in 2006. The results of this work will help strengthen partnerships within the egg industry.

NUMBER OF REGISTERED PRODUCERS PER PROVINCE		
PROVINCE	2005	2004
BC	125	127
AB	167	169
SK	64	64
MB	168	168
ON	375	380
QC	105	104
NB	17	18
NS	23	24
PEI	12	11
NL	11	11
NWT	2	2
Canada	1,069	1,078

2004 data as audited. 2005 data as reported December 31, 2005.  
*In 2005, the number of registered producers per province remained fairly consistent with 2004 levels. There was an overall loss of ten operations nationwide, or a 0.8% decrease.*

AVERAGE NUMBER OF LAYERS PER PRODUCER			
PROVINCE	2005	2004	2003
BC	15,412	11,337	17,667
AB	9,828	9,324	9,225
SK	13,149	12,403	12,118
MB	12,809	12,489	12,809
ON	19,313	18,673	17,929
QC	32,215	31,527	30,439
NB	23,491	22,594	22,697
NS	30,921	29,706	29,656
PEI	9,825	10,985	10,212
NL	30,282	30,723	31,046
NWT	31,507	34,399	42,184
Canada	17,596	16,632	17,108

2004 data as audited. 2005 data as reported December 31, 2005. Excludes inventory for EFP, Stand Down, Special Permits, and Early Fowl Removal.  
*Due to increased provincial quota allocation and flock repopulation in British Columbia, the average number of layers per producer in 2005 rose approximately 5.7% nationally over 2004.*

### Quota and Supply Policy

As the Canadian egg market and national egg supply management mature, policies governing allocations need to be refined. Several policies and programs were reviewed in 2005 to determine the allocation of quota.

The national policy for Eggs for Processing (EFP) quota was reviewed by a national-provincial-territorial staff team. Early in 2005, an interim bridging policy, effective January 2006, was developed to provide clearer policy direction for the existing provincial EFP programs while longer-term solutions are studied. The bridging policy is only intended to be in place until it is redeveloped to provide a more sustainable base for future EFP allocations.

The current EFP program is designed to provide a stable weekly supply of eggs for domestic breaking requirements. As it works in conjunction with the national IP Program, it must be coordinated with the management of the national supply so the financial impact on the Pooled Income Fund, used for IPP operations, is minimized.

EGGS FOR PROCESSING (EFP) QUOTA ALLOCATION (IN DOZENS)			
PROVINCE	PROPOSED 2006 ALLOCATION	2005 ALLOCATION*	2004 ALLOCATION
BC	2,440,000	2,486,923	2,440,000
AB	610,000	621,731	610,000
NWT	0	0	0
SK	4,880,000	4,973,846	4,880,000
MB	9,760,000	9,947,692	9,760,000
ON	17,080,000	17,408,462	17,080,000
QC	2,440,000	2,486,923	2,440,000
NB	0	0	0
NS	0	0	0
PEI	0	0	0
NL	0	0	0
<b>Total</b>	<b>37,210,000</b>	<b>37,925,577</b>	<b>37,210,000</b>

\*2005 allocation has been pro-rated to reflect 53 weeks.

The EFP program is designed to provide a stable weekly supply of eggs for domestic breaking requirements. An interim bridging policy went into effect in January 2006 and will be reviewed further. Proposed figures for 2006 are marginally lower due to 2005 figures being pro-rated to reflect a 53-week year.

In addition to EFP policy changes, a National Quota Leasing Policy was approved by the Board of Directors following consultations with the provinces. The policy is designed to provide producers with the flexibility required to move quota regionally for a specified period of time. The Agency's involvement in the program will be minimal, with our main responsibility resting in the approval of transactions and the determination of inventory levels. The role of provincial-territorial boards will be more significant as they will be involved in the leasing arrangements, the supervision of transactions and the administering of funds.

Finally, we updated the National Quota Exchange Program, again following consultations with our provincial-territorial colleagues, to initiate a cost-saving change in operations. Rather than having regular exchanges, each requiring third-party administration by KPMG, the Exchange will now only operate when there is a valid offer to sell quota.

### 2005 INTERPROVINCIAL MOVEMENT

SELLERS	BUYERS												TOTAL SALES	
	YK	BC	AB	NWT	SK	MB	ON	QC	NB	NS	PEI	NL		
YK		0	0	0	0	0	0	0	0	0	0	0	0	0
BC	0		10,458	0	0	0	0	0	0	0	0	0	0	10,458
AB	24,828	191,370		31,597	19,225	15,441	0	0	0	0	0	0	0	282,461
NWT	0	0	10,240		0	0	0	0	0	0	0	0	0	10,240
SK	0	0	622,136	0		19,620	4,463	0	0	0	0	0	0	646,219
MB	0	157,938	381,763	0	151,845		191,761	0	0	0	0	0	0	883,307
ON	0	9,808	0	0	0	23,901		762,617	33,740	0	0	0	0	830,066
QC	0	0	0	0	0	4,320	481,544		35,151	1,092	0	169	0	522,276
NB	0	0	0	0	0	0	0	1,644		35,649	1,273	3,458	0	42,024
NS	0	0	0	0	0	0	0	0	43,232		8,350	27,101	0	78,683
PEI	0	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	0
<b>Total purchases</b>	<b>24,828</b>	<b>359,116</b>	<b>1,024,597</b>	<b>31,597</b>	<b>171,070</b>	<b>63,282</b>	<b>677,768</b>	<b>764,261</b>	<b>112,123</b>	<b>36,741</b>	<b>9,623</b>	<b>30,728</b>	<b>0</b>	<b>3,305,734</b>

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

Each province and territory operating under national supply management experienced interprovincial movement in 2005 to keep up with supply and demand for eggs.

## 8

## INFORMATION MANAGEMENT

IN 2005, CEMA'S SPECIALISTS IN THE ECONOMICS, STATISTICS AND PRICING (ESP) AND INFORMATION SERVICES (IS) UNITS WERE INVOLVED IN A NUMBER OF KEY PROJECTS TO IMPROVE THE WAY EGG INDUSTRY DATA IS COLLECTED, STORED AND USED. THE TWO UNITS ARE WORKING CLOSELY WITH A THIRD-PARTY COMPANY TO UPDATE THE CANADIAN EGG MARKET INFORMATION DATABASE (CEMID). IN ADDITION, THE ESP UNIT ORGANIZED CEMA'S COST OF PRODUCTION (COP) STUDY, WHICH IS CONDUCTED EVERY FIVE YEARS, AND PROPOSED NEW WAYS TO MANAGE DATA RELATED TO EGGS FOR PROCESSING (EFP).

**ECONOMICS, STATISTICS AND PRICING**

To ensure the accuracy of information collected and used by CEMA, the ESP Unit performs monthly Cost of Production pricing updates, determines new processor prices every week and collects and posts grading data. It also provides the Trade Unit with data used to develop trade policy and monitor the effectiveness of import controls.



The unit has also developed new processes for collecting and maintaining data related to Eggs for Processing (EFP) production and shipping, production related to special market development quota and both provincial and national levy information, including several years of related historical data. Provincial managers inform CEMA of updates to these items as well as any changes to the way information is reported to ensure that records are updated correctly.

In 2005, we launched CEMA's first COP survey since 1999, a vital tool for determining the cost of doing business as a member of Canada's regulated egg industry. Third-party consultants Meyers Norris Penny (MNP) concluded the survey and subsequent data analysis. The findings will be presented to CEMA's Board of Directors in 2006. In 2005, the ESP Unit also began collecting EFP production and shipment data on a regular basis from provinces to obtain up-to-date industrial product-related information.

To build on the team concept, strengthen communication within the Unit, and assess the allocation of resources, ESP staff participated in the second annual off-site training seminar in June. During the session, staff discussed Agency and Unit objectives, reviewed work activities and updated job descriptions to maximize the efficient use of resources. A list of recommendations was drawn up for areas requiring additional attention. All participants found the experience informative and motivational and look forward to future seminars.

We continue to research and document egg import and export data, as well as domestic production data from various Canadian sources. This research will clarify the differences between the sources as well as when, where, and how the data should be used. At present, CEMA relies on three sources for this data: International Trade Canada (ITCan), Statistics Canada (Statscan) and Agriculture and Agri-Food Canada (AAFC). ITCan provides information for processor analysis as well as information used in the analysis of supply and demand; Statscan is CEMA's source for trade data and analysis; and AAFC reports are used to determine weekly table egg imports to estimate shell egg consumption.

Should the source data prove to be incorrect or if it is used incorrectly, the implications for CEMA can be widespread. Thus, CEMA met with National Farm Products Council (NFPC) and AAFC representatives to discuss reconciling data discrepancies, particularly between Statscan and AAFC data, which can have the most impact on the Unit's work. CEMA drafted an initial action plan and both the NFPC and AAFC are interested in collaborating with the Agency to resolve any issues. In the meantime, we will continue to note import data sources in any analytical work performed.

Finally, the ESP Unit updated the CEMA Glossary—a move appreciated by all internal and external staff in 2005.

#### **Information Services**

The Information Services (IS) Unit assists staff with all information processing and computing needs. This work includes PC, LAN, and network peripheral support, Internet and LAN security, and user guidance for a variety of applications.

In 2005, the Unit focused primarily on areas pertaining to information technology usage and security. By assessing our various information and technology assets, we were able to establish a clear picture of the physical workplace environment, the information stored on CEMA computers and servers and the various tools used to manage that information. Based on these findings, we identified potential risks and are now able to determine how best to protect the security of these assets.

In addition, we prepared the first draft of our IT security policy and conducted security upgrades, launched the Agency's new corporate Web site by introducing a Content Management System and installed numerous software updates on network PCs.

In February 2006, the Unit will conduct a vulnerability assessment using a third-party consultant. This exercise will test the security of our external access points and assess our internal technology in relation to those access points.

#### **Reshaping the CEMID Database**

Working behind the scenes in 2005 to strengthen the way CEMA tracks egg industry production, the IS Unit offered technical and resource assistance to the Canadian Egg Market Information Database (CEMID) System Upgrade Project, in conjunction with the ESP Unit and Micro-Works consulting firm.

First, a preliminary report on the CEMID technical environment was produced. This was followed by a questionnaire to users so we could better understand expectations for the application—in terms of how information is collected and used, as well as eventual expectations for information management. In the final phase of the project, a report consisting of recommendations was submitted to CEMA and provincial egg board managers. Work to implement these recommendations is currently underway.

The IS Unit has also been evaluating project management products to help keep track of progress being made on the Agency's many activities.

#### **Updating EIMS**

The Egg Information Management System (EIMS) is a computer-based information system used by CEMA and most provincial egg marketing boards to track crucial supply management-related information. In 2005, we added two processes to EIMS: Projected Flock Inventory, which is a starting point for the Industrial Product Forecast, and Flock Traceability, which allows a flock to be tracked from a hatchery to end of lay.



## FINANCIAL REPORT

Managing increased industrial product volumes and continued low breaker prices were the major financial challenges for the Canadian Egg Marketing Agency in 2005. Nonetheless, the year ended with a combined fund balance of \$34.0 million—\$10.6 million below our opening 2005 combined fund balances.

Several factors combined mid-year to necessitate an increase of 2¢ per dozen in the national levy to 29¢ per dozen effective August 28. Besides the prolonged low breaker prices, a slight decline in table disappearance and increased use of available production quotas by producers led to increased volumes of eggs required to be sold to the breaker markets.

Without the increased levy, the unrestricted portion of the Pooled Income Fund (PIF), used for the operations of the Industrial Products Program, would have fallen well below the minimum threshold of \$15 million determined by the Board of Directors to be required for sound financial management of the fund. This portion of the fund closed the year at \$17.0 million while the restricted portion, used for operating the National Quota Exchange and for risk management purposes, closed the year at \$9.3 million.

The Canadian Processor Base Price is expected to remain low throughout 2006 as supplies in the United States, which does not have national egg supply management like Canada, exceed requirements. The U.S. Urner Barry price, upon which Canadian prices are based, is expected to remain depressed as in-line production capacity expands and integrators producing for both table and industrial buyers remain unable to clear the market. A mid-year review of the PIF balance will be conducted in 2006 to determine if a levy adjustment is required.

In November, the Board of Directors examined financial factors beyond the Agency's control, such as U.S. prices, exchange rates, and production costs. The Board determined that these factors could affect the Pooled Income Fund by as much as \$62.0 million a year. Consequently, the minimum and maximum threshold balances established for the unrestricted portion of the PIF were reviewed. As these thresholds indicated the need to adjust levy revenues, the maximum threshold of \$25.0 million was increased to \$30.0 million while the minimum balance remained at \$15.0 million.

The Administration Fund closed the year with a balance of \$7.7 million, up \$1.7 million from the first of the year. The unrestricted portion of the fund, used for marketing, communications, policy development, financial administration and information services, closed at \$3.1 million, while the restricted fund for research purposes ended the year with a \$4.6 million balance.

In October, final payments under the Agency's Repopulation Adjustment Program were made to allow for orderly repopulation of layers in the Fraser Valley of British Columbia. In 2005, \$8.1 million was disbursed to B.C. egg producers, signaling full recovery from avian influenza infection in poultry during the first part of 2004.



Greg Pearce, Chief Finance and Operations Officer



## AUDITORS' REPORT

### TO THE MEMBERS OF THE CANADIAN EGG MARKETING AGENCY

We have audited the statement of financial position of the Canadian Egg Marketing Agency as at December 31, 2005 and the statements of operations and fund balances and of cash flows for the fifty-three-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 31, 2005 and the results of its operations and its cash flows for the fifty-three-week period then ended in accordance with Canadian generally accepted accounting principles.

The figures for 2004, presented for comparative purposes, are taken from financial statements reported on by another firm of auditors.

*Deloitte + Touche LLP*

Chartered Accountants

Ottawa, Canada  
February 14, 2006

### Statement of Financial Position

As at December 31, 2005 (In thousands of dollars)

	Pooled Income Fund	Administration Fund	2005 Total	2004 Total
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 16,658	\$ 4,700	\$ 21,358	\$ 27,620
Accounts receivable (Note 3)	8,495	1,490	9,985	19,288
Inventory	266	—	266	122
Prepaid expenses	—	250	250	71
	25,419	6,440	31,859	47,101
Restricted investments (Note 4)	9,197	2,500	11,697	12,259
Capital assets (Note 5)	—	216	216	230
	\$ 34,616	\$ 9,156	\$ 43,772	\$ 59,590
<b>LIABILITIES AND FUND BALANCES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 8,389	\$ 1,413	\$ 9,802	\$ 14,986
Commitments and contingencies (Notes 7, 12 and 13)				
Fund balances:				
Internally restricted (Note 4)	9,270	4,650	13,920	12,259
Investment in capital assets	—	216	216	230
Unrestricted	16,957	2,877	19,834	32,115
	26,227	7,743	33,970	44,604
	\$ 34,616	\$ 9,156	\$ 43,772	\$ 59,590

See accompanying notes to financial statements.

On behalf of the Agency:

*Accountants*

Chairman of the Board of Directors

*Chairman of the Audit Committee*

Chairman of the Audit Committee

### Statement of Operations and Fund Balances

For the 53-week period ended December 31, 2005  
(In thousands of dollars)

	Pooled Income Fund	Administration Fund	2005 Total (53 weeks)	2004 Total (52 weeks)
<b>REVENUE</b>				
Egg sales	\$ 52,808	\$ —	\$ 52,808	\$ 86,003
Levy, service fees and contributions	101,247	16,251	117,498	99,462
Net levy contribution	7,058	—	7,058	8,786
Interest and other income	594	169	763	765
Other income — restricted (Note 4)	239	469	708	241
	161,946	16,889	178,835	195,257
<b>EXPENSES/TRADE OPERATIONS</b>				
Egg purchases	154,090	—	154,090	150,763
Buyback allowance	3,338	—	3,338	2,792
Transportation and handling	5,685	—	5,685	5,231
Food safety program (Note 7)	8,355	—	8,355	4,005
Third-party verification	876	—	876	811
Other	75	—	75	338
	172,419	—	172,419	163,940
<b>EXPENSES (CONT'D)</b>				
Advertising and promotion	—	7,025	7,025	7,633
Salaries	—	3,263	3,263	2,883
Professional fees and consulting	—	1,455	1,455	970
Meetings and travel	—	1,366	1,366	1,200
Public affairs and communications	—	1,315	1,315	835
Office and other administrative	—	744	744	601
Marketing and nutrition research	—	336	336	208
Research (Note 4)	—	287	287	199
Rent	—	346	346	311
Per diems	—	531	531	531
Amortization of capital assets	—	104	104	158
Uncollected levy, service fees and contributions	52	5	57	(231)
Transfer of administration expenses (Note 9)	1,623	(1,623)	—	—
Donations	183	38	221	179
	1,858	15,192	17,050	15,477
	174,277	15,192	189,469	179,417
Excess (deficiency) of revenue over expenses	(12,331)	1,697	(10,634)	15,840
Fund balances, beginning of period	38,558	6,046	44,604	28,764
Fund balances, end of period	\$ 26,227	\$ 7,743	\$ 33,970	\$ 44,604

See accompanying notes to the financial statements.

### Statement of Cash Flows

For the 53-week period ended December 31, 2005  
(In thousands of dollars)

	Pooled Income Fund	Administration Fund	2005 Total (53 weeks)	2004 Total (52 weeks)
Net Inflow (Outflow) of cash related to the following activities				
<b>OPERATING</b>				
Excess (deficiency) of revenue over expenses	\$ (12,331)	\$ 1,697	\$ (10,634)	\$ 15,840
Item not affecting cash				
Amortization of capital assets	—	104	104	158
	(12,331)	1,801	(10,530)	15,998
Changes in non-cash operating working capital items				
	2,819	977	3,796	3,487
	(9,512)	2,778	(6,734)	19,485
<b>FINANCING AND INVESTING</b>				
Net change in restricted investments	(164)	726	562	(8,247)
Purchase of capital assets	—	(90)	(90)	(86)
Disposal of capital assets	—	—	—	5
	(164)	636	472	(8,328)
Net cash Inflow (Outflow)	(9,676)	3,414	(6,262)	11,157
Cash and cash equivalents, beginning of period	26,334	1,286	27,620	16,463
Cash and cash equivalents, end of period	\$ 16,658	\$ 4,700	\$ 21,358	\$ 27,620

See accompanying notes to the financial statements.

**Notes to Financial Statements**

For the 53-week period ended December 31, 2005  
(In thousands of dollars)

**1. ACTIVITIES OF THE AGENCY****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 and incorporated pursuant to the Farm Products Agencies Act. 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. The Agency is exempt from income taxes under section 149(1)(e) of the Income Tax Act.

**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.

**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.

**Service contract**

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

The contract allows for the operation of a provincial industrial product removal program within the national system. As a result of national programs operated by the Agency, not all provincial declarations are recorded as sales by the provincial board. In Quebec, the provincial removal program was responsible for 99% (2004 — 98%) of that province's industrial product declarations. The difference of 1% (2004 — 2%) 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.

**Notes to Financial Statements**

For the 53-week period ended December 31, 2005  
(In thousands of dollars)

**2. SIGNIFICANT ACCOUNTING POLICIES**

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

**Fund accounting**

The Agency reports under the fund accounting method to ensure the observance of limitations and restrictions placed on the use of resources available to the Agency. The accounts of the Agency are classified for reporting purposes into funds in accordance with activities or objectives specified by the members or in accordance with directives issued by the Board of Directors. For financial reporting purposes, the Fund balances have been classified into two funds consisting of the following:

- (i) The Pooled Income Fund includes the industrial product removal levy, service fees and contributions. All transactions involving the buying and selling of eggs are recorded in this Fund.
- (ii) The Administration Fund includes the administration levy, service fees and contributions and all administrative expenses.

**Foreign currency translation**

Revenue and expense items are translated using average monthly rates. Any resulting foreign exchange gains or losses are charged to miscellaneous income or other expense of the Administration Fund.

**Revenue recognition**

The Agency follows the deferral method of accounting.

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.

## Notes to Financial Statements

For the 53-week period ended December 31, 2005  
(In thousands of dollars)

### Restricted investments

Restricted investments consist of cash, cash equivalents, Government of Canada bonds and treasury bills. They are recorded at cost and reduced when there has been a loss in value that is other than temporary. The cost of short-term investments includes the unamortized portion of discounts and premiums.

### Inventory

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

### 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

### 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. ACCOUNTS RECEIVABLE

	Pooled Income Fund	Administration Fund	2005 Total (53 weeks)	2004 Total (52 weeks)
<b>REVENUE</b>				
Levy, service fees and contributions, net of allowances on uncollected amounts of \$410 (2004 — \$354)	\$ 5,823	\$ 1,115	\$ 6,938	\$ 11,903
Egg sales, net of allowances on uncollected amounts of \$28 (2004 — \$146)	2,501	—	2,501	6,877
Other	144	402	546	508
Interfund receivable	27	(27)	—	—
	\$ 8,495	\$ 1,490	\$ 9,985	\$ 19,288

## Notes to Financial Statements

For the 53-week period ended December 31, 2005  
(In thousands of dollars)

## 4. RESTRICTED INVESTMENTS AND FUND BALANCES

### Restricted investments

Restricted investments held by the Agency represent funds which have been restricted by the Board of Directors for the purposes described below. The cost of cash, cash equivalents, and short-term investments approximate their value due to the short period to maturity. The carrying values and market values of the investments are as follows:

	2005 Carrying Value	2005 Market Value	2004 Carrying Value	2004 Market Value
Pooled Income Fund				
Cash and cash equivalents	\$ 1,242	\$ 1,242	\$ 4,903	\$ 4,903
Short-term Government bonds	7,911	7,901	4,039	4,039
	9,153	9,143	8,942	8,942
Long-term Government bonds	44	44	91	97
	9,197	9,187	9,033	9,039
Administration Fund				
Cash and cash equivalents	2,500	2,500	3,226	3,228
	\$ 11,697	\$ 11,687	\$ 12,259	\$ 12,267

### 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 for the following purposes:

	2005 Risk Management	2005 NQE	2005 Total	2004 Total
Beginning balance	\$ 8,743	\$ 288	\$ 9,031	\$ 1,845
Interest income	227	12	239	187
Administration expense	—	—	—	(1)
Transfer of producer contributions (included in opening unrestricted fund balance)	—	—	—	7,000
Ending balance	\$ 8,970	\$ 300	\$ 9,270	\$ 9,031

## Notes to Financial Statements

For the 53-week period ended December 31, 2005  
(In thousands of dollars)

### 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. Commencing 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:

	2005	2004
Beginning balance	\$ 3,228	\$ 2,167
Other income — restricted		
Interest income	90	54
Vitamins class action settlement	379	—
Research activities	(287)	(199)
Levy accrual (\$0.0025/dozen), collected in current year	1,240	1,206
Ending balance	\$ 4,650	\$ 3,228

## 5. CAPITAL ASSETS

	2005		2004	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Office equipment	\$ 487	\$ 391	\$ 96	\$ 82
Computer hardware and software	1,915	1,811	104	137
Leasehold improvements	70	54	16	11
	\$ 2,472	\$ 2,256	\$ 216	\$ 230

Cost and accumulated amortization amounted to \$2,382 and \$2,152 respectively in 2004.

## 6. DEMAND LOANS

The Agency has a revolving demand loan facility with a total approved limit of \$5,000 at an interest rate of prime on the first \$2,500 and prime plus 0.5% on the remainder. The facility is secured by a general assignment of book debts and a demand debenture agreement. As at December 31, 2005, loans under this facility were \$NIL (2004 — \$NIL).

## Notes to Financial Statements

For the 53-week period ended December 31, 2005  
(In thousands of dollars)

## 7. FOOD SAFETY PROGRAM

In 2004, the Agency established a Repopulation Adjustment Program (“RAP”) to assist producers whose layers were depopulated during the avian influenza outbreak in early 2004. In 2005, payments made under this program totaled \$8,063 (2004 — \$3,593). Repopulation was completed in 2005 and there are no further obligations to the Agency under this program.

## 8. 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:

	2005	2004
<b>REVENUE</b>		
Egg sales	\$ 57,715	\$ 92,755
Levy, service fees and contributions	122,349	101,301
Interest and other income	594	652
Other income — restricted	239	187
	180,897	194,895
<b>EXPENSES/TRADE OPERATIONS</b>		
Egg purchases	172,207	165,568
Buyback allowance	3,753	3,105
Transportation and handling	6,104	5,597
Food safety program	8,355	4,005
Third-party verification	876	811
Other	75	338
Transfer of administration costs	1,623	1,377
Uncollected levy, service fees and contributions	52	(198)
Donations of eggs	183	179
	193,228	180,782
Excess (deficiency) of revenue over expenses	\$ (12,331)	\$ 14,113

**Notes to Financial Statements**

For the 53-week period ended December 31, 2005  
(In thousands of dollars)

**9. TRANSFER OF ADMINISTRATION EXPENSES**

In 2005, the Agency made an allocation of administrative expenses of \$1,623 (2004 – \$1,377) 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 Products Program.

**10. 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 2005 fiscal period, the Agency contributed \$117 (2004 – \$116) to the Plan, which is included in salaries expense in the statement of operations and fund balances.

**11. FINANCIAL INSTRUMENTS**

The Agency's financial instruments consist of cash and cash equivalent, restricted investments, accounts receivable, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Agency is not exposed to significant interest, currency or credit risks arising from these instruments.

**Interest rate risk**

Interest rate risk refers to the adverse consequences of interest rate changes on the Agency's cash flows, financial positions and investment revenue.

**Credit risk**

Credit risk relates to the potential that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

**Notes to Financial Statements**

For the 53-week period ended December 31, 2005  
(In thousands of dollars)

Credit risk concentration exists where a significant portion of the portfolio is invested in securities which have similar characteristics or similar variations relating to economic, political or other conditions. The Agency monitors the financial health of its investments on an ongoing basis with the assistance of its investments advisors.

**Fair value**

Fair values of financial instruments approximate amounts at which these instruments could be exchanged in a transaction between knowledgeable and willing parties. 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. For the fixed income investments, publicly-quoted investment information supplied by the custodian of securities is used to express the fair value. The estimated fair value may differ in amount from that which could be realized in an immediate settlement of the investments.

As described in Note 3, the Agency's receivables are from two main sources: egg sales to egg processors and levy, service fees and contributions collected by provincial boards. 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 three groups of related companies. In 2005, these customers purchased 77% (2004 – 74%) of the eggs sold by the Agency.

**12. COMMITMENTS**

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:

2006	\$ 369
2007	369
2008	246
<hr/>	
2009 and thereafter	—
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The Agency is committed under contract for the purchase of advertising in fiscal 2006 for \$2,949 (2005 – \$60).

## Notes to Financial Statements

For the 53-week period ended December 31, 2005  
(In thousands of dollars)

### 13. CONTINGENT LIABILITIES

A) In 2005, the Agency received a counterclaim from Villetard's Eggs, Pineview Poultry Products Ltd. and related family members alleging that CEMA intentionally and wrongfully interfered with contractual relations and interprovincial marketing of eggs, delayed in allocating quota to the NWT and failed to provide proper service with the intent to force Villetard's from the Canadian Egg industry. The total damages being sought in the counterclaim are \$17,000.

It is the Agency's view that the outcome of the legal process is not determinable at this time. As a result, no recognition of any liability has been included in the Agency's 2005 financial statements.

B) In 2005, 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 \$10,000 and \$8,000 in punitive damages. This action was stayed by consent as the parties have agreed to arbitrate matters raised in the statement of claim. The arbitration process will take place in November 2006.

The Agency's view is that the outcome of the arbitration process is not determinable at this time and no liability has been accrued in the Agency's 2005 financial statements.

C) In 2005, O&T Farms Ltd. filed a statement of claim in the Saskatchewan court against the Agency and the Saskatchewan Egg Producers totaling \$122. The statement of claim has been formally defended by way of a statement of defence. A mandatory mediation session took place on September 16, 2005 which did not result in a resolution. The plaintiff has not taken further action since that time.

It is the Agency's view that the outcome of the legal process is not determinable at this time. As a result, no recognition of any liability has been included in the Agency's 2005 financial statements.