

Annual Report 2004

Standing Together



Chicken Farmers
of Canada

**FOR PRESENTATION
TO THE MINISTER
OF AGRICULTURE
AND AGRI-FOOD,
THE HONOURABLE
ANDY MITCHELL,
AND THE
NATIONAL FARM
PRODUCTS COUNCIL**

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Who We Are

Chicken Farmers of Canada (CFC) is a national organization, funded completely through farmer levies paid according to the amount of chicken marketed. We were established in 1978 under the Farm Products Agencies Act. CFC operates within a regulatory environment pursuant to the Federal-Provincial Agreement for Chicken signed by federal and provincial governments and the provincial chicken boards in July 2001.

CFC HAS TWO PRIMARY MANDATES:

CFC's main responsibility is to ensure that our 2,800 farmers produce the right amount of fresh, safe, high quality chicken to meet consumer needs. To do so, farmers, processors, further processors and members of the restaurant trade from across the country meet every eight weeks to determine expected market requirements and set production levels accordingly.

This evolving risk management system we operate under is commonly known as "supply management." CFC monitors compliance with provincial quota allocations, and the inter-provincial or market development trade of chicken.

Our other key responsibility is to represent the interests of chicken farmers and the Canadian chicken industry. We ensure that key decision makers in government fully understand the views of Canada's chicken farmers and that these are taken into account when important agriculture and trade policy decisions are made.

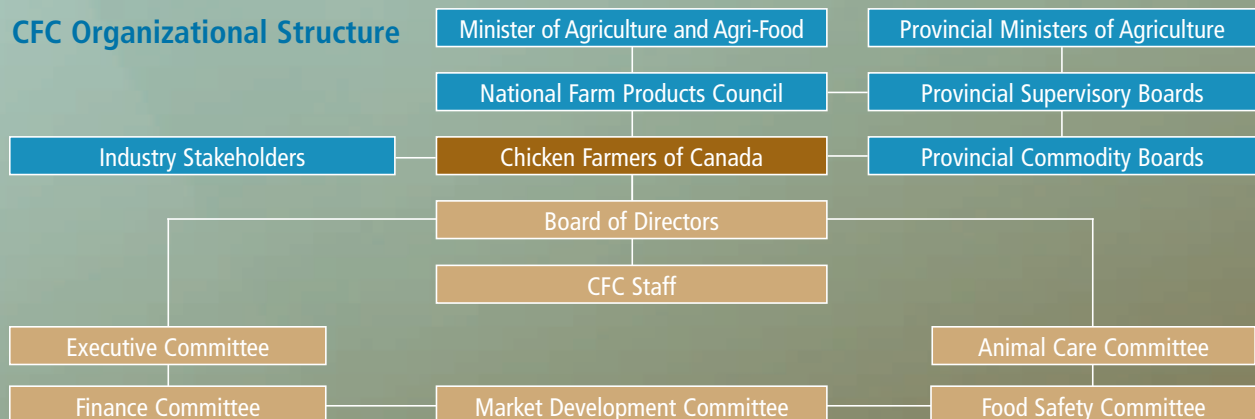
We also ensure that the voice of Canadian chicken farmers is heard on the international scene.

Our directions and policies are determined by a 14-member Board of Directors. The Board is comprised of farmers appointed by provincial chicken marketing boards. Non-farmer directors — one from the restaurant industry, another from the further processing industry and two representing the processing industry — are appointed by their respective national associations.

Our organization is located in Ottawa and is staffed by 20 employees. We conduct our business in both official languages, English and French. 🇨🇦

OUR MISSION:
To build an evidence-based, consumer-driven Canadian chicken industry that provides opportunities for profitable growth for all stakeholders.

CFC Organizational Structure



Standing Together

Partners in the Canadian chicken industry pride themselves in their ability to work collectively on all challenges, to find solutions and to do what is in the best interests of both our industry and our consumers. And we should. We have many examples of why our commitment to working together should inspire great confidence in our future.

2004 introduced many extraordinary challenges for the Canadian chicken industry. Of particular note were the avian influenza crisis in British Columbia and the conclusion of the framework agreement for the agriculture negotiations at the World Trade Organization.

The avian influenza crisis was unprecedented and threatened our entire industry, from coast to coast. From the beginning, farmers, primary and further processors, provincial boards, national agencies, meat buyers and governments, to name a few, worked shoulder to shoulder throughout the year. As a result of our collaboration, the marketplace and consumers saw few interruptions. We were able to get back on the road to recovery and we have learned valuable lessons.

All parties need to be commended for their tireless efforts. While we still have a great deal of work to do, I look forward to doing it together.

Another significant challenge in 2004 was the conclusion of the framework agreement for agriculture at the WTO at the end of July. CFC worked closely with the Canadian Federation of Agriculture, other poultry industry partners and the other supply management sectors to generate ideas to ensure a successful outcome at the WTO, which in turn would mean domestic and international opportunities for Canadian farmers. We continue to work collectively as supply management industries, including making numerous joint presentations to ministers and agriculture committees in order to share our ideas on what our interests are at the WTO.

I would like to thank International Trade Minister **Jim Peterson** and Agriculture and Agri-Food Minister **Andy Mitchell** for their openness and team-minded approach to the WTO issues that are so important to us, and I would like to give a special word of thanks to Canada's Chief Negotiator, **Steve Verheul**, for his tireless work and passion for Canadian agriculture.

As Chairman of CFC, I would also like to express my appreciation to both the Federal and Provincial

governments for their continuing support of the Canadian chicken industry and of supply management.

On behalf of CFC's Board of Directors, it gives me great pleasure to thank **Cynthia Currie**, Chairperson of National Farm Products Council, and the Council's members for their continuing guidance and support of our industry.

In addition, the capable, supportive and dedicated staff members at CFC, led by **Mike Dungate**, General Manager, continue to grow and develop under his leadership and will carry our industry well into the future. I thank them all.

As Chairman of CFC, I have been fortunate to work with a committed Board of Directors and Executive Committee. I would like to express my gratitude to all of them for their continuing support to me as Chairman. I would also like to recognize CFC's committees for their diligent work on each of the challenges that faced our industry over the past year.

As another year passes and a new one approaches, I am confident that, as long as we are united as an industry, we can improve our strength, competitiveness and profitability. Standing together, we can confidently face each of the many challenges that will no doubt face our industry in the future.

Congratulations and I look forward to continuing our hard work. 🍀



David Fuller
Chairman

CFC Committees

Executive Committee

David Fuller Chair (Nova Scotia)
Martin Dufresne 1st Vice-Chair (Quebec)
Tom Posthuma 2nd Vice-Chair (Ontario)
Remi Cyr Executive Member (Alberta)

Finance Committee

David Mackenzie Chair
 (Prince Edward Island)
Martin Howlett (Newfoundland)
Eugene Zagrodney (Saskatchewan)

Food Safety Committee

Jacob Middelkamp Chair
 (Alberta alternate)
Yves Campeau (Quebec alternate)
Luc Gagnon (Canadian Poultry and
 Egg Processors Council)
Matthew Harvie (Nova Scotia)
Urs Kressibucher (Ontario alternate)

Market Development Committee

Tom Posthuma Chair (Ontario)
Yvon Cyr (New Brunswick)
Martin Dufresne (Quebec)
Jacques Dumoulin (Canadian Restaurant
 and Foodservice Association)
Keith Fuller (British Columbia)
Ross MacLeod (Further Poultry
 Processors Association of Canada)
Tony Tavares (Canadian Poultry and
 Egg Processors Council)

Animal Care Committee

Danny Wiebe Chair (Manitoba)
Urs Kressibucher (Ontario alternate)
Jean Paul Ouellet
 (New Brunswick alternate)

Canadian Poultry Research Council Representative

Ian Blenkarn (Nova Scotia alternate)

Canadian Federation of Agriculture Representatives

David Fuller (Nova Scotia)
Remi Cyr (Alberta)

CFC Board of Directors



David Fuller
 Chairman
 Nova Scotia



Martin Dufresne
 1st Vice-Chair
 Quebec



Tom Posthuma
 2nd Vice-Chair
 Ontario



Remi Cyr
 Executive Member
 Alberta



Keith Fuller
 British Columbia



Eugene Zagrodney
 Saskatchewan



Danny Wiebe
 Manitoba



Yvon Cyr
 New Brunswick



David MacKenzie
 Prince Edward Island



Martin Howlett
 Newfoundland & Labrador



Matthew Harvie
 Nova Scotia



Luc Gagnon
 Canadian Poultry and Egg
 Processors Council



Tony Tavares
 Canadian Poultry and Egg
 Processors Council



Ross MacLeod
 Further Poultry Processors
 Association of Canada



Jacques Dumoulin
 Canadian Restaurant and
 Foodservice Association

Industry *Shows its Mettle*

2004 vigorously tested the resolve of the Canadian poultry industry and CFC. After languishing for more than two years, the World Trade Organization negotiations got back on track, with members signing a framework agreement in August. Dairy, poultry and egg farmers came together in July in Geneva, along with fellow Canadian agriculture producers, to ensure that necessary changes were made to the framework agreement.

In September, the entire chicken industry stood together to address the serious difficulties in setting the right national production volumes and sharing the market. A

"Share the Market" working group has been established to explore solutions.

In December, CFC, the Quebec chicken board and the Quebec and Federal governments mutually defended the legality of the Federal-Provincial Agreement on Chicken before the Supreme Court of Canada.

More than anything else, however, the avian influenza outbreak in early 2004 epitomizes how the industry stood together in 2004.

CFC Directors, staff and industry partners showed their true mettle in coming together to face this serious adversity head on. An unprecedented

level of cooperation between industry partners and government allowed the Canadian poultry industry to survive a major outbreak in the Fraser Valley of British Columbia. Without diminishing the severity of the outbreak on farmers, industry partners and the local economy, this cooperation mitigated the impact significantly.

Farmers and processors in the rest of Canada ramped up production and delivered it to B.C. processors through the Chicken West program. This program provided valuable product and generated \$1 million for affected B.C. chicken farmers. To complete the supply picture, the industry worked with government to implement a fast-track supplementary import program that put needed chicken directly in the hands of the affected chicken processors in B.C.

Significant work was performed on the avian influenza portfolio, first by former Minister of Agriculture and Agri-Food **Bob Speller**, then later by the current Minister, **Andy Mitchell**. They both played an important leadership role during the outbreak and for that should be commended.

CFC took a lead role on the communication side of the outbreak by handling thousands of public and media inquiries. The immense efforts kept stakeholders informed and on

the same page. These efforts also maintained the high confidence that Canadian consumers have in our chicken.

Looking forward, the four national poultry agencies and the Canadian Poultry and Egg Processing Council are collaborating with the Canadian Food Inspection Agency and others on a pre-emptive cull program, emergency management planning and procedures, biosecurity and compensation issues to ensure that we are better prepared for future outbreaks.

I must commend the staff at CFC for their dedication beyond the call of duty in 2004. On top of an already aggressive workload, the avian influenza outbreak required many long hours. When combined with a short staffing situation in the last quarter, this brought the workload to the breaking point. This is something that CFC will be correcting in early 2005.

I want to thank **David Fuller** and the CFC Board of Directors for their leadership and for standing together to work proactively in the best interests of Canada's chicken farmers and the Canadian chicken industry. In particular, I appreciate the ongoing trust they show in CFC staff.

I applaud the ability of all of you in the Canadian chicken industry to rise above the friction of internal issues and rally together when the chips are down. You are a shining example of what it takes to succeed in business today.

I look forward to standing together with you in 2005.



Mike Dungate
General Manager



CFC Staff



CFC Staff from left to right

(Top) Mike Dungate, Jan Rus, Mihai Lupescu, Marty Brett, Steve Leech, Michael Laliberté
(Middle) Johanne Neeteson, Lisa Bishop, Kim Garamvolgyi, Jennifer Gardner, Paula Doucette, Juliet Marvin, Janet Noseworthy
(Bottom) Yvon Séguin, Erin Brophy, Stéphanie Turple, Charles Akande, Marie Murphy, Yves Ruel



Avian Influenza

Trust in Canadian poultry and egg products is extremely high—for good reason. The production of safe, quality food is of paramount importance to Canadians, industry and government.

The avian influenza (AI) crisis in British Columbia has taken an enormous physical, financial and emotional toll on all involved. Stakeholders were placed under extreme internal and external pressure to get the situation under control as quickly as possible.

When reflecting on the events of the past year, it is clear that partners from throughout the industry stood together in the face of this serious and significant event. Balancing public health and safety, protecting our poultry industry and maintaining consumer confidence in Canada's food systems were the key priorities during the crisis—the priority now is ensuring that we continue to stand together in order to be prepared for our next challenge.

AVIAN INFLUENZA HITS CANADA

Low pathogenic avian influenza was detected in mid-February on a farm near Abbotsford in the Fraser Valley of British Columbia. The Canadian Food Inspection Agency (CFIA) quarantined the farm and depopulated all the birds. Three weeks later, highly pathogenic avian influenza was detected in another flock on the same premise. Thus began the largest highly pathogenic avian influenza outbreak—the first since 1960—in Canada.

On March 11, then Minister of Agriculture and Agri-Food **Bob Speller** announced the establishment of a Control Area in the Fraser Valley to prevent the spread of AI. Movement restrictions were then put in place, as were disinfection checkpoints. Farmers were also empowered with the legal right to prevent unauthorized access to their property.

THE VIRUS CONTINUES TO SPREAD — Massive Depopulation Ordered

By April 2nd, avian influenza had been confirmed on at least 10 premises. Despite efforts to contain the disease, it was evident that avian influenza was continuing to spread within the Control Area, affecting commercial and backyard flocks alike. More drastic measures were required.

On April 5th, Minister Speller announced a large, targeted depopulation order to isolate, contain and

eradicate this AI outbreak. Approximately 17 million birds were scheduled for depopulation.

All flocks were tested and all infected birds were humanely destroyed. Poultry from non-infected flocks were processed and went to market as usual (over 80% of the total number of birds depopulated in the region).

Overall, 42 commercial and 11 backyard premises had been declared infected with highly pathogenic avian influenza.

Avian influenza is a contagious viral infection which can affect several species of food-producing birds, as well as pet birds and wild birds.

AI viruses can be classified into two categories: low pathogenic and highly pathogenic forms, based on the severity of the illness. Most AI viruses are low pathogenic and cause few clinical signs in infected birds; however, some are capable of mutating into highly pathogenic viruses.

Wild waterfowl birds are natural reservoirs (can carry without experiencing symptoms) for the AI virus and may have contributed to the rapid spread of the disease. In addition, farm-to-farm movement—people, equipment or birds—can provide additional vectors for airborne transmission.

THE FIRST STEPS TO RECOVERY

By June 3rd, surveillance of flocks in the Fraser Valley had not detected any new cases of infection for 21 days. Depopulation activities were officially suspended on June 4th.

All infected premises were cleaned and disinfected. This important process eradicated any of the virus that may have remained in organic material such as manure, bedding, feed and dust.

On July 9th, the government announced that all premises in the Fraser Valley were eligible to begin restocking, under specific conditions, and on August 18th, the government lifted all remaining movement restrictions.

Most broiler farms in the Control Area had two production cycles interrupted.

PARTNERSHIP IN ACTION

The resiliency and strong cooperation of everyone affected by this unprecedented outbreak played a key role in restoring the health of Canada's poultry industry.

To address the supply shortfall and stem the financial losses that this crisis presented, Chicken Farmers of Canada (CFC) and industry partners developed a strategy to ramp up production in other provinces on a short-term basis, along with a strategy to allow B.C. processors to access a special, fast-track supplementary import program.

THE IMPACT

Trading partners worldwide suspended the import of various poultry commodities from Canada. Some, including the United States and the European Union, limited their restrictions to products from the province of British Columbia.

The provincial chicken industry lost approximately \$60 million in farm gate receipts. In addition, the B.C. poultry industry spent over \$7 million on cleaning and disinfecting, increased biosecurity and industry coordination. The estimated cost to the chicken industry alone is expected to reach \$100 million during the first year of recovery.

LESSONS LEARNED

As a result of the outbreak, senior officials from federal and provincial governments, industry representatives and other stakeholders met in October in Abbotsford, at the Canadian Poultry Industry Forum. All partners

agreed to the enhancement of biosecurity and to support continued industry and community economic recovery.

Within the next year, CFC will be playing an enhanced role in the creation of a new mechanism through which procedures, plans and protocols will be improved. An increased understanding of stakeholders' roles will reflect the importance of integrated emergency response plans and approaches, localized decision making and coordinated management strategies.

As a part of this process, CFC will play an active leadership role in:

- ▶ *Establishing a multi-stakeholder working group to develop national biosecurity standards and options for effective implementation*
- ▶ *Examining the feasibility of establishing a pre-emptive destruction policy and developing tools and approaches for rapid pre-emptive culls*
- ▶ *Developing a national mortality disposal strategy for all livestock specialties*
- ▶ *Developing and implementing an Industry Risk Management Insurance Plan*

The avian influenza crisis was an experience from which a great deal has been learned, as will be outlined within this report. The focus now must be on moving forward with solutions that apply these lessons and providing support to all partners, in both enhancing protocols and developing plans to mitigate future situations.

Working collectively and finding common solutions to challenges remain the most critical factors in maintaining the success of the Canadian chicken industry. These stakeholder partnerships will play an integral role in a healthy and strong future. 🇨🇦

Strategic Plan

Goals & Objectives

Chicken Farmers of Canada regularly embraces new challenges and opportunities by examining how it can improve the way it serves both the Canadian marketplace and Canadian chicken farmers.

In 2003, industry partners approved CFC's latest five-year plan to build industry consensus and focus on stability, profitability and performance management. The plan incorporates a strong consumer focus that includes cooperative relationships with all stakeholders.

CFC's new Strategic Plan integrates open, inclusive, trust-based and cooperative relationships with our industry partners. We have a set vision for each of our key result areas, and we have a set of specific, realistic and time-sensitive objectives.



The 2004-2008 Strategic Plan provides us with the tools we need to improve the agility and flexibility of our direction and processes, as well as the effectiveness of our evidence-based decision making.

The central elements of the CFC vision for 2004-2008 include:

- ▶ **Product** — Consumer preference, confidence and recognition of the unique qualities and attributes of Canadian chicken in the marketplace.
- ▶ **Process** — An increasingly efficient and competitive industry, which seeks to know and implement international best practices; has the capacity to set and achieve measures of performance; and is supported by a responsive system of supply management.
- ▶ **People** — Independent stakeholders who choose to work together through innovative partnerships.

2005 PRIORITIES

CRITICAL

ALLOCATION SETTING AND MARKET INFORMATION Create an improved national allocation setting process, with regular production reporting by all provinces and a central database of pertinent market indicators

WTO AGRICULTURE NEGOTIATIONS Develop WTO modalities text with provisions supportive of the Canadian chicken industry and that support the 3 pillars of supply management. Enhance domestic and international alliances in line with CFC's trade position

ON-FARM FOOD SAFETY ASSURANCE PROGRAM Develop solutions for on-farm implementation, updates to the OFFSAP Manual, finalize CFIA's management requirements, develop functional management systems in each province, ensure audit of all farms and sufficient number of trained auditors

ANIMAL DISEASE STRATEGY Enhance CFC Emergency Management protocols and templates to prevent and/or mitigate animal disease outbreaks

TRQ ADMINISTRATION AND 13% RULE Develop TRQ administration that supports CFC's national allocation system, follows International Trade Canada rules and is in compliance with WTO guidelines

GOVERNMENT RELATIONS Implement a series of initiatives to further the positive relations held between CFC and its federal government partners

PRODUCTION INSURANCE Conduct a survey to assess the need and feasibility of production insurance for chicken farmers

ANTIMICROBIAL RESISTANCE AND ANTIBIOTIC ISSUES Develop a CFC position on the sub-therapeutic use of antimicrobials in the Canadian chicken industry

ANIMAL CARE PROGRAM Enhance the development of an animal care program to demonstrate the appropriate care given to Canadian chicken


PROMOTION/EDUCATION CAMPAIGN Implement public initiatives and enhanced education materials for disseminating information and for dispelling public misperceptions

SETTING PRIORITIES AND OBJECTIVES

At its September 2004 Planning Session in Ingonish, Nova Scotia, CFC's Board of Directors and all members of the management team examined the 2004 priorities and set new priorities for 2005. The session also provided an opportunity to celebrate successes of the last year and to design important strategies for the next.

2005 promises to be an exciting year filled with activities that will help us realize the visions outlined within this latest, most challenging Strategic Plan.

This carefully-planned priority setting process provides us all with a well-paved path to the future, buttressed by the support and cooperation of our entire industry. It is through this cooperation that we succeed.

By interpreting the needs of Canadians and industry stakeholders, we have been able to realize important goals, implement industry-wide policies and programs, increase our efficiency and build consumer confidence. 



CFC MISSION: To build an evidence-based, consumer-driven Canadian chicken industry that provides opportunities for profitable growth for all stakeholders.

EDUCATIONAL MARKETING PLAN Develop a long-term plan to significantly extend our current reach and to provide more effective delivery of our messages

ON-LINE BUSINESS INITIATIVE Further the development of an information management system that centralizes the best information about all aspects of our industry

PROCESSING ISSUES AND TRACEABILITY Develop and finalize poultry rejection project, implement industry-wide programs to mitigate food safety issues, determine direction of traceability for the poultry sector

RESEARCH Enhance operation program and implement funding for antimicrobial research projects, develop operational plan for long-term matching funding from government and other sources, develop priority areas for environment and niche market areas, perform review of project management

MARKET DEVELOPMENT POLICY Develop options for a dual-policy approach to market development; ensure provincial compliance with CFC Market Development Policy

BOARD GOVERNANCE Create succession plan for selected CFC Directors and Alternates, enhance professional development opportunities for Directors and Alternates, amend Conflict of Interest By-Laws, and hold Directors' Orientation Seminar

ADMINISTRATION AND HUMAN RESOURCES Implement CFC succession plan for management, ensure professional development and staffing meets CFC needs, implement any required pay equity legislative reforms, as well as policies and procedures in relation to the Canadian Privacy Act

The Canadian Chicken Market

After a year of contraction in 2003, Canadian chicken production increased by 1.2% to 946.1 million kg in 2004. In the first quarter of the year, production was 3.4% higher than in the same months of the previous year, while wholesale prices remained very strong.

Allocations for the late spring and early summer periods, A-58 and A-59, were set at levels that would have resulted in a 3-4% growth during this timeframe, but the avian influenza (AI) outbreak in B.C. changed the picture completely.

Production in B.C. remained at regular levels for the first couple of weeks, but the fact that chick placements were limited to Vancouver Island and the B.C. interior caused production to be a fraction of the usual volume for much of the summer. In effect, the B.C. production system was curtailed between March 11, the day the Control Area and movement controls in the Fraser Valley were established, and August 18 when all remaining movement controls were lifted.



To supply domestic product to the B.C. processors during the AI crisis, the chicken industry developed the Chicken West Program. The purpose of this program was to ramp up production in the rest of Canada and ship the resulting product as whole eviscerated birds to B.C. processors, allowing them to maintain their operations and continue to service their customers.

Five provinces (Alberta, Manitoba, Ontario, Quebec and New Brunswick) received additional allocations under the exceptional circumstances provision for period A-59. The same provinces, with the exception of Manitoba, received additional allocations for period A-60.

Production reported to CFC under the Chicken West Program totalled 5,447,137 kg live weight in A-59 and 1,345,153 kg live weight in A-60.

A special lease fee of \$0.15 per kg was paid by the farmers for the additional production under the Chicken West program to help compensate B.C. farmers for the loss of production during the two lost production periods. The special lease fee generated around \$1 million of direct support for B.C. chicken farmers.

| Quota Periods | From | To |
|---------------|--------------------|--------------------|
| A-56 | December 14, 2003 | February 7, 2004 |
| A-57 | February 8, 2004 | April 3, 2004 |
| A-58 | April 4, 2004 | May 29, 2004 |
| A-59 | May 30, 2004 | July 24, 2004 |
| A-60 | July 25, 2004 | September 18, 2004 |
| A-61 | September 19, 2004 | November 13, 2004 |
| A-62 | November 14, 2004 | January 8, 2005 |

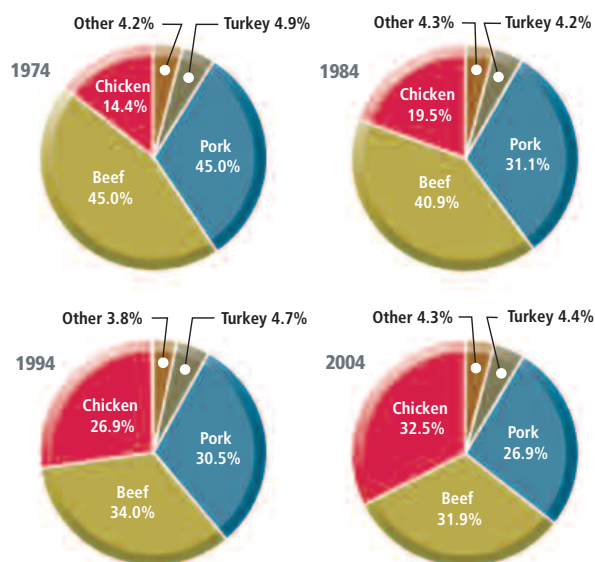
Partly due to what happened in B.C., chicken supplies were very tight for a good part of the year. Wholesale prices for both breast meat and wings were high throughout the year until the fall, when prices dropped significantly. Wholesale prices in the U.S. were also very high despite a significant increase in chicken production and supply.



Overall, there is no indication that consumer confidence in — and demand for — Canadian chicken suffered as a result of the AI outbreak. On the contrary, per capita chicken consumption in 2004 could be very close to 31 kg, half a kg higher than in 2003.



Share of Meat Consumption in Canada (%)



Consumption of beef in 2004 was an estimated 4% lower than in 2003 (30.4 kg in 2004) when consumption was relatively high, encouraged by plentiful supplies, attractive retail prices and a solid six months of consumer support following the first case of BSE. Domestic pork consumption in 2004 was an estimated 3% higher than in 2003 (25.7 kg in 2004) while consumption of turkey, veal and lamb remained stable in 2004.

PROVINCIAL PRODUCTION

Total production in the year 2004 was 946.1 million kg, 11.6 million kg or 1.2% higher than the year before and 0.7% higher than in 2002. The 27.4 million kg (18.6%) production decrease in B.C. was more than offset by the combined 38.6 million kg (4.9%) increase in production in the rest of Canada.

2004 provincial production of chicken ('000 kg eviscerated)

| Province | 2004 | 2003 | % change |
|----------------------|---------|---------|----------|
| British Columbia | 120,465 | 147,910 | -18.6% |
| Alberta | 86,884 | 81,024 | 6.8% |
| Saskatchewan | 33,156 | 30,456 | 9.0% |
| Manitoba | 39,980 | 38,671 | 3.4% |
| West | 280,485 | 298,061 | -6.0% |
| Ontario | 319,710 | 303,134 | 5.5% |
| Quebec | 269,080 | 260,810 | 3.2% |
| Central | 588,791 | 563,944 | 4.4% |
| New Brunswick | 26,786 | 25,220 | 6.2% |
| Nova Scotia | 33,421 | 31,372 | 6.4% |
| Prince Edward Island | 3,578 | 3,343 | 7.0% |
| Newfoundland | 13,051 | 12,573 | 3.8% |
| Atlantic | 76,836 | 72,508 | 5.9% |
| CANADA | 946,112 | 934,513 | 1.2% |

Production increases ranged from 3.2% in Quebec to 9.0% in Saskatchewan. As already mentioned, the 2004 production level was negatively impacted by the AI crisis and could have been in the neighbourhood of 970 million kg. The average annual growth in production since 2001 is 0.6%, substantially lower than the 5.2% average growth during the 1991-2001 timeframe.

PRODUCER PRICES

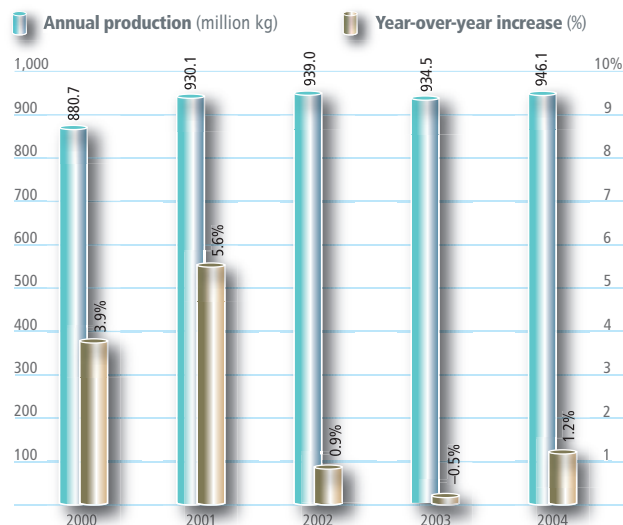
The average Canadian producer price in 2004 was \$1.223 per kg, 1.8 cents higher than in 2003 and 7.7 cents higher than in 2002. The average live price in the first two periods of 2004, A-56 and A-57, was \$1.219. The live price dropped to \$1.203 in period A-58 and increased marginally to \$1.205 in period A-59.

The producer price in the following two periods, A-60 and A-61, was \$1.200 and \$1.202, respectively, and increased sharply to \$1.280 in the final period of 2004, A-62. Compared to ten years ago, the Canadian producer price is now 12.2 cents (11.1%) higher.

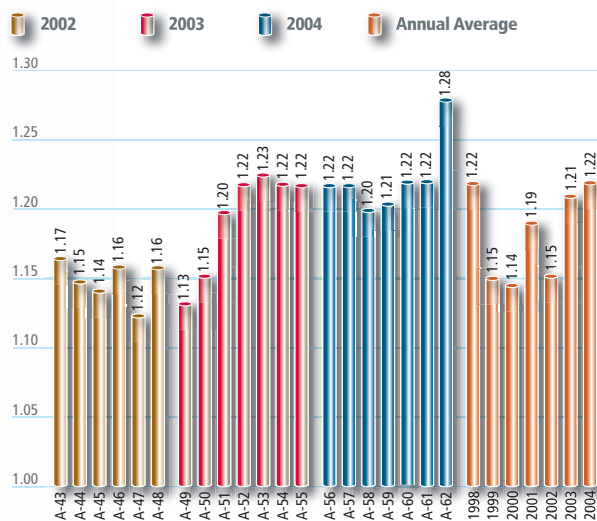
RETAIL PRICES

The only national indicator for national chicken retail prices, the Consumer Price Index (CPI) as reported by Statistics Canada for fresh and frozen chicken, saw another significant increase in 2004 for the second year in a row. The CPI for chicken in 2004 was 131.1, 7.7% higher than in 2003.

In comparison, the consumer price index for all items combined in 2004 was only 1.8% higher than last year and the one for all food items was 2.1% higher.



Canadian Weighted Average Producer Price (\$/kg)



The chicken prices at the retail level increased steadily during the first five months of the year and increased sharply in the summer.

The CPI for chicken reached its peak in August at 139.8, 10.9% higher than in January. From then on, retail prices decreased somewhat and the CPI ended the year at 133.3, 5.7% higher than at the beginning.

(Note: Statistics Canada monitors retail prices for fresh whole chicken, boneless skinless breast and legs and calculates a monthly price index based on the prices for these products.)

Retail prices for all other meats, with the exception of fish, also increased, but not as much as chicken.

Beef prices at the retail level in 2004 were on average 3.5% higher than the year before, while pork and turkey retail prices posted a 5.7% and 3.0% increase compared to 2003. Retail prices for fish saw a modest decrease in 2004 by 0.6%.

In the last ten years, chicken retail prices have increased 37.2%, the highest increase of all meats. In comparison, retail beef prices were on average 30.3% higher than in 1994, while the increases for pork, turkey and fish were 18.8%, 28.9% and 16.4%, respectively.

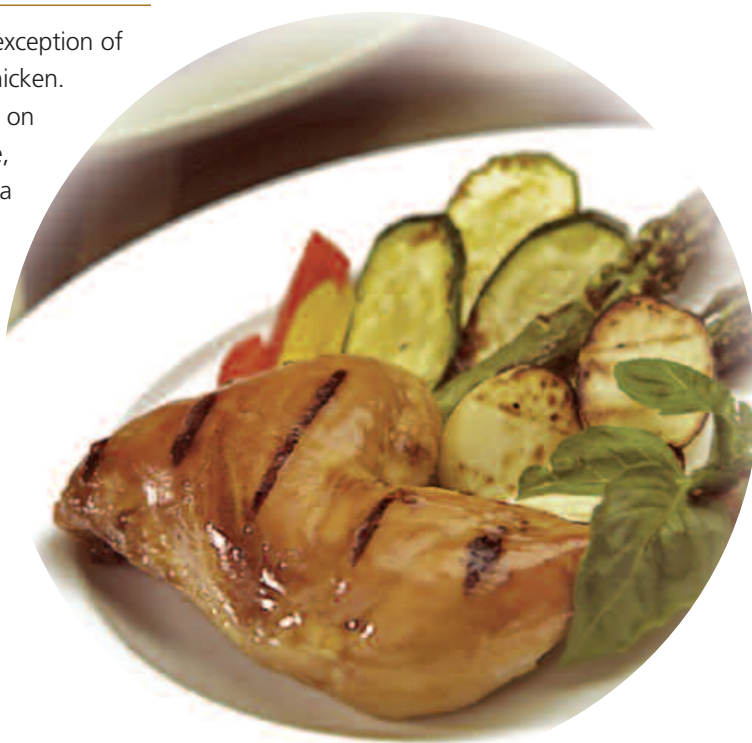
IMPORTS

According to reports from International Trade Canada (ITCan), a total of 120.2 million kg of chicken was imported into Canada during 2004. ITCan is responsible for issuing import permits for chicken and products made primarily of chicken. Under Canada's NAFTA obligations, the tariff-rate quota (TRQ, also known as global imports) is automatically set at 7.5% of chicken production in the previous year.

The TRQ for 2004 was calculated as 69,697,500 kg — 64,425 kg less than in 2003. According to preliminary year-end statistics, a total of 70,371,350 kg of chicken and chicken products was imported under the TRQ, a fill rate of 101%. The TRQ for 2005 is expected to be around 72.5 million kg.

Global imports early in the year 2004 were higher than usually seen during the first couple of months. In the first quarter, 23.9% of the TRQ was imported. Global imports in the second quarter of the year represented 28.8% of the TRQ, while 26.3% was imported in the third quarter. Global imports in the final quarter of 2004 accounted for 22.0% of the annual TRQ.

In 2004, chicken parts (bone-in and boneless) accounted for 83.9% of all TRQ imports compared to 81.5% the year before. Further-processed chicken and



live chicken imports accounted for 15.9% and 0.2% of all TRQ imports, while whole eviscerated chicken imports were a negligible 18,245 kg.

The U.S. was the most important supplier of chicken products imported under the TRQ at a total of 43.0 million kg with a total value of \$130.9 million. Global imports from Brazil totalled 26.0 million kg (\$44.2 million), a sharp increase from the year before. The two other countries of origin in 2004 were Thailand (1.4 million kg) and France (less than 100 kg).

ITCan also issued additional import permits under the "import to re-export" and "import to compete" programs. The "import to re-export" program allows imports of chicken and chicken products into Canada to be further processed. All imports under this program must be exported within a six-month period.

In 2004, a total of 32.0 million kg was imported under this program, 6.4 million kg (25.3%) more than in 2003. The "import to compete" program allows chicken imports for Canadian manufacturers to produce processed chicken products that are not on Canada's Import Control List.

This list includes specialized products, such as chicken dinners. A total of 1.4 million kg was imported under this program in 2004, 0.2 million kg less than in the previous year.

In 2004, CFC received twenty-two requests for supplementary imports for market shortages. Most of these requests were made during the spring and summer

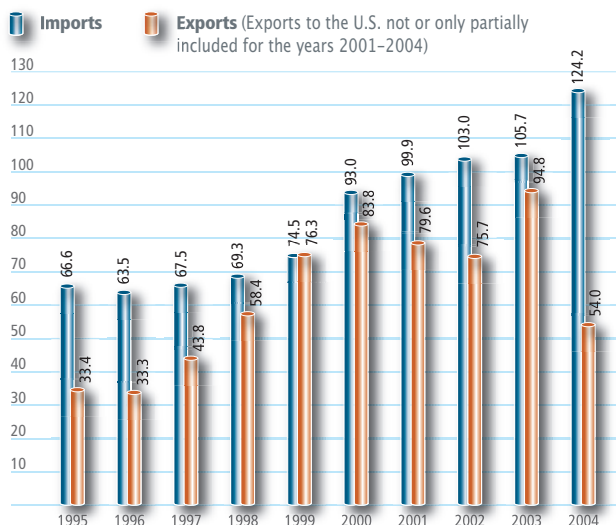
months. Six supplementary import permits were issued for a total of 376,874 kg (70,458 kg of live chicken and 306,416 kg of boneless breast).

In response to the AI production shortfall, a special fast-track supplementary import program was developed for processors in B.C. An industry-led advisory committee consisting of representatives from poultry organizations, industry stakeholders and ITCan was established to assess the appropriate volume of imports under this program and make recommendations to ITCan. CFC and industry stakeholders played a leadership role in ensuring that B.C. processors would be able to access this short-term supply.

The program's primary intent was to fill the needs of the primary processors in B.C. in such a way that it would keep the processing plants in B.C. functioning while supplying the market demands in a non-disruptive way.

To accomplish this, processors were encouraged to import whole eviscerated birds rather than bone-in or boneless parts. Especially in the first few weeks, the sourcing of fresh product proved to be difficult, due to very tight markets south of the border. Overall, though, the program was quite successful and a total of 16.1 million kg was imported under the program.

Canadian Chicken Imports and Exports (million kg, AAFC)



EXPORTS

According to export data from Agriculture and Agri-Food Canada (AAFC), approximately 54 million kg of Canadian chicken was exported in 2004. However, this number does not include exports to the U.S. and therefore significantly understates the 2004 export volume, which makes year-to-year comparisons very difficult. To put things in perspective, the U.S. was Canada's most important export market, with total shipments of 18.5 million kg.

Overall, exports to most traditional destinations were down, some only marginally but others quite substantially. Several countries closed their borders immediately after the AI outbreak in B.C., some declined all Canadian poultry products and others were more regionally specific, limiting the ban to products from B.C. or the Control Area. Countries began to lift their import bans once the situation in B.C. was back to normal.

The most important destination for Canadian chicken in 2004 was Russia (9.8 million kg), closely followed by the Ukraine (7.8 million kg). Other important markets were the Philippines, South Africa, Azerbaijan and Jamaica. The decrease in exports to South Africa is particularly striking: 13.2 million kg in 2002, 14.6 million kg in 2003 and 4.8 million kg in 2004.

STORAGE STOCKS

Frozen chicken inventories during the first three months of 2004 were substantially lower than in the previous two years, but the bans on Canadian chicken products

caused frozen chicken inventories to increase by 5 million kg during the month of April. Most of the increase occurred in the cut-up category that saw leg quarter inventories grow by 3.2 million kg.

B.C. was affected the most as several major importing countries had limited their import bans to products from B.C. Frozen chicken inventories remained around the 27 million kg mark during the middle of the year and increased even further in the period September to December. The majority of this increase however took place in the chicken breast and wing categories.

Encouraged by the strong wholesale prices during the summer months, significant amounts of breast meat and wings were imported. A sudden downturn in the wholesale market made selling these products less attractive and they ended up in storage waiting for improved markets. In summary, frozen chicken inventories ended the year 9.5 million kg higher (40.3%) than where they started.

As a result of the near-complete ban against B.C. exports, product in storage under the market development program could no longer be shipped. To accommodate the B.C. poultry industry, the CFC Board of Directors approved that processors in B.C. could utilize the frozen dark meat product held in storage between May 25 and July 24 to reduce their market development commitments for period A-57. A total of 2,999,952 kg live weight equivalent of product was applied against the processors' commitments. 🇨🇦



Food Safety

By the end of 2004, approximately 50% of chicken farms had been audited and certified while it is anticipated that approximately 70% will be audited and certified by July 2005.

This past year was one in which the importance of Safe, Safer, Safest — CFC's on-farm food safety assurance program — was highlighted and brought to the forefront of farmers' minds.

The food safety program had always been promoted as an encompassing program designed to:

- ▶ *Streamline approaches and requirements from industry, government and other stakeholders*
- ▶ *Meet consumer expectations for demonstrable food safety practices*
- ▶ *Be ahead of the curve in relation to other commodities developing programs*
- ▶ *Serve as a risk management tool to reduce liability*
- ▶ *Sustain market demand*
- ▶ *Help demonstrate to consumers the care with which Canadian farmers raise chicken*

AVIAN INFLUENZA, ANIMAL HEALTH AND DISEASE MANAGEMENT

In 2004, the biosecurity section of the program proved to be an important tool in animal disease prevention.

The avian influenza outbreak in British Columbia reinforced the importance of biosecurity measures as a means to prevent diseases from coming into contact with our flocks. **Safe, Safer, Safest** is very specific on how to prevent contaminants of several types from entering the barn and coming into contact with the birds. This includes treating every trip into the barn, even those by farm workers, as a possible vector.

Later in the year, CFC's Food Safety Committee decided to perform a full review of the biosecurity protocols of **Safe, Safer, Safest** to ensure that the protocols are stringent enough.

The avian influenza crisis enabled the Canadian poultry industry and regulators to review and learn valuable lessons. Over the

last several months, meetings, conferences and discussions have been held, in order to determine how to enhance national biosecurity protocols, revamp emergency management procedures, and recommend strategies to mitigate future outbreaks.

Currently, on-farm biosecurity measures can vary slightly from commodity to commodity, indicating a need for national biosecurity standards and protocols that are consistent for the poultry industry, our government partners and all stakeholders. These standards will be designed by working closely in conjunction with the CFIA.

Over the course of the coming year, industry and government will work to establish protocols to ensure that foreign animal disease outbreaks are investigated with a team approach that encompasses both public health and veterinary health expertise.

They will also investigate the implementation of a national avian influenza surveillance and testing program.

SAFE, SAFER, SAFEST IMPLEMENTATION

The experiences of the past year led to a surge in the implementation of the **Safe, Safer, Safest** program. Many provincial boards made regulatory moves to make the program mandatory for all chicken farmers, thus ensuring that all marketed chicken is produced in accordance with a minimum set of standard operating procedures. This allows both farmers and consumers to be confident that the entire industry is following the same guidelines.

Alberta was the first province to make the program mandatory and had 100% of farms audited and certified by April 1st, 2004.



Ontario, British Columbia, Manitoba and Saskatchewan have also taken steps to ensure everyone is audited and certified by mid-2005.

By the end of 2004, approximately 50% of chicken farms had been audited and certified while it is anticipated that approximately 70% will be audited and certified by July 2005.

The significant uptake of *Safe, Safer, Safest* represents extensive work by farmers and provincial chicken boards to make this program a success.

FOOD SAFETY PROGRAM DEVELOPMENT

The further development of *Safe, Safer, Safest* continued to be an important priority in 2004. While CFC received technical recognition of the on-farm manual from the Canadian Food Inspection Agency (CFIA) in 2002, full

recognition requires CFC to develop, implement and verify the management system associated with the on-farm food safety program.

Throughout 2004, CFC participated on several committees and in working groups to develop the management system criteria and to ensure that the requirements are feasible for commodity organizations—being both affordable and sustainable over the long term.

This consultation with the CFIA and the provincial governments resulted in a much-anticipated finalized draft version of the management requirements released in December. While the government regulations were being drafted, CFC initiated the development of CFC's management system with a draft requirement manual that was created in April of 2004 for all provinces to review and implement.

The finalized draft government requirements will be used to update CFC's manual which will be further developed and piloted within each province throughout 2005.

Part of the management manual covers auditor training requirements. CFC followed up on initial auditor training courses by performing on-farm group audits to ensure consistent application of the program and auditing across the country.

CFC'S FOOD SAFETY COMMITTEE

While the Food Safety Committee's primary goal for 2004 was to increase participation and the number of certified farms, they also dealt with other issues relating to the food safety program:

- ▶ *A review of the **Safe, Safer, Safest** auditor training course was performed based on feedback from past participants and comments from the field. This review process will help both new auditors to the program and the farmers being audited.*
- ▶ *CFIA is in the process of preparing to release regulations concerning farms that mix medicated feed on-farm. The committee reviewed the effects of these new regulations on CFC's food safety program and the potential implications on an increased auditor workload and education demand.*



- ▶ The committee reviewed CFIA's new animal feed restrictions to evaluate the potential effects on the poultry industry. As a result of BSE, the Canadian Food Inspection Agency released a regulatory proposal to remove specified risk material (SRM) from the animal feed chain. This proposal will have little impact on the poultry industry compared to others that were under consideration.
- ▶ The **Safe, Safer, Safest** program was specifically developed for birds raised in barns. As the program has been promoted and is being implemented by all farmers across Canada, a demand has evolved to include requirements for birds that are raised outside — free-range production. The committee began exploratory steps in 2004 to develop criteria for free-range farmers. This project will span into 2005 with the intent of developing an acceptable program so that all CFC members can be certified by the program.
- ▶ Antibiotic usage, both medical and veterinary, is currently under global review. The CFC Food Safety Committee undertook a study of antibiotic usage and some potential reduction strategies. Different scenarios of antibiotic reduction that have been used around the world were reviewed. A recommendation to the Board of Directors is anticipated in early 2005.
- ▶ With an increasing number of farms being certified, the committee began looking into developing a sign for certified farms that could be displayed — serving the dual purpose of promoting the program and as a symbol of completing the certification process.

- ▶ A review of the technical components of the **Safe, Safer, Safest** program was initiated in the fall of 2004. This review is based on issues that have evolved from implementation and audits across the country. The committee highlighted several recommendations that will be brought to the Board in early 2005 to provide clarity to the program. In addition, the committee requested that certain requirements of the manual be clarified with CFIA to ensure their scientific requirement. Any modifications approved by the Board will be circulated to all stakeholders in 2005.

CFIA REGULATORY CONSULTATIONS

CFC has participated for several years in the Poultry Operations Technical Committee of the Canadian Poultry and Egg Processors Council (CPEPC). This committee provides an opportunity for CFC to discuss processor-related issues with CPEPC members, as well as to provide an opportunity for the CFIA to consult with industry on new regulatory amendments being proposed for the processing sector.

Of particular importance to Canadian chicken farmers is the recent CFIA proposal to allow processing plant employees to perform condemnations with veterinary oversight rather than having CFIA veterinarians perform the condemnations, as is the current practice. This type of amendment raises serious issues for farmers and has outlined a need for CFC to participate in meetings to ensure that adequate process controls are put in place, to reduce opportunities for conflict of interest and retain 3rd party involvement. CFIA is intending to run pilot projects in the winter of 2005. 🇨🇦

Poultry Research

The Canadian Poultry Research Council (CPRC), established in 2001, creates and implements programs for poultry research and development that address industry concerns. Ian Blenkharn from Nova Scotia is CFC's representative on the CPRC Board of Directors.

In 2004, there were changes at the management level in the CPRC. The new Executive Director of the CPRC is **Gord Speksnijder**. With this new management, it is expected that the CPRC will increase the number of project areas being funded and will improve upon past results.

CFC'S FUNDING CONTRIBUTIONS IN 2004

CFC made commitments in 2004 to support the construction of a new research facility in the Maritimes. Funding in the amount of \$200,000 was given to the Nova Scotia Agriculture College for the Atlantic Poultry Research Institute.

In 2004, a further \$250,000 was transferred to the CFC Research Fund bringing the total to over \$4 million. Interest earned by the Research Fund is the source of the annual funding support for poultry research projects and initiatives.

AVIMICRONET

The CPRC Board of Directors approved four research projects in June 2004 for funding under CPRC's Avian Microbiology Research Network (AviMicroNet) for a total of \$352,900 over two years; \$200,000 has been committed by CFC. The four projects receiving funding through AviMicroNet are:

- 1) Title: *Identification of gut bacteria affected by dietary antibiotics and their roles in the gut immunity of broiler chickens*. Lead Researcher: J. Gong, Agriculture and Agri-Food Canada

The goal of this research is to discover methods to reduce the amount of antibiotics used in poultry production.

- 2) Title: *Molecular epidemiology of Necrotic Enteritis*. Lead Researcher: P. Boerlin, University of Guelph

This research will study *Clostridium perfringens* to provide information on the diversity of strains and the possible relationship with necrotic enteritis in poultry.

- 3) Title: *Carbohydrase enzyme supplements as growth promoters and modulators of the intestinal microflora of the chicken: The prebiotic and probiotic effect of enzyme hydrolysis products*. Lead Researcher: B. Slominski, University of Manitoba

This research into antibiotic alternatives is a continuation of earlier work and should demonstrate benefits to health status and growth performance.

- 4) Title: *Understanding how Campylobacter jejuni colonizes poultry*. Lead Researcher: B. Allan, University of Saskatchewan

The goal of this project is to understand the mechanism of colonization of poultry by *Campylobacter jejuni* in order to enhance food and water safety and to develop a long-term vaccination strategy.

ENVIRONMENTAL RESEARCH

CPRC held a workshop on poultry environmental research in March 2004. The workshop was designed to bring together researchers from across Canada whose research focuses on environmental concerns such as ground water and soil protection, rendering, dead bird disposal and the effect of air quality on the health of humans and birds.

In September 2004, a request for letters of interest was sent out to researchers working on environmental issues related to poultry. Eleven letters of interest were received by the CPRC and have since been reviewed by CPRC's Scientific Advisory Committee. Full grant proposals for successful letters of interest will be solicited and decisions will be taken in early 2005. 🍁

Animal Care

Chicken Farmers of Canada and its partners in the Canadian poultry industry are proud of their excellent animal care record. For over twenty years, CFC has played an active role in the support and development of protocols that look after the welfare of our birds.

CODES OF PRACTICE

The *Recommended code of practice for the care and handling of farm animals: Chickens, Turkeys and Breeders from Hatchery to Processing Plant* ensures the highest standards for the care and handling of chickens. A result of hard work and intensive study, the code of practice outlines stringent procedures for farmers based on the best possible animal care values and promotes sound animal care practices.

PARTNERS IN THE 2003 CODE OF PRACTICE REVIEW:

- ▶ Animal agriculture industry partners
- ▶ Federal and Provincial governments
- ▶ Canadian Veterinary Medical Association
- ▶ Canadian Federation of Humane Societies
- ▶ Canadian Council on Animal Care
- ▶ Academics specializing in animal behaviour

CONSUMER AWARENESS ON THE RISE

Public awareness about animal care is on the rise. Consumers are increasingly demanding assurance that animals are indeed raised humanely and safely.

In CFC's 2004 Usage & Attitudes survey, chickens and cows were among the animals most associated with animal care concerns. Being able to demonstrate to consumers that chickens are raised according to appropriate animal care practices is the key to the future success of our industry.

CFC TAKES THE LEAD

In response, CFC is developing a comprehensive program designed to demonstrate the appropriate care given to chickens raised on Canadian farms. CFC's Animal Care Program is designed to be auditable and is based entirely on the Code of Practice.

In July 2004, the Animal Care Committee presented a draft program to the Board of Directors and was directed to conduct pilot projects of the draft program in all provinces to test its practicality and ease of implementation. The pilot projects are anticipated to begin in January 2005.

CFC has also been an active member of the Poultry Welfare Coalition, comprised of the four feather agencies. The Coalition continues to monitor the animal cruelty legislation intended to amend the Criminal Code. Despite improvements being made with each subsequent version, in 2004, Bill C-22 died on the Order Paper before being passed in Parliament.



AVIAN INFLUENZA AND ANIMAL CARE

During the emergency response strategy to the 2004 avian influenza crisis in B.C., all stakeholders, including the Canadian Food Inspection Agency, worked to ensure the humane depopulation of all infected and exposed birds in order to prevent the spread of disease and to minimize the suffering of affected flocks.

Significant credit was received from industry stakeholders and the general public for ensuring that bird welfare was taken into consideration throughout the avian influenza crisis.

CFC looks forward to continuing its work with industry partners to demonstrate our farmers' commitment to the highest standards of animal care on Canadian chicken farms, in both times of crisis and every day. 🍁

Trade & Policy

THE TRADE IMPACTS OF AVIAN INFLUENZA

The start of 2004 was promising for export markets since South East Asia was severely affected by an outbreak of avian influenza that generated import bans from affected countries, including Thailand and China respectively the 3rd and 4th largest chicken exporters in the world. The disruption in the international markets created by the bans had already stimulated demand for Canadian products when avian influenza was also found in the United States, limiting exports from the largest chicken exporter.

TRADE SUSPENSIONS BY REGION:

| Canada | British Columbia | Control Area |
|----------------------------------|-------------------------------------|----------------|
| Albania | Barbados | European Union |
| Brazil | Croatia | |
| Bulgaria | Dominican Republic | |
| Chile | Estonia | |
| China* | Guatemala | |
| Colombia | Hong Kong (poultry meat)* | |
| Cuba* | Hungary | |
| Czech Republic | Israel | |
| Hong Kong (live only)* | Latvia | |
| Iceland | Lithuania | |
| Indonesia | Philippines* | |
| Japan | Poland | |
| Jordan | Romania | |
| South Korea | Russia* | |
| Kuwait | St-Pierre et Miquelon | |
| Macedonia | Taiwan | |
| Malaysia | Tunisia | |
| Mexico | Turkey | |
| Norway | Ukraine | |
| Peru | United Arab Emirates | |
| Saudi Arabia | United States* | |
| Singapore | | |
| Slovakia | | |
| South Africa* | | |
| St. Lucia | | |
| Syria | | |
| Thailand | | |
| Venezuela | | |

**In 2003, South Africa was Canada's largest export market for chicken, followed by Russia, Cuba, Philippines, the U.S., China and Hong Kong.*

As cases of AI were confirmed in British Columbia, countries began to impose import bans on Canadian poultry products. With the confirmation of the presence of highly pathogenic AI on March 9th, the situation became worse, with almost 50 countries applying restrictions on products originating either from just British Columbia or from the entire country.

Although only about 7% of our production is exported, the effects of the import bans were severe, especially at a time of tight global supply and high prices.

In response to the difficulties Canadian exporters had to face on the world market, the CFC Board of Directors quickly approved dispositions to provide additional flexibility for processors to meet their market development commitments. Recognizing either the impossibility to export for British Columbia processors or the limited export markets for other provinces, CFC allowed processors to review their market development allocations and also allowed them an extra period (8 weeks) to fulfill their commitments.

CFC also permitted B.C. processors to market their storage held for export domestically in lieu of using imported products to satisfy Canadian demand. This decision allowed not only B.C. processors to reduce their inventories in a critical period, but provided Canadian chicken to our consumers while reducing the need to import chicken products to meet market demand.



A fast-track supplementary import program was established to fulfill the needs of the B.C. primary processors. The intent of the program was to supply the production that would have occurred in B.C. in the absence of AI and that was needed by their market. The decision to design this program for primary processors was motivated by the economic activity that was needed to maintain processing plants functioning, although at a reduced capacity.

The fast-track import allocations had to be used on a reconstituted whole bird basis in order to minimize the effects on the domestic market. When available on the import markets, it was suggested to import whole eviscerated birds in order to generate more economic activity in B.C. The overall objective was to replace the usual domestic supply with imports at the primary processing level.

While the situation was improving in B.C. with the eradication efforts, CFC organized an industry meeting with CFIA to prioritize the efforts to re-open export markets for Canadian poultry products. On November 18, 2004, Canada passed the OIE (independent World Organization for Animal Health) guideline of six months from the last infected premise's cleaning & disinfecting.

OIE guidelines are not binding but are recognized as an international sanitary reference by the World Trade Organization. Each export market must then be dealt with on a country-to-country basis. The work to re-open export markets continues and the situation is gradually improving.

- ▶ **South Africa:** Canadian poultry products on or after September 9, 2004 are eligible for export
- ▶ **Russia:** poultry products from B.C. still restricted (January 11, 2005)
- ▶ **Cuba:** accepting only thermally treated poultry products from Manitoba, Ontario and Quebec
- ▶ **China:** Canadian poultry products on or after January 18, 2005 are now eligible for export

2004 will be characterized by a decline in exports and an increase in imports, all due to AI.

TRQ: ESTABLISHMENT OF A NEW PRINCIPLE

After four years of issuing special supplementary import allocations to cover all requests for a share of the chicken tariff rate quota allocation, the Minister for International Trade decided in 2004 to limit the volume of imports allowed above the Canadian 7.5% market access level. The 2004 allocation methodology limits the special supplementary imports to 3.75 million kilograms.

Additional volumes required for Canadian manufacturers of products not subject to import controls (Non-ICL) were provided through a combination of 3.75 million kg in special supplementary imports and a "claw-back" of 1.75 million kg from the traditional, processor, distributor and food service import quota holders.

In the meantime, CFC is still pursuing a review of the 13% rule, a rule that defines the products not subject to Canada's import controls. The multitude of chicken products covered under this generous rule pose a threat to the industry by eroding the market for fresh chicken items. A modification to the 13% rule would greatly simplify the tariff rate quota allocation and eliminate the recourse to special supplementary import allocations.

Although CFC and other industry stakeholders have not succeeded in getting the government to change the 13% rule, some minor progress was achieved at the Tariff-Rate Quota

Advisory Committee (TQAC). TQAC members have recommended the creation of a new import allocation pool for the Non-ICL products manufactured almost exclusively with a combination of meat ingredients, such as tournedos.



These products are covered under the 13% rule, although it was never the intent, and they face no foreign competition. This new pool will limit the volume allocated to tournedo manufacturers to their 2003 allocation, therefore reducing the pressure on the TRQ allocation.

WTO: THE NEW FRAMEWORK AGREEMENT

After the failure of the WTO ministerial meeting in Cancun last year, the conclusion of a framework agreement was a major event on August 1st, 2004. Although the prognosis for an agreement was not good at the start of the year, an open letter from U.S. Trade Secretary **Robert Zoellick** to his WTO counterparts in January reinvigorated the trade discussions. Contrary to public perception, the U.S. Trade Secretary was sending the message that an election year would not prevent the U.S. from concluding a framework agreement. Technical discussions in Geneva became more frequent and CFC, along with other supply management organizations (SM-5) and the Canadian Federation of Agriculture, pursued efforts on the domestic and international scenes to ensure decision makers better understood our position.

On the domestic scene, CFC reminded everyone of the key importance of the three pillars essential to effective supply management. Fact sheets on production discipline, producer pricing and import controls, and their links to the WTO negotiations were distributed to all chicken farmers.

A small brochure titled "What's at Stake?" was also widely distributed to ensure all chicken farmers fully understood the implications of trade negotiations on their operations and also on Canadian agriculture.

Canadian chicken farmers have diversified farms, with 63% of them also being involved in other farm production. The same holds true for most farms that pursue their own internal diversification strategies.

It is CFC's belief that any trade policy pursued by Canadian farmers must look for the improvement of all Canadian agriculture and agri-food sectors. All the

trade positions supported by CFC pursue the goal of real improvement in market access without jeopardizing the fundamental tools that have contributed to the success of Canadian agriculture and agri-food industries over the years. Also, CFC used every opportunity to explain our views to other Canadian commodity organizations or Non-Governmental Organizations (NGOs) interested in WTO trade issues. CFC's pragmatic approach to trade calls for improved trade flows and options for developing countries to foster sustainable agriculture development.

CFC also participated in the WTO civil society symposium in Geneva, the International Federation of Agricultural Producers world farmers' conference in Washington and an international conference in Geneva for NGOs titled: "Sustaining a Future for Agriculture". At this conference, CFC's Chairman made a presentation on the functioning of the Canadian supply management model

and the importance of collective organizations to represent farmers' interests. The presentation attracted a lot of attention from NGOs who are looking at the Canadian model as a development tool for many developing countries.

CFC's position on trade also needed to be communicated on the international scene to advance our ideas with other farm organizations and key countries involved in the WTO agriculture negotiations. In collaboration with the SM-5, a comprehensive discussion paper was presented during technical missions in Geneva and in Washington in May and June.

The discussion paper presented a thorough analysis of the inequities and imbalances resulting from the implementation of the Uruguay Round Agreement on Agriculture and proactive ways to correct the situation. This discussion paper was also presented to Ambassador **Tim Groser**, chair of the agriculture negotiations and to other key players in the negotiations. The paper was very well received.



Above all, the key event of the year 2004 remains the adoption of a framework agreement by all 147 WTO members on August 1st. After two intense weeks of negotiations in Geneva, the Government of Canada was able to remove from the draft framework text a provision calling for a mandatory reduction in all over-quota tariffs. Such a provision would have been extremely damaging to the Canadian chicken industry and to all supply managed farmers.

The strong presence of farmers' representatives from CFC, Quebec and Ontario provincial boards, other SM-5 members and the Canadian Federation of Agriculture was noticed in Geneva and certainly gave credibility to Canadian negotiators when expressing the need for a positive WTO outcome for Canadian farmers.

The framework agreement allows CFC to pursue its trade position, aimed at correcting the existing inequities in a new agreement that would deliver balanced and equitable results for all WTO members. The removal of the mandatory cut in all over-quota tariffs was reassuring, but many other provisions are still a threat to the continuity of a strong and viable Canadian chicken industry. CFC needs all provincial boards, all farmers and all industry stakeholders to vigorously promote the benefits of our industry to ensure a positive outcome in the further negotiations defining the modalities of a final agriculture agreement.

The Canadian chicken industry makes a valuable contribution to Canada's economy every year. According to a study undertaken by The George Morris Center using 2003 data, the Canadian chicken industry (both production and processing):

- ▶ *is responsible for a total of 49,700 jobs (the production sector contributes 30,500 jobs)*
- ▶ *generates \$1.78 billion in wages and personal income (the production sector represents \$660 million in terms of wages and income)*
- ▶ *contributes close to \$9.5 billion to the Canadian economy as total economic activity generated (the production sector represents more than \$3.4 billion)*

These contributions of our industry highlight the importance of the maintenance of supply management as a beneficial system within Canada's economy. We are entering a year of intense negotiations that will lead to the WTO Ministerial Conference in Hong Kong in December 2005. Even though things are currently moving slowly in Geneva, 2005 remains critical.

Supply management farmers must remain very active on the WTO front to make sure that their concerns are taken into account at the end of the negotiations. 🇨🇦



Political Spectrum

When avian influenza hit British Columbia, the House of Commons Agriculture Committee requested CFC's presence before the committee to review the course of events, as well as the industry and government response. Members of the committee requested that they be kept abreast of the crisis, but within a few months the election had been called.

CFC and the other national poultry agencies worked closely with Agriculture Minister **Bob Speller** to deliver an enhanced compensation package under the *Health of Animals Act* to farmers with infected flocks. CFC has continued to pursue additional compensation with new Agriculture Minister **Andy Mitchell** for costs incurred by the B.C. industry for cleaning and disinfecting farms, and to address the additional losses by farmers who did not have infected premises. Those farmers were unable to produce and market chicken during the AI outbreak as well.

FEDERAL ELECTION

Government Relations began the year with preparations for the general election. Not knowing when it would arrive, the SM-5 (the four national poultry agencies and Dairy Farmers of Canada) began work on a comprehensive election package for farmers.

When Prime Minister **Paul Martin** called the election for June 28, 2004, political parties were already geared up and ready to campaign. By the time the election had been called the SM-5 had completed the package and it was in farmers' hands.

Armed with information on the parties' policies on trade, agriculture and supply management, key messages and questions for candidates, as well as guides on how to become more active locally during the campaign, farmers were encouraged to contact their local candidates. In many cases, the provincial organizations did their part by meeting with new candidates.



The general focus of the election did not include agriculture and it was up to all farmers to get the debate on the table. Across Canada, chicken farmers talked to candidates about the economic benefits that the industry brings to rural Canada.

Many candidates were asked to sign a Declaration in support of supply management which took the debate to a national level.

Although all parties had a position on supply management, some were not comfortable with the content of the Declaration. This initiated a discussion amongst party members, farmers and the five national organizations. By the end of the election, 130 candidates had signed, making a significant commitment to supply management, including all four party leaders, 50 Liberals, 30 Conservatives, 14 NDP members and 28 members of the Bloc Québécois. Of the 130 signatories, 56 were elected.

On June 28, Canadians elected a minority Liberal government, an interesting political situation. The election brought in a lot of new faces and, with them, change. The Honourable **Andy Mitchell** was appointed as Minister of Agriculture and the Honourable **Jim Peterson** remained as Minister of International Trade.

CFC helped organize an SM-5 briefing for the new Ministerial staff shortly after the return of Parliament. This was a good opportunity for everyone to get acquainted with the five organizations and our position on WTO negotiations on agriculture.

The number of new faces has also brought significant changes to the Feather Caucus. Many previous Members of Parliament were not re-elected, including our two co-chairs, **Murray Calder** and **Bob Speller**. In light of these changes, the feather agencies decided, in the fall, to pursue a renewed structure and to launch it in early 2005.

The election also resulted in a redistribution of federal ridings. The top five ridings for the number of chicken farmers are:

- ▶ **Perth—Wellington, ON: 186 chicken farmers**
(MP **Gary Schellenberger**, Conservative)
- ▶ **Huron—Bruce, ON: 163 chicken farmers**
(MP **Paul Steckle**, Liberal and Chair of the Commons Agriculture Committee)
- ▶ **Abbotsford, BC: 125 chicken farmers**
(MP **Randy White**, Conservative)
- ▶ **Niagara West—Glanbrook, ON: 117 chicken farmers**
(MP **Dean Allison**, Conservative)
- ▶ **Saint-Hyacinthe—Bagot, QC: 105 chicken farmers**
(MP **Yvan Loubier**, Bloc Québécois)

As the parliamentarians settled in for the 38th Parliament, CFC planned a reception on November 23rd. It was held at the Fairmont Château Laurier following a board meeting. Many MPs attended the event, despite a packed schedule that evening on the Hill. It was a good opportunity to meet with new faces and congratulate those

who have been long time supporters of our industry. MPs had an opportunity to speak with our CFC Directors and other provincial representatives.

Legislation has started to flow in the House with the introduction of a few pieces of relevance to CFC.

Bill C-27 is a new food inspection and enforcement Act. The new Act is intended to provide a more consistent and comprehensive overall approach to inspection, enforcement and compliance activities, thus contributing to the enhanced safety and security of Canada's food supply.

Lynn Myers, Chair of the Dairy Caucus, introduced a Private Members Bill on supply management, Bill C-264. The bill was drafted to recognize and promote supply management. Private Members Bills are introduced by the members themselves, rather than the government in power. These bills can experience difficulty in getting the support required to pass through the legislative process and most do not succeed.

A bill on the revisions to the animal cruelty section of the Criminal Code has not yet been introduced, but is expected in early 2005. This issue has a long history and many previous bill numbers. The last version of the bill had reinstated defences critical to farmers, but the House of Commons came to an impasse and were not able to pass the legislation. 🐾

Communications *Initiatives*

A significant leading role was played by Chicken Farmers of Canada during the avian influenza crisis. Over the course of the first ninety days of the crisis, the organization responded to over one hundred telephone calls daily, participated on countless conference calls with government and industry partners and conducted hundreds of media interviews.

Throughout the B.C. avian influenza crisis, CFC's role was fundamental in keeping all stakeholders informed, accessing and disseminating information, consulting on next steps, developing strategies and dealing with inquiries from all audiences.

From the perspective of the average Canadian, the B.C. avian influenza crisis was well handled. At an internal level and with the advantage of hindsight, however, it has become clear that improvements can be made so that our communication strategies are better prepared to cope with this type of situation or one that proves even worse.

CANADA DAY BARBECUE

CFC held the 12th Annual *Great Canadian Chicken BBQ* on July 1st this year — serving over 8,000 pieces of chicken, most served in our delicious chicken sandwich. In the spirit of our 25th Anniversary, CFC coordinated its own contest for all chicken farmers.

THE IMPACT OF AVIAN INFLUENZA ON CANADIAN CONSUMERS

CFC carried out three consumer surveys to measure the impact of avian influenza on the general public in March, April and October 2004.

The first two studies suggested some concern and decrease in consumption amongst consumers.

However, the third wave of this research revealed that overall, the avian influenza outbreak has had virtually no lasting impact on the level of chicken consumption.

Only 0.7% of consumers claimed to have reduced their consumption of chicken because of avian influenza.

The majority of consumers claimed to have indicated that the Canadian chicken industry did a favourable job of handling the crisis.



The winner, **Pearl Friesen** of Ferintosh, Alberta won the contest with her "Excellent Chicken Sandwich" recipe that featured a blend of ginger, garlic, Soya sauce and molasses. Pearl and her family won an all expenses paid trip to Ottawa for Canada Day as first prize in the contest. The second place winner was **Alice Wiebe** of LaRiviere, Manitoba and third place went to **Shelley Sanders** of Kerwood, Ontario. The second and third place winners each received HBC gift cards as prizes.

PROMOTION/EDUCATION CAMPAIGN

In 2001, CFC received a mandate from the Board of Directors to create a three-year Promotion/Education Campaign designed with initiatives and enhanced education materials for debunking myths about how chickens are raised, nutritional information and addressing topical issues, such as hormones, steroids and husbandry.

Over the three-year period, CFC was able to reach an estimated 1.5 million people through the Promotion/Education Campaign. A fourth year has been added for

2005, aimed at furthering our successful initiatives, including creating and distributing resources, as well as building new relationships with partner organizations who can assist us in directing our messages.

Resources developed within the three-year campaign include a short video, a teacher's resource kit and a classroom poster. The video presents the industry in a lively, humorous and informative manner, with visuals of the whole operation from hatchery to consumer. The teacher's resource consists of 6 curriculum-based activities.

The web component, available via www.chicken.ca, uses the same activities presented in the teacher's resource, using interactive computer games, a teacher module and printable worksheets. This may prove to be the most popular element of the program.

The kit is designed to meet common curriculum expectations across Canada:

- ▶ *To encourage a positive perception of the chicken farming community in Canada*
- ▶ *To present a safe, healthy image of chicken farming and animal care*
- ▶ *To educate children on the life cycle of chickens (gate to plate)*
- ▶ *To identify food safety practices from farm to consumer*
- ▶ *To promote consumption of chicken as a nutritious and delicious food choice*
- ▶ *To promote new innovative products by the industry that appeal to kids*
- ▶ *To demonstrate that the chicken industry is "in tune" with the tastes and lifestyle of the modern family*

The three-year campaign also involved some sponsorship initiatives with:

- ▶ *Dietitians of Canada*
- ▶ *National and provincial "Agriculture in the Classroom" programs*
- ▶ *National Agriculture Awareness conferences*

In addition, the Promotion/Education Campaign saw the creation of an "Education Ambassador Program."

Recent studies have shown that farmers, in particular, are trusted to provide honest and accurate information about their industries. This is an important opportunity to use farmers and other key industry representatives

to provide information to the next generation of consumers — as a companion to the Education Kit and as a stand-alone initiative.

In response, CFC created the "Education Ambassador Program" to provide speakers with training to speak to the media, to take advantage of public speaking opportunities, and to visit classrooms. The training will help to answer difficult and challenging questions and demonstrate how to distribute honest, meaningful information.

The Education Ambassador Program began its training programming in the late fall/early winter 2004 and will continue throughout the beginning of 2005.

USAGE & ATTITUDE STUDY

As a part of its ongoing program to monitor consumption of chicken and competitive meats across Canada, CFC launched and completed its 4th Usage and Attitude (U&A) Study in 2004. The survey interviewed consumers on their use of and approach to chicken and other meats. It also tracks consumer food trends, consumption patterns and emerging issues from coast to coast. The results of the research were presented to the Board of Directors at the summer meeting in Calgary, Alberta.

A sample of the results:

- ▶ *Chicken remains the number one meat in Canada*
- ▶ *It is eaten more often at home*
- ▶ *It also has the number one share of out-of-home meals*
- ▶ *Chicken is still considered Canada's favourite meal*
- ▶ *Beef is making a strong comeback, though, especially among men*
- ▶ *The origin of the chicken they buy is important to consumers*
- ▶ *Sentiment continues to favour Canadian chicken farmers on trade and import issues*
- ▶ *Misconceptions about chicken remain prevalent, but consumers are hungry for information on how chickens are raised in Canada* 



Online Business Initiative Update

Chicken Farmers of Canada provides great leadership in the provision of information to farmers, industry partners and consumers. While technology constantly evolves, one constant is the need to build a culture of fact-based information and decision making that focuses on performance measurements.

CFC's outreach as an information leader targets farmers, stakeholders and consumers.

In 2004, the first phase of CFC's Online Business Initiative (OBI) was undertaken. The OBI will secure CFC's role as an industry leader and enhance its organizational capacity, by developing an online environment in which information is our commodity — it is provided, gathered, exchanged and analyzed for the benefit of the entire industry and its stakeholders.

PUBLIC SITE

As part of the work performed in the first phase of the OBI, our former public website was replaced by a more dynamic and interactive site maintained by CFC staff. The new **www.chicken.ca** was launched to the public in November 2004.

The new site is vibrant, user-friendly and proactively promotes our product and our industry. It also manages public perception, provides information on key issues and provides access to CFC publications.

Having access to such a site also provides excellent contingency communications tools in the event of a situation requiring industry to inform the general public. Having online resources ready and made available during a situation is an effective means of keeping information current, relevant and up-to-date. It also ensures that our key audiences are informed throughout the situation and that they can make their choices accordingly.

PRIVATE PORTAL

Phase One of the OBI also builds an information management system, centralizing the best information available about all aspects of our industry and making it available to our partners through a new private portal.

CFC's internal audience is made up of the farmers, the CFC Board of Directors and committees, the provincial boards, CFC staff and specific stakeholder partners.

Each group will access a private, secure section of the site, in which they can find, and provide, relevant and important information and data.

The OBI adopts a new, centralized data management approach and puts in place better business practices that will permit CFC to streamline repetitive processes and automate time-consuming activities. This management system is slated for launch in 2005.

WHAT'S IN STORE?

As our industry grows and faces new challenges, CFC's information technology infrastructure will adapt and expand as required.

More advanced features will be added to assist our staff in delivering additional services to our stakeholders.

In the years to come, areas such as food safety, promotion and education, as well as market analysis, will be supported by this solid technological structure.

The OBI team has developed this initiative to enshrine CFC's values of high performance based on both process and results. In other words, we take pride in how things get done and how we achieve our goals. This pride allows us to respond to the challenges of change and to successfully seize such opportunities to further the success of our stakeholders. 🐔



Administration

2004 saw a change of roles and responsibilities in order to better serve the needs of our members, provincial boards and stakeholders. One unit was split to form the Market Information and Systems unit and the Food Safety, Animal Care and Research unit.

HUMAN RESOURCES

The Trade & Policy unit added a Trade & Policy Analyst to their team and the Communications unit added a Graphic Design/Web Administrator, for a total count of 20 staff at the end of 2004.

CFC is committed to ensuring that its board and staff have the tools they need in order to be as effective as possible. Apart from individual courses undertaken, CFC held a Positive Media Relations workshop in November for the Executive Committee, as well as a similar session for CFC Managers and other senior staff. At the training, participants learned:

- ▶ *Understanding the media and their needs*
- ▶ *Preparing for a radio, television, print or telephone interview*
- ▶ *Structuring powerful messages*
- ▶ *Avoiding trap questions and using bridging techniques*
- ▶ *Coping with nerves*
- ▶ *Maximizing media opportunities*
- ▶ *Delivering messages with confidence*

In December, all CFC staff took part in a "Coaching for Leadership Program", which focused on self-assessment, clarity of purpose, and development of leadership capacities through a deeper understanding of others and how to maximize the potential of organizations and systems.


ADMINISTRATION

The Business Continuity Plan was completed at the end of December in collaboration with Deloitte & Touche. An internal "disaster team" was appointed,

made up of CFC staff, to minimize the duration and impact of any interruption of service, regardless of cause. It is hoped that the final plan will be posted on the private website in mid-2005.

The succession planning component of the Business Continuity Plan was deferred until 2005 due to heavy workload. Once the final plan is in place, it too will be posted on the private website. A succession plan will ensure that knowledge is shared and that both staff and board members can assume various responsibilities during a given situation.

The CFC Orientation and Policy Manuals were updated and distributed to the Directors at the November meeting and sent to stakeholders. The Policy manual outlines the practices and policies of the organization which will serve as a useful tool to all. These manuals will be updated as required and we plan to post all changes on our website next year.

An orientation seminar for new Directors will be held in April 2005. 



Monitoring & Enforcement

AUDITING THE SYSTEM

In 2004, staff audited the provincial boards and processing facilities for compliance with CFC policies for periods A-54 to A-57. The audit reports were presented and approved by CFC Directors.

All special supply programs implemented for Chicken West in 2004 were verified by Deloitte & Touche in B.C. to ensure a third-party review of:

- ▶ Quota leasing fees
- ▶ Frozen dark meat substitution for the market development program
- ▶ Processor use of fast-track supplemental imports

OVERMARKETING ASSESSMENT

CFC Directors reviewed the report for the audit periods A-50 to A-53 and assessed overmarketing levies totalling \$83,806 against one provincial board. These levies were collected in May 2004.

CFC Directors reviewed the report for the audit periods A-54 to A-57 and assessed overmarketing levies totalling \$81,938 against four provinces. These levies were collected in August 2004.

MARKET DEVELOPMENT

During the audit periods A-50 to A-57, five primary processors failed to meet their market development commitment and were assessed levies totalling \$562,439. Four of the processors paid a total \$478,207.

One processor refused (in the amount of \$84,232) and filed a complaint with the National Farm Products Council (NFPC). The NFPC filed its report and made

recommendations to both parties. CFC is pursuing options to collect the levies assessed against this processor.

Another processor made its levy payment (\$414,946) in protest, filed a complaint to the NFPC, and asked that the complaint be held in abeyance.


INTERPROVINCIAL MOVEMENT

CFC monitors the number of live chickens that move in interprovincial and export trade and reports the figures weekly to each provincial board.

INTER-PERIOD QUOTA TRANSFERS

In 2004, CFC received three requests for inter-period quota transfers totalling 154,500 kilograms live weight.

A September 2003 board decision, in response to a request from processors, allowed provincial commodity boards to transfer up to 2% of their allocation from period A-56 into period A-55 to meet the market requirements. A total of five provincial boards transferred production totalling 1,294,289 kilograms live weight.

The inter-period quota transfer policy gives flexibility to meet market needs. Requests are in response to short-term, market-driven requirements between two specific quota periods. Inter-period quota transfers cannot be used to adjust slaughter schedules or affect quota utilization in a given period. 

INTERPROVINCIAL MOVEMENT OF LIVE CHICKENS (IN KG LIVE WEIGHT)

| Province | (2004) To | From | (2003) To | From |
|-------------------------|------------|------------|------------|------------|
| British Columbia | — | — | — | — |
| Alberta | 10,116,000 | — | — | — |
| Saskatchewan | — | 10,420,000 | — | — |
| Manitoba | 304,000 | — | — | — |
| Ontario | 21,232,000 | 18,650,000 | 16,078,000 | 10,836,000 |
| Quebec | 18,650,000 | 21,232,000 | 10,535,000 | 15,772,000 |
| New Brunswick | — | — | 3,586,000 | 326,000 |
| Nova Scotia | 4,884,000 | — | 4,181,000 | 2,922,000 |
| Prince Edward Island | — | 4,884,000 | — | 4,524,000 |
| Newfoundland & Labrador | — | — | — | — |
| Total | 55,186,000 | 55,186,000 | 34,380,000 | 34,380,000 |

The movement of live chickens between provinces increased significantly in 2004 and is explained by:

□ Lilydale Foods, Saskatchewan's only processing facility, was on strike from August 12 to November 19, 2004. The live chickens were shipped to Alberta and Manitoba during the strike.

□ Increased movement between Quebec and Ontario as more farmers marketed their production to out-of-province processing facilities.

Source: Chicken Farmers of Canada



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Auditors' Report

The Minister
Agriculture and Agri-Food of Canada

The National Farm Products Council

The Members
Chicken Farmers of Canada

We have audited the balance sheet of Chicken Farmers of Canada as at December 31, 2004 and the statements of operations and of changes in fund balances for the year then ended. These financial statements are the responsibility of the Organization'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 Chicken Farmers of Canada as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche L.L.P.

Chartered Accountants

February 11, 2005

CHICKEN FARMERS OF CANADA

Statement of Operations year ended December 31, 2004

| | General Fund | Promotion Fund | Research Fund | 2004 | 2003 |
|---|---------------------|-------------------|-----------------|-------------------|---------------------|
| Revenue | | | | | |
| Levy and fee revenue | \$ 5,646,574 | \$ - | \$ - | \$ 5,646,574 | \$ 5,569,813 |
| Interest and other revenue | 222,682 | 45,287 | 101,682 | 369,651 | 496,896 |
| Overmarketing and market development levies | - | 703,452 | - | 703,452 | 1,228,478 |
| | 5,869,256 | 748,739 | 101,682 | 6,719,677 | 7,295,187 |
| Expenses | | | | | |
| Amortization of capital assets | 54,101 | - | - | 54,101 | 37,558 |
| Canadian Poultry Research Council | - | - | 100,000 | 100,000 | 35,036 |
| Committees | 158,268 | - | - | 158,268 | 162,435 |
| Communication | 451,086 | - | - | 451,086 | 463,222 |
| Directors and alternates | 1,003,464 | - | - | 1,003,464 | 1,128,488 |
| Membership fees | 118,522 | - | - | 118,522 | 67,494 |
| Office | 505,994 | - | - | 505,994 | 471,355 |
| Professional fees | 338,971 | - | - | 338,971 | 368,954 |
| Promotion activities | - | 12,142 | - | 12,142 | 19,117 |
| Salaries, benefits and travel | 1,814,033 | - | - | 1,814,033 | 1,685,129 |
| Special studies | 48,559 | 238,200 | - | 286,759 | 392,807 |
| Trade | 290,527 | - | - | 290,527 | 313,276 |
| Translation | 92,159 | - | - | 92,159 | 91,175 |
| CFC's 25th Anniversary | - | - | - | - | 116,993 |
| On-line Business Initiative | 507,811 | - | - | 507,811 | - |
| Avian Influenza Remediation | 215,666 | - | - | 215,666 | - |
| Bad debt | 600,000 | - | - | 600,000 | - |
| | 6,199,161 | 250,342 | 100,000 | 6,549,503 | 5,353,039 |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES | \$ (329,905) | \$ 498,397 | \$ 1,682 | \$ 170,174 | \$ 1,942,148 |



CHICKEN FARMERS OF CANADA

Statement of Changes in Fund Balances year ended December 31, 2004

| | General Fund | Promotion Fund | Research Fund | Total | |
|--|----------------------------|----------------|---------------|---------------|---------------|
| | | | | 2004 | 2003 |
| BALANCE, BEGINNING OF YEAR | \$ 7,500,927 | \$ 1,069,776 | \$ 3,776,827 | \$ 12,347,530 | \$ 10,405,382 |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES | (329,905) | 498,397 | 1,682 | 170,174 | 1,942,148 |
| INTERFUND TRANSFERS (Note 7) | (250,000) | - | 250,000 | - | - |
| BALANCE, END OF YEAR | \$ 6,921,022 | \$ 1,568,173 | \$ 4,028,509 | \$ 12,517,704 | \$ 12,347,530 |
| Consists of: | | | | | |
| | Invested in capital assets | 222,622 | | | |
| | Unrestricted | 6,698,400 | | | |
| | \$ 6,921,022 | | | | |



CHICKEN FARMERS OF CANADA

Balance Sheet as at December 31, 2004

| | 2004 | 2003 |
|--|----------------------|----------------------|
| CURRENT ASSETS | | |
| Cash | \$ 98,728 | \$ 295,308 |
| Short-term investments (Note 3) | 2,615,348 | 2,448,707 |
| Accounts receivable (Note 4) | 1,408,849 | 867,486 |
| Prepaid expenses | 50,707 | 16,943 |
| | 4,173,632 | 3,628,444 |
| INVESTMENTS (Note 3) | 8,729,360 | 8,875,362 |
| CAPITAL ASSETS (Note 5) | 222,622 | 236,103 |
| | \$ 13,125,614 | \$ 12,739,909 |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 607,910 | \$ 392,379 |
| COMMITMENTS (Note 6) | | |
| FUND BALANCES | | |
| Invested in capital assets | 222,622 | 236,103 |
| Internally restricted - Promotion Fund | 1,568,173 | 1,069,776 |
| Internally restricted - Research Fund | 4,028,509 | 3,776,827 |
| Unrestricted | 6,698,400 | 7,264,824 |
| | 12,517,704 | 12,347,530 |
| | \$ 13,125,614 | \$ 12,739,909 |

APPROVED BY THE BOARD

David Mackenzie
Finance Committee, Director

Eugene Zagrodny
Finance Committee, Director



CHICKEN FARMERS OF CANADA

Notes to the Financial Statements year ended December 31, 2004

1. ACTIVITIES OF THE ORGANIZATION

OBJECTIVE OF THE ORGANIZATION

The Chicken Farmers of Canada (CFC), incorporated pursuant to the Farm Products Agencies Act, was established to ensure the orderly marketing of chicken in Canada. CFC is exempt from income taxes under section 149(1)(e) of the Income Tax Act.

LEVY AND FEE REVENUE

CFC charges levies to farmers based on chicken marketings in inter-provincial and export trade and receives fees in relation to intra-provincial trade.

2. ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations and reflect application of the following significant accounting policies.

FUND ACCOUNTING

Resources are classified for accounting and reporting purposes into funds that are in accordance with specific activities, or objectives. Accordingly, separate accounts are maintained for the General Fund as well as for the Promotion and Research Funds, which are internally restricted.

The General Fund accounts for operating and administrative activities as well as all transactions related to capital assets.

The Promotion Fund reports the overmarketing and market development levies collected and expenses that relate to the promotion and marketing of chickens, as indicated in the Market Development Policy and the Monitoring and Enforcement Policy.

The Research Fund reports interest earned on resources held for research purposes and expenses for research projects related to the chicken industry in Canada.

REVENUE RECOGNITION

CFC recognizes revenue using the deferral method of accounting.

Levies are recognized as revenue when received or receivable if amounts can be reasonably estimated and collection is reasonably assured.

INVESTMENTS

Short-term investments are carried at the lower of cost and market value. Long-term investments are recorded at cost net of amortization of discounts or premiums and are written down when there has been a loss of value that is other than temporary.

CAPITAL ASSETS

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

| | |
|------------------------|----------|
| Office equipment | 10 years |
| Computer equipment | 3 years |
| Leasehold improvements | 7 years |

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period they become known.

Significant estimates include assumptions used in estimating the recoverability of accounts receivable and determining the allowance for doubtful accounts.

3. INVESTMENTS

| INVESTMENT | 2004 | | 2003 | |
|------------------------------------|--------------|--------------|--------------|--------------|
| | COST | MARKET VALUE | COST | MARKET VALUE |
| Short-term investments | \$2,615,348 | \$2,623,981 | \$2,448,707 | \$2,451,925 |
| Government of Canada savings bonds | 8,041,719 | 8,197,813 | 7,543,268 | 7,599,815 |
| Farm Credit Canada notes | 687,641 | 701,447 | 1,332,094 | 1,360,604 |
| | 8,729,360 | 8,899,260 | 8,875,362 | 8,960,419 |
| | \$11,344,708 | \$11,523,241 | \$11,324,069 | \$11,412,344 |

Short-term investments are comprised of a Treasury Bill and Government of Canada bonds in the amount of \$952,378 (2003 – \$1,799,520) and \$1,662,970 (2003 – \$649,187) respectively which mature over the next year. Interest rates for these securities range from 1.75% to 6.00% (2003 – 3.5% to 6.0%).

Bonds and notes are debt obligations paying interest rates appropriate to market at their date of purchase. The bonds and notes mature at face value on a staggered basis over the next five years (2003 – four years). Interest rates for these securities range from 3.7% to 6.0% (2003 – 3.7% to 6.0%).

DETERMINATION OF MARKET VALUES

The cost of Treasury Bills approximates fair value due to the short period to maturity. The market value of the bonds is based on published market quotations.

INVESTMENT RISK

The maximum investment risk to CFC is represented by the cost of the investments. Investments in financial instruments also include the risks arising from the failure of a party to a financial instrument to discharge an obligation when it is due.

CONCENTRATION OF RISK

Concentration of risk exists when a significant proportion of the portfolio is invested in securities with similar characteristics or subject to similar economic, political or other conditions. Management believes that the concentrations described above do not represent excessive risk.

4. ACCOUNTS RECEIVABLE

Accounts receivable consist of levies and fees receivable from the provincial organizations, amounts due under agreements with Canadian Federation of Agriculture and accrued interest on investments.

5. CAPITAL ASSETS

| | 2004 | | 2003 | |
|------------------------|------------------|--------------------------|------------------|------------------|
| | COST | ACCUMULATED AMORTIZATION | NET BOOK VALUE | NET BOOK VALUE |
| Office equipment | \$269,068 | \$171,155 | \$97,913 | \$116,090 |
| Computer equipment | 177,308 | 126,005 | 51,303 | 33,259 |
| Leasehold improvements | 97,316 | 23,910 | 73,406 | 86,754 |
| | \$543,692 | \$321,070 | \$222,622 | \$236,103 |

6. COMMITMENTS

CFC is committed under the terms of lease contracts with various expiry dates for the rental of premises and office equipment. Minimum lease payments are:

| | |
|------------|------------------|
| 2005 | \$143,317 |
| 2006 | 148,003 |
| 2007 | 148,003 |
| 2008 | 134,079 |
| 2009 | 132,043 |
| Thereafter | 66,022 |
| | \$771,467 |

7. INTERFUND TRANSFERS

During the year, the Board of Directors approved the transfer of \$250,000 (2003 – \$500,000) from the General Fund to the Research Fund with the objective of building the Research Fund to \$10,000,000.

8. EMPLOYEE PENSION PLAN

CFC has a defined contribution pension plan providing benefits to employees. Generally, the contribution is a net percentage of the employees' annual income. The total contributions made by CFC under this plan in 2004 were \$51,140 (2003 – \$ 42,362).

9. LINE OF CREDIT

In April 2004, CFC obtained a revolving demand credit line with the Canadian Imperial Bank of Commerce for \$10,000,000 with an interest rate of prime. No funds were withdrawn in 2004. In addition, a Corporate VISA credit limit of \$30,000 was obtained.

10. STATEMENT OF CASH FLOWS

As sources and uses of cash are otherwise adequately disclosed, these statements do not include a statement of cash flows.