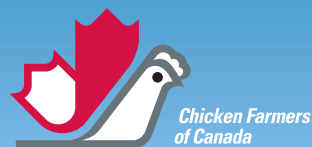


Chicken Farmers
of Canada



Annual Report 2006



On Guard for Thee

*For presentation to the Minister of Agriculture and Agri-Food,
the Honourable Chuck Strahl, and the National Farm Products Council*

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Who We Are and What We Do



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

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'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 anticipated market requirements and set production levels accordingly.

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

Another CFC responsibility is to represent the interests of chicken farmers and the Canadian chicken industry. CFC plays a key role in developing, partnering or managing programs for Canada's chicken farmers that prove that farmers continue to grow the high-quality chicken that consumers trust.

Through on-farm programs such as the food safety program, *Safe, Safer, Safest*, the animal care program and biosecurity initiatives, CFC works closely with

government partners and industry stakeholders to keep the industry innovative and responsive.

CFC strives to 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.

Our directions and policies are determined by a 15-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.

CFC and its stakeholders work together on behalf of Canada's chicken industry, from farmer to consumer. Ours has long been a Canadian success story, known for its responsiveness and leadership within an evolving supply management system. Strong leadership and proactive strategies will always play an integral role in our ongoing success. 🐔

CFC Organizational Structure



On Guard for Thee: A Message from the Chairman



Throughout 2006, CFC continued its hard work and strategic thinking on a number of major issues that face our industry.

As Chairman of Chicken Farmers of Canada, it is both my responsibility and my privilege to report to you on behalf of the CFC Board of Directors and its 2006 activities.

Throughout 2006, CFC continued its hard work and strategic thinking on a number of major issues that face our industry. Everyone involved worked to be on guard and to look out for the best interests of Canadian chicken.

One issue that continues to impact us is international trade. The outcome of the World Trade Organization (WTO) negotiations could jeopardize the future of our supply management system. Decisions made in this round could threaten the livelihood of our farmers, along with the well-being of Canada's rural communities.

The Canadian chicken industry must continue to work with its partners to maintain our supply management system under WTO rules, as well as within any bilateral trade agreements in which Canada is negotiating with other countries.

We must continue to work together to promote our effective and evolving supply management system with our own local, provincial and federal government representatives, especially during these latest rounds of negotiations.

We held our annual strategic planning session in early October to set direction and prioritize the issues for the next twelve months for CFC. Our success depends on our capacity to work collectively on each of our priorities with our fellow Canadian farmers, industry representatives and governments to ensure that our interests are heard at all levels.

I would like to express my gratitude to Agriculture and Agri-Food Minister, **Chuck Strahl**, and International Trade Minister, **David Emerson**, for their cooperation and their

collaborative approach to the issues facing our industry. I would be negligent if I did not also thank Canada's Chief Agriculture Negotiator, **Steve Verheul**.

On behalf of CFC's Board of Directors, I would like to convey our gratitude to Ms. **Cynthia Currie**, Chairperson of the National Farm Products Council, along with the other Council members, for their continued assistance, cooperation and support.

At this time, I would like to express my own appreciation to the CFC Board of Directors for their professionalism in dealing with the complex issues that face the chicken industry, and to the members of the Executive Committee for their ongoing hard work and enthusiasm for the Canadian chicken industry and for their support of me as Chairman.

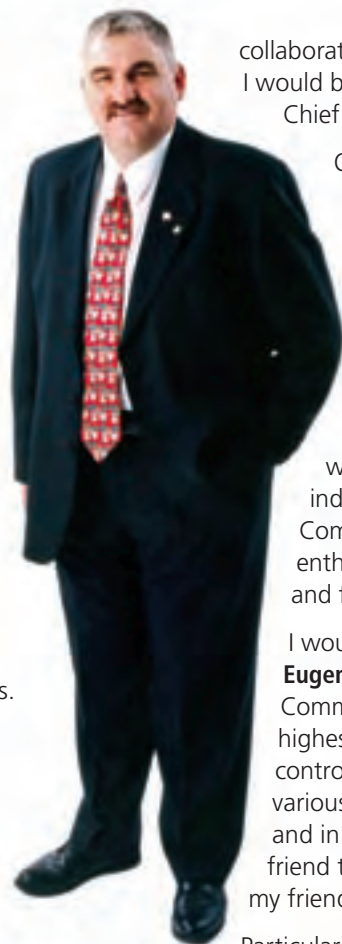
I would like to take a moment to remember **Eugene Zagrodny**, CFC Board Member and Executive Committee Member. Eugene always maintained the highest standards of integrity when dealing with controversial issues. He provided objective insights on various issues that have assisted in strategic planning and in developing CFC policies. Mostly, he was a friend to chicken farmers from coast to coast; he was my friend, too. He will be missed by all who knew him.

Particular acknowledgment must go to the General Manager, **Mike Dungate**, and CFC's vibrant staff for their dedication to the Canadian chicken industry.

The coming years will present a number of challenges that will require us to work collectively with all our industry partners to continue moving our industry in the right strategic direction.

I am convinced, as Chairman, that we at CFC have the right tools and resources that will allow us to guide the Canadian chicken industry well into the future. 🐔

David Fuller, Chairman



Your Future, Our Mission



Supply management is an important Canadian institution that reflects the history, culture and values of Canadians.

This industry has always been all about people, and it always will be.

The Canadian chicken industry is where it is today because visionaries and passionate supporters have stepped forward to take on the daunting task of leading in the face of an evolving business and political environment.

Over its 28-year history, CFC has been blessed by having a strong cadre of good leaders.

Many current CFC Directors have served for a number of years. They spend an average of 20 days a year on CFC business, plus travel time, plus their obligations as provincial board or industry association members. They make a big sacrifice in taking time away from their families, their farms and their businesses to lead our industry. In addition, their jobs are becoming more complex. Directors provide strategic direction across a broad spectrum of industry issues, from allocation setting to animal disease, from the promotion of chicken to trade negotiations.

In October, the Board met in Kananaskis, Alberta to discuss strategic planning. Directors recognized that a new generation of farmer and industry representatives needs to be developed and attracted to the CFC Board and to provincial boards. Succession planning, orientation and professional development were identified as a key action plan for 2007.

While succession planning is key for CFC, it is also key for chicken farmers. Farmers need to ensure that they have farm improvement and succession plans in place. If Canada's chicken farmers are to stand on guard at the front lines to protect our industry and Canadian society, they need to be given the right tools to do their job. In this regard, CFC continues to be at the forefront in developing on-farm food safety, biosecurity and animal care programs.



Practices that have worked in the past won't necessarily be appropriate for the future. The CFC Board applies due diligence to ensure that on-farm programs are necessary. Directors are ever-conscious of not pursuing policies that add cost without adding value. These proactive policies improve the competitiveness of the Canadian chicken industry.

Canada's chicken farmers, you must understand that this is your industry. You need to evolve your farm practices to meet increased expectations from consumers and society. You need to structure farm succession such that we will continue to be able to provide Canadians with a stable supply of high-quality chicken. You need to step forward and take on leadership roles on provincial boards and at CFC. You are lucky to have the visionary leaders you have today but who will fill their shoes in the future?

Are you prepared to work with a dedicated and professional staff, all of whom are prepared to go that extra mile? Are you ready to develop good policies and direction (the backbone of our industry-wide risk management program known as supply management)?

In closing, I would like to thank my staff colleagues at CFC for all their incredible work, particularly

Yvon Séguin, who stood on guard for 20 years. I would also like to thank **David Fuller** and the CFC Directors for the confidence they have shown in staff to deliver on the direction they have set.

CFC could never attain the success it has achieved without the support and collaboration of our provincial boards, industry and government partners. Together we have made the true north chicken industry strong and free. 🍷

Mike Dungeat, General Manager

The CFC Board of Directors and Committees for 2006



The CFC Board for 2006

Chair:

David Fuller (Nova Scotia)

Yvon Cyr (New Brunswick)

Martin Dufresne (Quebec)

Erna Ference (Alberta)

Keith Fuller (British Columbia)

Luc Gagnon (CPEPC – Canadian Poultry and Egg Processors Association of Canada)

Matthew Harvie (Nova Scotia)

Martin Howlett (Newfoundland & Labrador)

Urs Kressibucher (Ontario)

David MacKenzie (Prince Edward Island)

Ross MacLeod (FPPAC – Further Poultry Processors Association of Canada)

Brian Payne (CRFA – Canadian Restaurant and Foodservice Association)

Tony Tavares (CPEPC)

Danny Wiebe (Manitoba)

Eugene Zagrodny (Saskatchewan)

Executive Committee

Chair:

David Fuller (Nova Scotia)

1st Vice-Chair:

Martin Dufresne (Quebec)

2nd Vice-Chair:

Urs Kressibucher (Ontario)

Member-at-large:

Eugene Zagrodny (Saskatchewan)

Finance Committee:

Chair:

David MacKenzie (P.E.I.)

Erna Ference (Alberta)

Marty Howlett (Newfoundland & Labrador)

Standing (l to r): Tony Tavares, Urs Kressibucher, Brian Payne, Martin Howlett, Yvon Cyr, Eugene Zagrodny, David MacKenzie, Ross MacLeod, Martin Dufresne, Erna Ference, Keith Fuller

Seated (l to r): Luc Gagnon, David Fuller (Chairman), Matthew Harvie, Danny Wiebe

Market Development Committee

Chair:

Urs Kressibucher (Ontario)

Yvon Cyr (New Brunswick)

Martin Dufresne (Quebec)

Keith Fuller (British Columbia)

Ross MacLeod (FPPAC)

Brian Payne (CRFA)

Tony Tavares (CPEPC)

Food Safety Committee

Chair:

Matthew Harvie (Nova Scotia)

Yves Campeau (Quebec alternate)

Luc Gagnon (CPEPC)

Dave Janzen (B.C. alternate)

Tom Posthuma (Ontario alternate)

Animal Care Committee

Chair:

Danny Wiebe (Manitoba)

Yves Campeau (Quebec alternate)

Jean Paul Ouellet (New Brunswick alternate)

Canadian Poultry Research Council Representative

Ian Blenkharn (Nova Scotia alternate)

Canadian Federation of Agriculture Delegates

David Fuller (CFC Chairman, Nova Scotia)

Erna Ference (Alberta)

National Farm Animal Care Council Representative

Danny Wiebe (Manitoba)

In Memoriam

Many people were saddened to learn that **Eugene Zagrodny** passed away while travelling to Ottawa on January 7, 2007.

Eugene was a formidable CFC Board Director and friend to chicken farmers across the country.

Eugene was known for taking a balanced approach to Board issues and also sought to find solutions that worked for the greater good of the Canadian chicken industry.

Eugene served for many years on the Board of Directors of the Chicken Farmers of Saskatchewan, as well as the Board of Directors of Chicken Farmers of Canada since 2003. He was also a trusted member of the CFC Executive Committee.



CFC Staff, Human Resources & Administration



CFC Staff Fourth row (l to r): Jan Rus, James Kelley, Yves Ruel, Mike Dungate (GM), Steve Leech, Marty Brett
Third row: Janet Noseworthy, Lisa Bishop-Spencer, Stéphanie Turple, Kim Garamvolgyi
Second row: Johanne Neeteson, Tracy Oliver, Jennifer Gardner, Paula Doucette, Juliet Marvin, Mihai Lupescu
Front row: Marie Murphy, Yvon Séguin, Jennifer Johnson, Anh-thi Maixuan, Nathalie Fortin, Michael Laliberté
Absent at time of photo: Philippe Gravel

Human Resources & Administration

Chicken Farmers of Canada weathered many changes in 2006, celebrating long-standing employees, welcoming new members to the CFC family and mourning the passing of a

In Memoriam

Yvon Séguin, a dedicated contributor to the Canadian chicken industry and CFC staff member for the past 20 years, passed away suddenly on October 8, 2006.



Yvon was a dedicated co-worker and a staunch friend to many in Canada's chicken industry.

Yvon was always willing to share his knowledge and experience with others. He played a critical role in providing frank, clear assistance and unwavering support for farmers and for supply management.

He will be missed.

dear friend. Mid-March saw the arrival of **Nathalie Fortin** as Policy Analyst, replacing **Charles Akande**, who relocated to Geneva as SM-5 (the Canadian dairy, poultry and egg industries) Representative at the WTO. **Jennifer Johnson** arrived in late August as Meeting & Translation Coordinator and **Philippe Gravel** joined CFC in December as Auditor with the Finance department.

General Manager **Mike Dungate** celebrated 10 years with CFC this year and **Juliet Marvin**, Executive Assistant to the General Manager, celebrated 20 years with CFC. **Yvon Séguin** also celebrated 20 years with CFC and was honoured at the summer meeting in New Brunswick, not only for his long tenure but for his impending retirement which was to have taken place in December of 2006.

On April 13th, CFC held its annual orientation seminar for incoming Directors and those needing a

"refresher". The seminar covered the internal structure and staff responsibilities, CFC's five-year strategic plan, Board structure and governance, legal responsibilities of Directors, logistics for meetings, financial affairs, food safety, trade, communications and the Online Business Initiative (OBI). Copies of the Orientation and Policy Manuals are both available within the OBI.

Every four years, CFC, in tandem with a compensation specialist, conducts a review of the market for all positions in the not-for-profit sector in Canada and more specifically in Ottawa. This compensation survey review ensures that CFC's current compensation program maintains internal equity and external market relevance. As in previous years, job descriptions were updated and the consultants were asked to translate their findings into recommendations for salary ranges for 2007. 🍷

Strategic Planning: Securing Our Future

CFC works diligently to ensure that, year after year, the interests of Canada's chicken farmers are upheld and that their views are heard both domestically and internationally. The chicken industry has long been a Canadian success story, known for its responsiveness and leadership within an evolving supply management system. Our success is a result of our stable policy environment which is the bedrock of our strategic plan.

In the five-year Strategic Plan, system performance, food safety & quality, consumer preference, market expansion and organizational capacity are the key result areas that provide the strategic vision for the organization.

Year-to-Year Planning

Each year, CFC's Board of Directors and the Executive Management Team take the opportunity to celebrate the successes of the previous year and determine the priorities for the next. The 2006 Strategic Planning Meeting, held in Kananaskis, Alberta at the beginning of October, prioritized the following list where CFC will focus its energies.

Strategic Plan 2004-2008

Strategic Vision Statements

- ▶ Optimize the performance of the industry in terms of growth, profitability, stability and predictability
- ▶ Be recognized as a world leader in food safety systems and controls
- ▶ Consistently meet or exceed consumer expectations for value, including quality, health attributes, animal care and the environment
- ▶ Profitably be #1 in per capita meat consumption in Canada
- ▶ Enhance the capacity of the CFC Board and staff, so that CFC is recognized for the quality of its fact-based decisions, which take into consideration the views of all stakeholders

Critical Priorities for 2007

Animal Disease Strategy

- ▶ Develop an effective animal disease prevention and containment strategy with protocols that can be adapted to other diseases
- ▶ Create communications strategies for various animal disease scenarios
- ▶ Develop a protocol for reduced/increased supply during a disease outbreak

On-Farm Food Safety Assurance Program (OFFSAP)

- ▶ Prepare to have all farms certified under OFFSAP by the end of the year
- ▶ Implement the CFIA technically recognized Management Manual
- ▶ Determine a schedule for third-party audits and finalize the free-range on-farm program

Tariff Rate Quota (TRQ) Administration and 13% rule

- ▶ Determine a long-term allocation methodology for TRQ administration
- ▶ Work with industry and federal government partners to ensure that Canada makes full use of international trade policies and procedures while not undermining the stability of supply management

World Trade Organization (WTO) Agriculture Negotiations

- ▶ Work with industry, provincial and federal government to maintain support for supply management, both through the SM-5 coalition (dairy, poultry and egg industries) and through industry-wide representation in the face of a changing trade environment and a critical period of WTO agriculture negotiations

Other Priorities

Agriculture Policy Framework II – The Next Generation of Agriculture & Agri-Food Canada Policy

► Participate in ongoing consultations to ensure that a renewed federal agriculture policy incorporates appropriate disaster coverage for chicken farmers, an animal health component, a cost-effective production insurance program and an operational traceability system.

Allocation Setting and Market Information

► Implement the Operating Agreement Amendments, improve export statistics & storage stock reporting and enhance data analysis & dissemination.

Animal Care Program

► Refine and implement an improved and endorsed CFC animal care program, based on science and practical goals.
► Raise awareness for CFC's program and participate in National Farm Animal Care Council activities.

Anti-Microbial Resistance

► Develop an integrated anti-microbial resistance strategy to reduce the use of or seek alternatives to antimicrobials in the chicken industry.
► Ensure CFC's strategy is coordinated with future government policy.

Farmer Survey

► Conduct a census of CFC's farmers to update and obtain new data regarding farmer demographics, communication profiles, feedback on CFC, implementation of OFFSAP and more.

Improved CFC Decision Making

► Enhance the capacity for CFC Directors to make quality decisions in a timely manner and evaluate the alignment of CFC's committee structure in terms of strategic business requirements.



Market Channels Survey

► Establish a detailed profile of chicken marketing from farm to retail.

Market Development Policy Review

► Ensure that provincial market development programs are in compliance with the CFC Market Development Policy.

Monitoring & Enforcement

► Conduct a comprehensive review of Licensing Regulations, the Quota Regulations and the Levies Order as a result of amendments to the Monitoring & Enforcement Policy and the Market Development Policy.

Online Business Initiative

► Complete Phase 1, plan and begin implementing Phase 2 and ensure ongoing accessibility for key user groups.

Promotion/Education Campaign

► Develop and implement initiatives to inform consumers about the health benefits of chicken through health and nutrition professionals, educators and CFC Ambassadors.
► Conduct regional workshops on presentation skills development and media training.

Succession Planning

► Continue working on an effective succession plan for the CFC Board of Directors.

Supply Management Communications Campaign

► Determine the scope and vision for a communications campaign to foster increased support for supply management.

Usage & Attitude Survey

► Conduct the CFC Usage & Attitude Survey (last conducted in 2004) to study consumer knowledge and preferences on animal disease, food safety, animal care and buying/consumption trends. 🐔

Market Watch 2006

Supply management, which is based on regulated production and predictable imports, allows the industry to self-correct for market conditions, thus ensuring a continuous supply of fresh, safe, high-quality chicken for Canadians.

Our evolving, consumer-driven system monitors compliance with provincial chicken allocations and the inter-provincial and market development trade of chicken. CFC administers the regulations and policies governing the chicken industry to ensure a level playing field for all participants.

Our ongoing success is a result of our stable policy environment and better planning horizons that allow farmers and processors to invest with confidence and increase the efficiency of their operations. In an unstable global marketplace, stability has become a risk-management solution.

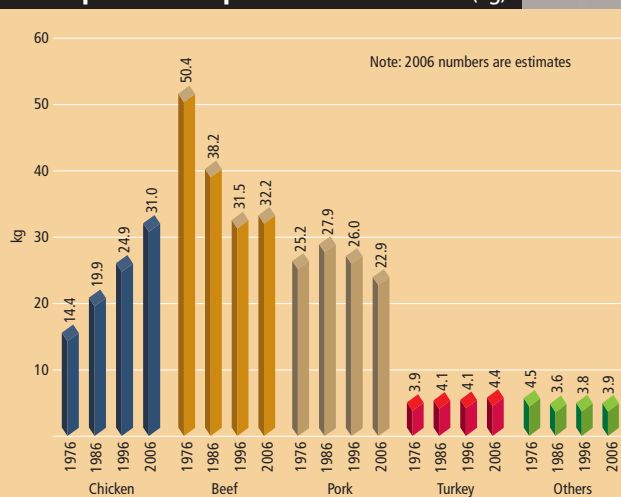
Coming out of poor market conditions for most of 2005, the Canadian chicken industry made a significant effort in 2006 to restore market conditions to more reasonable levels. Allocations were set conservatively throughout the year, in some cases below 2005's production levels for similar periods.

In late 2005 and early 2006, frozen chicken inventories were at record-highs and wholesale prices were close to record-low levels. The first indication that efforts to restore the market were having the intended result was the decrease in frozen chicken inventories starting in May. Wholesale prices started to improve around the same time, initially only for breast meat but later for wings and dark meat as well. By year end, wholesale prices were up across the board. The largest increase was in wing prices.

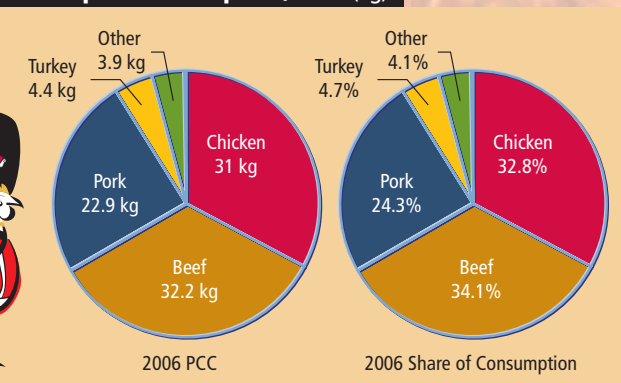
Coming out of poor market conditions for most of 2005, the Canadian chicken industry made a significant effort in 2006 to restore market conditions to more reasonable levels.



Per Capita Consumption - Various Meats (kg)



Per Capita Consumption, PCC (kg)



Per capita consumption of chicken in 2006 is estimated to be around 31.0 kg, a small increase of about 0.3 kg over last year (a little less than 1%). Preliminary numbers indicate that beef consumption also increased by about 1% in 2006, while pork consumption is expected to remain unchanged from the previous year. Per capita beef and pork consumption in 2006 are therefore estimated at 32.2 kg and 22.9 kg. Turkey consumption experienced a small increase in 2006 while veal and lamb disappearance remained stable. Official per capita consumption figures for 2006 will be released by Statistics Canada in July.

Provincial Production

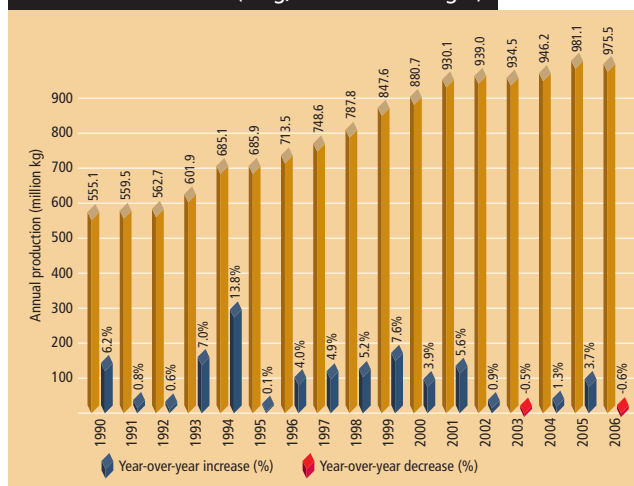
As a result of industry efforts to restore more favourable market conditions, Canadian chicken production decreased 0.6% compared to 2005. Nationally, a total of 975.5 million kg (Mkg) was produced in 2006.

In Western Canada, British Columbia's production decreased by 5.1% compared to 2005 due to a significant drop in production under the market development program. Both Alberta and Saskatchewan enjoyed production

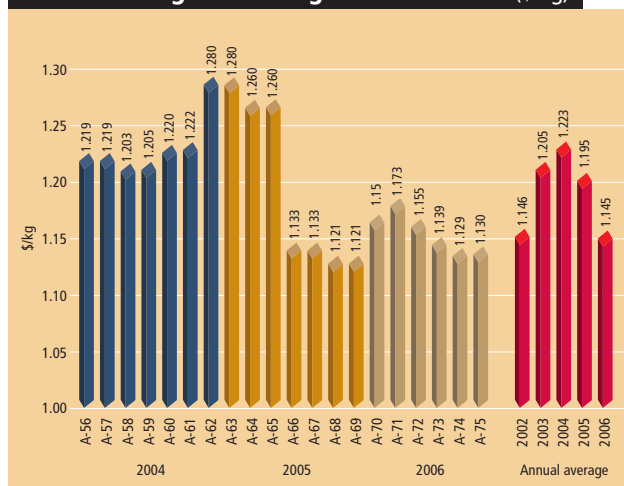
Quota Periods

	from	to	Allocation (Mkg evis)	Production (Mkg evis)	Quota utilization
A-69	December 11, 2005	February 4, 2006	143.5	147.0	102.5%
A-70	February 5, 2006	April 1, 2006	151.0	151.4	100.3%
A-71	April 2, 2006	May 27, 2006	150.3	152.2	101.3%
A-72	May 28, 2006	July 22, 2006	153.7	153.9	100.2%
A-73	July 23, 2006	September 16, 2006	144.9	143.6	99.1%
A-74	September 17, 2006	November 11, 2006	145.5	149.0	102.4%
A-75	November 12, 2006	January 6, 2007	142.5	142.0	99.7%

Annual Production (Mkg, eviscerated weight)



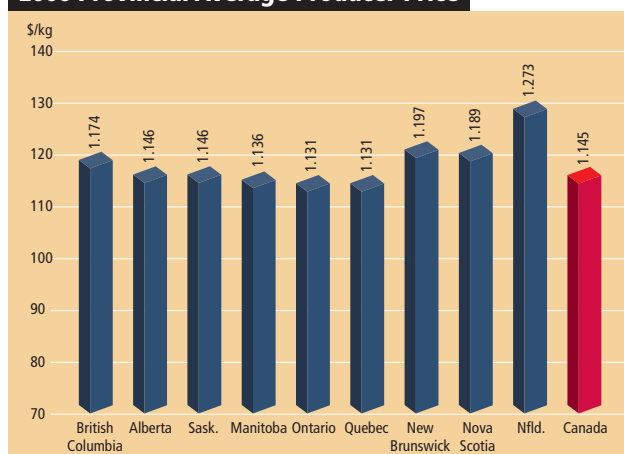
Canadian Weighted Average Producer Price (\$/kg)



2006 Provincial Production of Chicken ('000 kg eviscerated)

Province	2006	2005	% change
British Columbia	146,569	154,446	-5.1%
Alberta	87,721	86,680	1.2%
Saskatchewan	37,968	32,525	16.7%
Manitoba	40,473	40,463	0.0%
West	312,730	314,114	-0.4%
Ontario	321,291	325,143	-1.2%
Quebec	265,822	264,936	0.3%
Central	587,113	590,079	-0.5%
New Brunswick	26,432	26,754	-1.2%
Nova Scotia	32,940	33,311	-1.1%
Prince Edward Island	3,472	3,657	-5.0%
Newfoundland	12,820	13,195	-2.8%
Atlantic	75,664	76,916	-1.6%
CANADA	975,507	981,109	-0.6%

2006 Provincial Average Producer Price



growth of 1.2% and 16.7%, respectively. The increase in Saskatchewan's production can largely be attributed to its participation in the market development program.

In Central Canada, Ontario saw its production decrease by 1.2% while Quebec's production grew 0.3%. Most of Ontario's production decline was due to decreased production under the market development program. All provinces in Eastern Canada experienced reduced production compared to 2005. Production in New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland & Labrador decreased by 1.2%, 1.1%, 5.0% and 2.8%, respectively.

Producer Prices

The average Canadian producer price in 2006 was \$1.145 per kg, 5 cents lower than in 2005, 7.8 cents lower than in 2004, the lowest level since 2000 and the 2nd lowest in the last 25 years. The average live price in the first period of 2006, A-69, was \$1.121. The live price increased to \$1.159 in period A-70 and reached its peak in period A-71 at \$1.173. The live price fell gradually in the next three periods (\$1.155 in period A-72, \$1.139 in period A-73 and \$1.129 in period A-74) and ended the year at \$1.130 in period A-75.

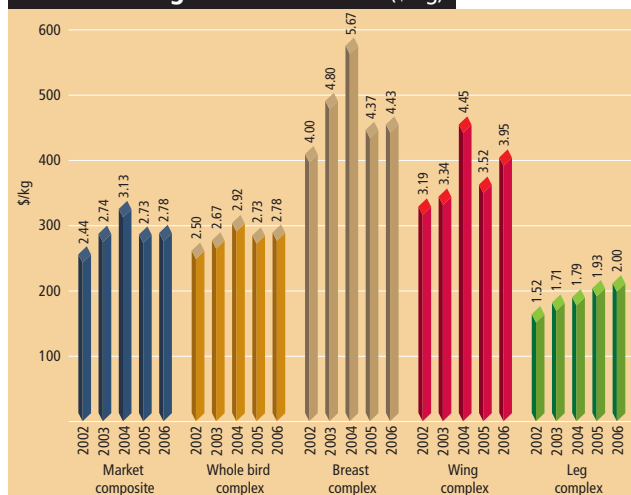
Wholesale Prices

The EMI (Express Markets Inc. – a commodities reporting service) market composite for the first half of 2006 averaged \$2.57 compared to \$2.99 in the second half of the year. The average market composite for the entire year was \$2.78, up 5 cents (1.9%) from 2005.

Compared to 2005, price increases for whole birds and breast meat were modest. The EMI breast complex averaged \$4.43, 6.6 cents (1.5%) higher than in 2005 and the EMI whole bird complex increased from \$2.73 in 2005 to \$2.78 in 2006, a 4.9 cent (1.8%) increase.

(Note: In cooperation with the Canadian Poultry and Egg Processors Council (CPEPC), CFC started publishing the EMI wholesale price series in July 2005. The weekly series consists of one market composite and four market complexes (breasts, wings, whole bird and legs). The series is based on actual invoice data from initially six and now nine Canadian processors, and covers a significant percentage of the total Canadian wholesale volume).

Annual Average Wholesale Price (\$/kg)



Dark meat prices—less affected than other cuts during the downturn in wholesale prices in 2005—remained relatively strong in 2006 and showed significant increases during the last four months of 2006. Overall, the EMI leg complex was \$2.00, 7.6 cents (3.9%) higher than in 2005.

Wing prices were at normal levels in the first half of the year and remained flat until they started a major rally in the second half of the year when demand for wings outstripped supply, ending the year at near-record levels. The average EMI wing complex in 2006 was \$3.95, 44 cents (12%) higher than in 2005.

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 only a small increase in 2006. The CPI for chicken in 2006 was 133.8 compared to 133.3 in 2005, an increase of 0.5 (0.4%).

In comparison, the consumer price index for all items combined, better known as “the cost of living index”, in 2006 was 2.0% higher than last year and the one for all food items was 2.4% higher. The chicken prices at the retail level were stable in the first half of the year apart from a dip in February, but increased significantly in August and kept increasing slowly but gradually during the September to November timeframe and decreased slightly in December.

(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).

While retail chicken prices increased in 2006, retail beef prices also increased but only marginally at 0.1%. The other competing meats experienced price decreases at the retail level. Turkey retail prices fell by 0.3% and fish and seafood

retail prices were 0.8% lower. The most significant decrease was for pork, whose prices dropped 5.1% in 2006.

Imports

According to reports from International Trade Canada (ITCan), a total of 132.7 Mkg of chicken, including 55.2 Mkg imported under the Import to Re-Export program, was imported into Canada during 2006. 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.

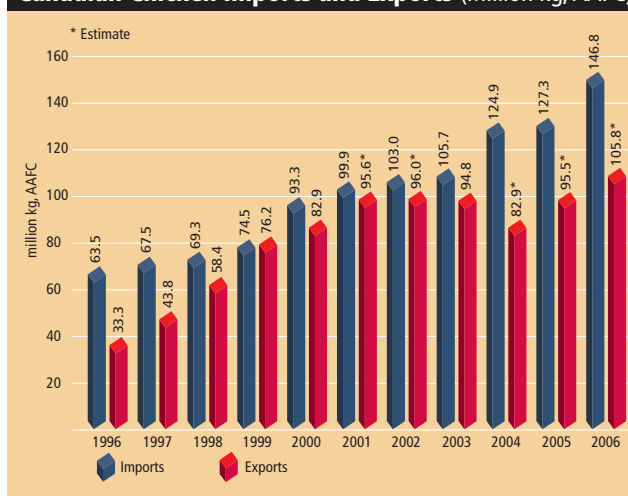
The TRQ for 2006 was calculated as 73,291,715 kg—753,627 kg less than in 2005. According to preliminary year-end statistics, a total of 77,292,921 kg of chicken and chicken products was imported under the TRQ, thus reaching an access level of 7.98% instead of 7.5% as specified in Canada's trade commitments. The TRQ for 2007 is expected to be around 73.1 Mkg.

Global imports started 2006 well above pro-rata (pro-rata is the expected rate). In the first quarter, 26.7% of the TRQ was imported. Above pro-rata imports continued in the second and third quarter of the year at 27.4% and 28.7%, respectively. Global imports in the final quarter of 2006 accounted for the remaining 18.9% of the annual TRQ.

In 2006, chicken parts (bone-in and boneless) accounted for 82.0% of all TRQ imports which is slightly less than the 83.6% imported last year. Further processed chicken, live chicken imports, and whole eviscerated chicken imports accounted for 17.8%, 0.23%, and 0.03% of all TRQ imports, respectively.

The United States was the largest supplier of chicken products imported under the TRQ with a total of 45.3 Mkg (60.7%) and a total value of \$100.8 million. Imports from Brazil totalled 26.2 Mkg (35.2%) with a value of \$36.1 million.

Canadian Chicken Imports and Exports (Million kg, AAFC)



The other countries of origin in 2006 were Thailand (2.9 Mkg, \$7.4 million) and Chile at (0.1 Mkg, \$0.3 million). The total value of all products imported under the TRQ was \$144.5 million, \$3.3 million less than last year.

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 2006, a total of 55.2 Mkg was imported under this program, 13.8 Mkg (33.4%) more than in 2005, and more than twice the amount that was imported under this program 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 (non-ICL). This list includes specialized products such as chicken dinners. A total of 2.4 Mkg was imported under this program in 2006, 0.1 Mkg more than in the previous year.

In 2006, CFC received 11 requests, for a total of 1,769,932 kg, for supplementary imports for market shortages. All but two requests were for wings. Three supplementary import permits were issued for a total of 172,491 kg of bone-in parts (wings). CFC received an additional seven sourcing requests from non-ICL manufacturers for dark meat that could not be supplied by CFC's Market Development Policy. A total of 331,974 kg was issued against a requested volume of 337,671 kg.

Supplementary Imports (kg)

Type	2006	2005	% change
Imports to compete	2,385,965	2,263,788	5%
Imports to re-export	55,242,347	41,406,971	33%
Special imports	1,615,241	277,396	482%
Imports for market shortage	172,491	38,912	343%
TOTAL	59,416,044	43,987,067	35%

Exports

Based on a combination of Agriculture and Agri-Food Canada export data and an estimate for Canadian exports to the U.S. based on United States Department of Agriculture import data, approximately 105.8 Mkg of Canadian chicken was exported in 2006, up 11% compared to 2005.

The primary destination for Canadian chicken in 2006 was the U.S. with 41.8 Mkg, 10.7 Mkg (34%) more than in 2005. The second largest export market in 2006 was South Africa where 20.1 Mkg was shipped, almost twice as much as in 2005. Other significant markets were the Philippines, Hong Kong, Russia, Macedonia and Jamaica.

According to Statistics Canada, the value of Canadian chicken exports in 2006 is estimated at \$186 million, 1.2% higher than in 2005. Exports to the U.S. in 2006 are valued at \$140 million, 18% higher than in 2005 and accounted for more than 75% of the total export value.

Storage Stocks

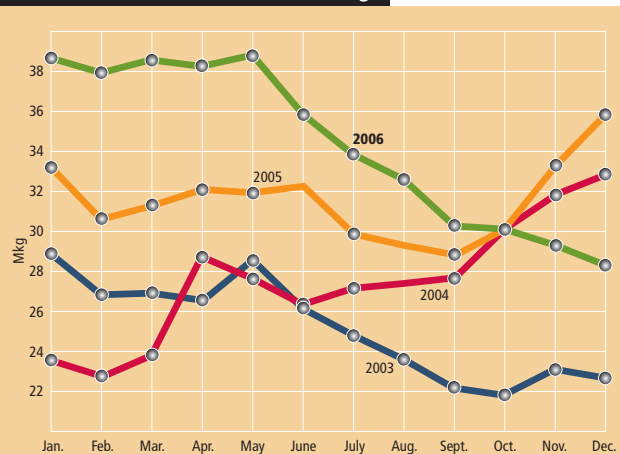
Frozen chicken inventories decreased by an unprecedented 10.4 Mkg over the course of 2006, and this despite the fact that the decrease did not start until May. Storage stocks started the year at 38.6 Mkg and remained around that level in the following four months. Stocks declined steadily and rapidly during the remaining months of 2006 and ended the year at 28.2 Mkg.

The decreases occurred across all main categories (whole bird, cut-up, further processed and miscellaneous), but the drop in frozen cut-up chicken inventories was the most pronounced, both in kilograms as well as a percentage.

Within the cut-up chicken category, both the leg quarter and breast meat categories decreased sharply in the second half of 2006. Inventories of frozen whole birds and miscellaneous chicken products (such as MSM, giblets, skin, feet) also saw a significant decline in terms of percentage but because both categories account for only a small part of the total frozen inventories, the decrease in kilograms was less substantial.

Inventories of further processed product decreased during 2006 but relatively less than the other three main categories. Within this category, stocks of further processed boneless breasts fell sharply in 2006 while frozen inventories of other further processed products (including tenders, strips, nuggets, patties and cooked wings) saw a small increase during the year. The other further processed product category is by far the largest category, accounting for 44% of all frozen chicken inventories at the end of 2006.

Frozen Chicken Inventories (Mkg)



World Trade Organization: No More Deadlines



Although negotiations were intense throughout the first half of 2006... all negotiations were officially suspended in July.

The 6th WTO ministerial meeting in Hong Kong in December 2005 set high hopes for the conclusion of negotiations in 2006. It was agreed that modalities had to be concluded by the end of April 2006, so that countries' commitment schedules could be finalized by the end of July. This way, the final legal text could be signed by the end of December 2006.

Although negotiations were intense throughout the first half of 2006, the deadlines were not met. Furthermore, all negotiations were officially suspended in July.

Following the intense activity in Hong Kong, negotiations began in force in February, after the informal ministerial gathering on the margins of the World Economic Forum in Davos, Switzerland.

Starting in February, agriculture negotiators met one week per month until the end of April to conclude the modalities. The modalities clearly define the commitments countries will have to undertake in terms of tariff reductions, improvements in market access, reductions to domestic support and disciplines on export subsidies.

The first part of the negotiators' work was to conduct simulations of the impact of various negotiating proposals. The Canadian government was instrumental in the development of the simulations that concretely demonstrated the challenge of getting consensus on one common proposal.

While negotiations were ongoing in Geneva during the first part of the year, informal gatherings of trade ministers also took place in Davos, London and Paris, in addition to the numerous meetings of the G-6 (U.S., EU, Brazil, India, Australia and Japan). Countries indicated their desire to reach an agreement in 2006, but the right compromise never materialized.

The difficulties were always portrayed as the "triangle of issues", where the European Union did not want to concede too much on market access, the United States wanted to maintain a comfortable level of domestic support, and Brazil wanted to keep its industrial tariffs.

With the modalities deadline approaching and the evident impossibility of achieving agreement on modalities by April, Agriculture Negotiations Chairperson, New Zealand Ambassador, **Crawford Falconer**, decided to intensify the process.

At the end of April, Crawford Falconer outlined an intensive process to move forward that included holding continuous discussions with the aim of achieving full modalities as quickly as possible.

WTO Director General **Pascal Lamy** pointed out to delegates, "The plane was flying at too low speed while the head wind was too strong and the plane heavily loaded." On April 24th, members revised the flight plan. The goal was to lighten the plane in order to increase speed to quickly reach full modalities.

Six weeks of continuous negotiations on agriculture started in early May. As a result of these intense negotiations, Crawford Falconer was to produce "reference papers" on all agriculture-related subjects, leading to draft texts based on input from members.

The 74-page text, which contained over 700 pairs of square brackets (text not agreed to and therefore still under negotiation), was released on June 22nd. The next goal was to eliminate the square brackets. Crawford Falconer offered this statement: "At this stage, the question is whether there is serious engagement to make progress or not. It is a question of big political decisions."

At the end of June, while more than 30 ministers were gathered in Geneva for negotiations, it became obvious that there was no consensus on a way forward. All the attention was focused on the meetings of the G-6 ministers.

On June 30th, after an intensive day of negotiations with this select group, insufficient progress had been made to continue the talks. Other countries' ministers present in Geneva were informed that, without progress amongst the G-6 countries, it was unrealistic to continue the negotiations. The next day, negotiations were officially suspended for all negotiating areas of the Doha Round.

The official suspension did not prevent countries from exploring their own avenues to reach agreement. However, the negotiations were taking place on a bilateral basis or within small groups and were not officially reported to all WTO members.

Pascal Lamy held a series of meetings as part of his "quiet diplomacy" approach. Crawford Falconer also began holding "fireside chats" throughout the fall.



Canada participated in the creation of the Oslo Group, representing Norway, Canada, New Zealand, Chile, Kenya and Indonesia.

Each of these initiatives tried to identify the best way to re-launch the negotiations with the fear that an extended suspension might postpone the negotiations to 2008 or later.

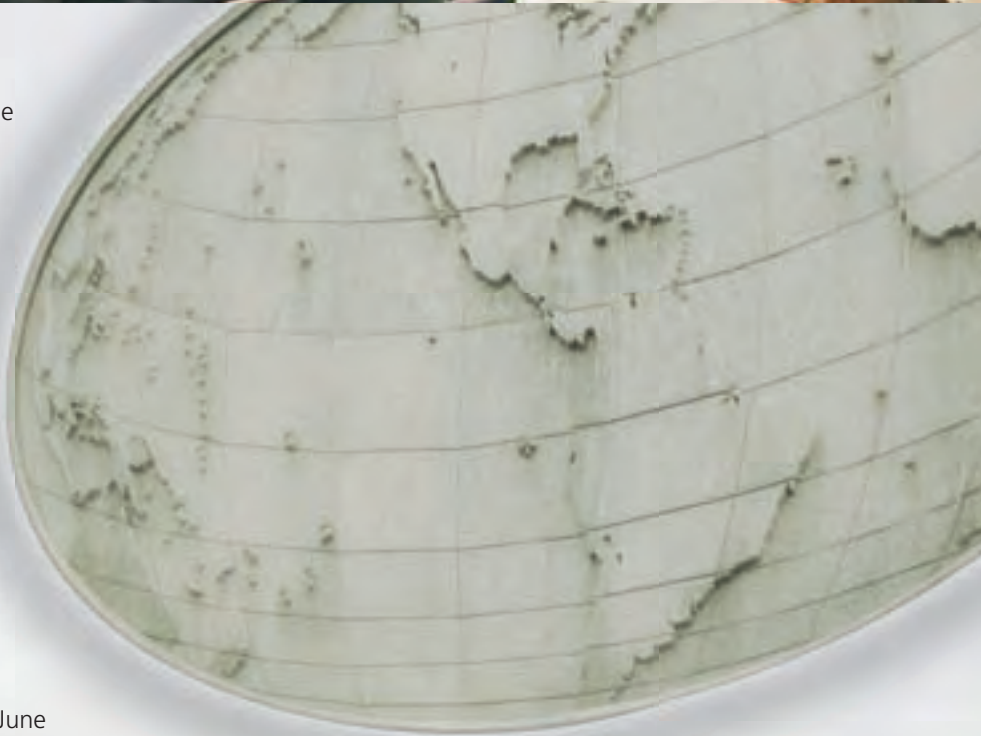
WTO members were contemplating two scenarios following the suspension: A short-term one, where negotiations would continue based on the current proposals and would be concluded before April 2007, in time for approval by the United States Congress before the expiry of the trade promotion authority at the end of June 2007; or a long-term scenario, where negotiations would re-start around 2008 on a completely new basis.

The conclusion of an agreement before April 2007 seems extremely ambitious but members of the WTO have had no hesitation to postpone deadlines in the past, so this short-term scenario could very well extend by many more months, or even years.

CFC Activities

CFC representatives, along with their colleagues from the dairy, poultry and egg industries (SM-5), monitored these negotiations very closely, representing the interests of the Canadian chicken industry. In Geneva, significant time was devoted to meeting Canadian and foreign government representatives involved in the agriculture negotiations, in order to remind them of the importance of the negotiations for supply management.

In collaboration with the SM-5 organizations, CFC was involved in an international coalition of like-minded farmers' groups. On March 22-23, farm leaders representing farmers from 53 countries met in Geneva to develop a joint statement that was subsequently presented to Pascal Lamy, Crawford Falconer and many ambassadors involved in the negotiations.



When the negotiations became intensive in May, SM-5 leaders ensured a continuous presence in Geneva. Representatives of the SM-5 took turns being present at every negotiating week between mid-May through the end of June. It was important not only to follow the progress in Geneva, but to get accurate and detailed information back to industry members in Canada; otherwise, the general press reports on WTO negotiations would have been the only source of information.

At home, CFC was also very active with the SM-5, ensuring decision makers were well aware of our position. On behalf of the SM-5, CFC Chairman **David Fuller** appeared before the House of Commons Agriculture and Agri-Food Committee to present our views on the WTO trade negotiations. The Chairs of the SM-5 also met with Ministers **Chuck Strahl** (Agriculture and Agri-Food) and **David Emerson** (International Trade), who reaffirmed the government's commitment to protect supply management. 🇨🇦



**WORLD TRADE
ORGANIZATION**

Import Controls: A Critical Pillar of Supply Management

Limiting Supplementary Imports

In 2006, the Minister of International Trade, **David Emerson**, recognized the importance of limiting special supplementary imports in his decision on the chicken tariff rate quota (TRQ) allocation methodology for 2006. The minister's decision supplied 61% of the excess demands on the TRQ through special supplementary imports and 39% through a "claw back" from the traditional, processor, distributor and foodservice's pools.

The sharing of the excess requirements between supplementary imports and a claw back is the same as the last two years, but it translates into higher volumes because the excess requirements were higher in 2006 than in previous years.

The exact volume of special supplementary imports imported was 1,615,241 kg, and the Department of Foreign Affairs and International Trade (DFAIT) also allowed 2,385,965 kg of supplementary imports to compete, resulting in 4 million kilograms (Mkg) of imports above the TRQ of 73.3 Mkg. The total import allocation of 77.3 Mkg is equal to 7.98% of our previous year's production. The TRQ allocation was shared by 565 companies, 13 more than in 2005.

Similar to 2005, the import volume for the manufacturing of meat-on-meat products, such as tournedos, was capped at 5.7 Mkg, while the applications totalled 6.8 Mkg. The applicants for such products therefore received 84% of their requests.

Finally, the dark meat required for the manufacturing of Non-ICL products in Canada increased from 1.7 Mkg to 2.1, which has been supplied through CFC's Market

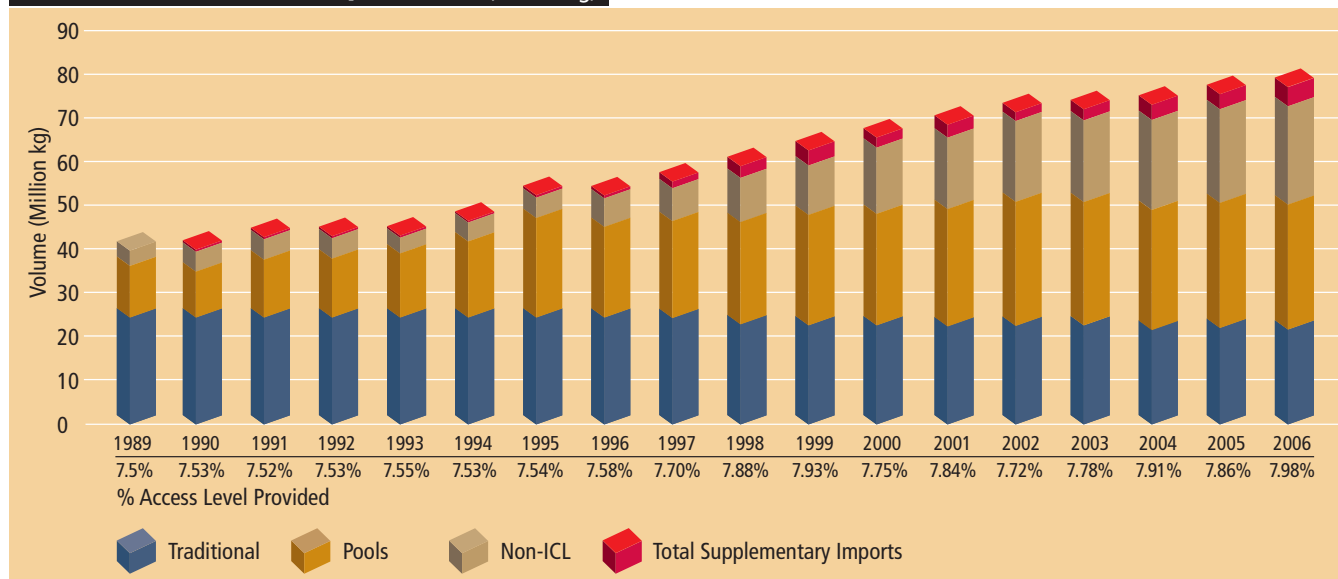
Development Policy. This reduces the pressure on the TRQ when dark meat products are available at competitive prices in Canada for manufacturers of Non-ICL products.

The issuance of supplementary imports and the ongoing exponential growth in Non-ICL demand clearly demonstrates the urgent need to modify Canada's generous 13% rule. In short, any chicken product containing at least 13% of any other ingredient is not subject to Canada's import controls and this needs to be changed. This loophole must be corrected before there is an even greater erosion of the Canadian chicken market by imported products.

These Non-ICL products are not considered "chicken" for the purposes of Canada's import controls, but are direct substitutes to the chicken cuts sold at retail. To that effect, CFC in collaboration with industry stakeholders, re-initiated discussions to seek government support to modify the 13% rule. Hopefully, this rule will be modified in the near future to prevent the erosion of the Canadian chicken market and to strengthen import controls, a critical pillar of supply management, to avoid disruptive surpluses on the Canadian market. 🇨🇦

The allocation of the chicken TRQ is shared by three main groups. The "Traditional" group represents importers of chicken prior to the establishment of the national supply management system for chicken in 1979. The "Pools" are the processors, distributors and food service companies. The "Non-ICL" group refers to Canadian companies manufacturing chicken products not subject to the import control list (Non-ICL). "Total Supplementary Imports" are the combination of the special supplementary imports and the supplementary imports-to-compete. These are imports that are in excess of Canada's 7.5% access commitment for chicken based on the previous year's production. The number for each year is the real percentage of access provided under the TRQ.

Allocation of the Chicken TRQ, 1989-2006 (Million kg)



Online Business Initiative: The Evolution of Information



Chicken Farmers of Canada made some significant steps forward in this area in 2006.

The first phase of CFC's Online Business Initiative (OBI) began in 2004, with two major objectives.

The first objective was a redesigned public website (www.chicken.ca) that was much easier for staff to maintain and keep up-to-date. The result is a dynamic web presence with extensive content, such as information about CFC, the industry, trade issues, health and nutrition information. The site also features a weekly recipe, a monthly theme and updates to important information from around the world, such as avian influenza. The site was launched in 2004 and improved upon in 2005.

The second objective of the OBI was to develop a private portal designed to give CFC staff, directors, alternates, provincial boards and other stakeholders access to pertinent information, data and documents to facilitate the exchange of data and information between all stakeholders.

CFC made some significant steps forward in this area in 2006. Early in the year, the private portal went live and immediately following this, key target members received training on how to use it.

A key component of the private portal is a Board Governance module, featuring:


- An Upcoming Meetings area, where documents for meetings are made available in advance
- A Previous Meetings area where documents and minutes are archived for easy retrieval
- A Board Motions area where past board motions are grouped by category and subject
- An Expense Claim module that transforms a paper-based claims process into a process that can be accomplished electronically
- A module that provides access to key market data

Other important documents, such as CFC's Policy and Orientation manuals are also available on the private portal.

Significant effort was put into finalizing and testing modules that were not ready for deployment at the time of the first private portal release.

The private portal will soon incorporate a Government Relations module that will take CFC's existing Constituency Captain Program to an online level, facilitating the dialogue among CFC and the constituency captains.

Other additions will include a Market Development Policy module that will make it possible for CFC staff to manage CFC's Market Development Policy online, as well as a Production Data module that will let provincial board staff enter provincial production and chick placement data online. Also, a feature will be added that will enable CFC staff to streamline its contact management and event planning activities. These updates will be implemented in early 2007.

A significant amount of time will be spent in 2007 on the planning and actual implementation of the next phase. Areas that likely will be addressed are food safety, promotion/education and additional market information. 



On-Farm Food Safety: The Front Line

In true Canadian fashion, CFC's On-Farm Food Safety Assurance Program (OFFSAP) is a concrete example of chicken farmers standing on guard for the protection of the Canadian chicken industry.

Protocols and policies have been strengthened on several different levels to respond to the emerging threat of animal disease. In 2006, the CFC Food Safety Committee's mandate was expanded to include the development of policy recommendations regarding poultry diseases and emergency management preparedness for the consideration of the Board of Directors.

CFC's OFFSAP, more commonly known as *Safe, Safer, Safest*, includes concrete biosecurity measures to prevent the introduction of disease. It has been structured to remain competitive with other protein commodities and to reduce the burden on farmers by anticipating potential requirements from industry stakeholders and government.



*Proud to raise
quality chicken
that Canadians
can trust.*



Safe, Safer, Safest is an excellent tool to be used in external communications demonstrating to consumers and stakeholders the good production practices used on farms

in Canada and subsequently differentiating between Canadian and international practices.

CFC's 1996 decision to develop and manage the OFFSAP is a symbolic representation of the proactive nature of chicken farmers to initiate actions that are required to stand up for the industry and protect its health and well-being.

The Canadian Approach to On-Farm Food Safety

Currently, there are 20 national commodity groups which are establishing HACCP-based (Hazard Analysis Critical Control Points) food safety programs.

These commodities work together through the Canadian On-Farm Food Safety (COFFS) working group and in collaboration with the Canadian Food Inspection Agency

(CFIA) and the provincial and territorial governments as part of a truly unique recognition system.

Using a federal-provincial-territorial recognition model based on the HACCP system as well as other international standards is a Canadian first; the integrity and credibility of the process ensures Canada is protecting the industry and standing up for the Canadian farmer.

The recognition system is a multi-layered approach involving the on-farm producer manual (*Safe, Safer, Safest*), the management system (used by national and provincial boards), and a third-party audit on behalf of CFIA to ensure successful implementation.

Updated Program

At the end of 2005, a revised *Safe, Safer, Safest* manual was distributed to farmers. This revision included enhanced biosecurity requirements based on the 2004 outbreak in the Fraser Valley, as well as recommendations from farmers and auditors since the last revision was circulated.

With an on-farm implementation date of January 2006, the revised requirements became part of the yearly audit, starting in 2006.

Government Recognition of CFC's Program

There are three steps to the government recognition program.

The first step is Phase 1 Technical Recognition of the on-farm producer manual. CFC was the first commodity to complete this government review process and achieved Phase 1 Technical Recognition in June 2003.

The second step is Phase 2 Technical Recognition of the management system. In 2006, CFC finalized the OFFSAP Management Manual, and successfully completed the CFIA technical review process in July, becoming only the 2nd commodity in Canada to do so.

The Management Manual is a tool that impacts the national and provincial offices and will help ensure consistency of application across the country and will prove to CFIA that CFC's food safety system is proceeding as planned. The Phase 2 technical review consisted of a gap-analysis to determine if CFC's management manual met the requirements as stipulated by the federal, provincial and territorial governments.

Having completed these steps, Phase 3 of the government recognition process is a third-party audit by a CFIA-accredited organization to audit the implementation of the technical manuals.

To this end, CFC has begun preparing by conducting internal audits of provincial boards against the management manual standard. These will help to establish the timing for the third-party audit of CFC's program.

In addition, CFC has held group audit sessions—in conjunction with a funding grant from Agriculture and Agri-Food Canada (AAFC)—as a means to bring auditors together to discuss audit protocols, audit criteria and requirements, and to ensure that audits are conducted consistently across the country. These sessions will be continued through 2007.

Implementation on the Farm

In terms of enrolment, several provincial boards have already, or are currently considering, mandatory enforcement of the program. To date, British Columbia, Alberta, Saskatchewan, Manitoba and Ontario have made the program mandatory.

This has led to 100% of farms being audited and certified in seven provinces, with nearly 80% of farms being audited nation-wide. Participation rates are running high in the remaining provinces as audits are being scheduled throughout 2007.

To encourage implementation, CFC is providing \$100 to provincial boards for each certified farm. In order to receive these funds, farms must be certified prior to January 1, 2008. These funds are from the Vitamin Class Action Lawsuit funds awarded to CFC in 2005.

In 2006, CFC also achieved resolution with AAFC to allow chicken farmers equal access to government-funded program initiatives, thus putting chicken farmers on an even footing with other commodities. This access has already been used to provide funding to Quebec farmers under AAFC's On-Farm

Implementation Program and will provide greater access by chicken farmers to future programs.

Food Safety Committee

The CFC Food Safety Committee's mandate is to develop policy recommendations regarding food safety and production-related issues for the consideration of the CFC Board of Directors.

The committee has been working to develop a free-range component for *Safe, Safer, Safest*. This was identified as a priority by Directors at the 2005 strategic planning session to ensure that CFC's on-farm program covers multiple rearing methods. This component covers a small, geographically specific number of supply management operations that are able to provide outdoor access to their flocks at some point during the grow-out period.

The development process included a consultation round with free-range producers, as well as animal health and food safety experts, to ensure cross-compliance with the Animal Disease Strategy. Pilot projects were undertaken at the end of the 2006 season. With the results from these reports, the CFC Food Safety Committee will be making a recommendation to the Board in early 2007, with the objective of making it available to free-range producers for the 2007 season.

As the CFC on-farm program moves forward with the strong collaboration of all provincial boards, chicken farmers in Canada are actively playing their role in standing on guard to protect the industry from disease and ensuring continued health within the sector. Poised not only to demonstrate the best practices used on-farm and their adherence to a national, technically recognized food safety program, they are proud to raise quality chicken that Canadians can trust. 🇨🇦



Avian Influenza, Animal Health and Disease Management

A Common Front Against Avian Influenza

Avian influenza outbreaks across the globe have highlighted the importance of actively standing on guard—both against the introduction of a foreign animal disease and to ensure that emergency management procedures are ready to deal with the threat of potential diseases.

CFC, in coordination with provincial chicken boards, the other national poultry agencies and the Canadian Poultry and Egg Processors Council, has been focused on developing an integrated animal disease strategy for the entire industry.

The strategy has been collaborative in nature, knowing that the entire poultry industry is only as strong as its weakest link and knowing that it is best to have plans in place prior to a case of disease, rather than trying to develop policies during an outbreak. This coordination was strengthened in 2005, with the joint hiring of an Avian Influenza Project Coordinator who remained throughout 2006 to ensure project continuity.

To synchronize industry and government planning and given that the Canadian Food Inspection Agency (CFIA) plays a vital role during the management of a contagious animal disease, meetings with the CFIA President and his staff, as well as smaller working groups, are convened regularly to manage the development of new operational protocols.

Prevention

Perhaps the most useful components of disease planning are the prevention measures intended to prevent the virus from coming into contact with poultry flocks in the first place, such as biosecurity measures, surveillance and import controls.

As a result of lessons learned from the 2004 avian influenza outbreak in British Columbia, CFC made amendments to the biosecurity requirements of *Safe, Safer, Safest*, its on-farm food safety assurance program. These 2005 amendments were circulated to farmers at the end of the year (2005) and then became part of the regular on-farm audit in 2006. These changes represent the strict standards that farmers must have in place to mitigate a disease incursion.

As part of CFIA's Animal Disease Strategy, CFIA created an Avian Biosecurity Advisory Council in August 2006. This council—composed of industry, government and academic stakeholders—has the mandate to provide recommendations to be used in future decision-making processes regarding standards for avian biosecurity,

implementation plans for the standards, the verification methodology, and the consequences of non-compliance. This council held its inaugural meeting in October 2006 and will be active throughout 2007.

CFC has also held discussions with CFIA about an avian influenza surveillance survey of poultry flocks in Canada. CFC understands the importance of surveillance testing and is in agreement with the project's objectives. While the operational details are still being developed, CFC is hopeful that the survey will occur in 2007.

In terms of stopping avian influenza at the borders, CFIA has initiated import control measures on incoming products

to ensure that any imported products will not negatively impact Canada's disease-free status. Canada prohibits any trade in poultry, poultry products and birds from any country which is not recognized as free of highly pathogenic avian influenza in its domestic flocks.

As part of CFIA's Animal Disease Strategy, CFIA created an Avian Biosecurity Advisory Council in August 2006.



Operational Protocols During an Outbreak

Farmer compensation for lost or destroyed poultry during a contagious animal disease outbreak is imperative to ensuring a prompt and effective disease reporting mechanism. It is critical for Canada's farm families to know that fair compensation is in place before being faced with a positive test result. The poultry industry works with CFIA on an ongoing basis to ensure that the appropriate level of compensation is provided under the *Health of Animals Act*.

While this issue remains largely unresolved, Agriculture and Agri-Food Canada has indicated that they will be developing a "Phase 2" funding program that will cover industry costs over and above those covered through the *Health of Animals Act*.

In terms of the broad parameters for the proposed Phase 2 program, there are a number of elements that must be included:

- The program must cover lost contributions to fixed costs as a result of downtime due to production cycle disruptions that occur as a result of an avian influenza outbreak; not addressed in the *Health of Animals Act*

- The program must be a permanent program, not an ad hoc or “one-off” program negotiated as or when outbreaks occur
- The compensation needs to be accessible by a single farmer, not just triggered by a certain size outbreak
- The compensation needs to adequately address the costs associated with cleaning and disinfection, breaking of eggs, disposal of birds, rendering etc

Phase 2 funding is to be initiated in 2007.

An Integrated Animal Disease Strategy

Developing the national protocols for an integrated industry disease strategy and working alongside federal and provincial governments to formalize a coordinated emergency response plan was another key priority for CFC.

Each of the provincial chicken boards is actively developing or refining their own emergency response plans. The development process culminated with a national workshop held in November 2006 to test the coordination between the national and provincial plans and to identify any gaps that needed to be filled. The workshop was a success, since it enabled participants to evaluate their detailed plans and identify specific elements to be addressed.

Several provinces have also held their own simulation exercises, which are a key method of preparing and ensuring that the plan is operational.

CFIA is also developing an Avian Influenza Hazard-Specific Disease Plan. While the majority of this has been internal, the poultry industry has had the opportunity to provide input on several segments.

In particular, the industry provided input on the movement protocols that are to be followed during a disease outbreak—specifically the movement of live birds and poultry products within the different security zones established by CFIA. The CFIA Plan will be part of simulation exercises planned for 2007.

Operational protocols on communications, insurance and market supply have also been part of the overall strategy.


Any future disease case will result in considerable media attention. To this end, the poultry industry has developed communication tools based on several different disease scenarios. These will be used to help mitigate the economic impact of a disease outbreak on consumption, the public environment and the industry.

The poultry industry has been pursuing an industry risk assessment with the objective of identifying options available to Canadian poultry producers to protect themselves against losses sustained during a disease outbreak.

From a supply perspective, a disease outbreak can require extra supply to be moved to the affected region, such as was the case in B.C. in 2004, or may even result in the need to ensure the market is not over-supplied. There may also be cases where inter-provincial movements will be affected and will need to be monitored.

All animal industries came together in agreement in October on a formal Animal Health Strategy to government as a key component of the Next Generation of Agriculture Policy Framework, the overhauled Canadian ‘farm bill’.

Moving forward, tabletop exercises and simulation exercises are planned at both the provincial and national levels to ensure that the industry is protected and prepared in advance to the greatest degree possible.

Animal disease preparedness has been identified as a critical priority through 2007. 



Animal Care & Poultry Research: Watching Over Our Flocks

CFC has a long history of working with Canadian stakeholders to ensure that chickens are raised with the utmost care. Farmers are proud of the measures and precautions that the industry takes to ensure the safety, health and well-being of its flocks. Protecting flocks is an investment in a sustainable industry—it makes good economic sense as well as common sense for the industry to take excellent care of its birds.

In 2003, the CFC Board of Directors established its own Animal Care Committee charged with developing an auditable animal care program to demonstrate the high standards of the Canadian chicken industry's on-farm animal care. The Animal Care Program is based on the Canadian *Recommended Code of Practice for the Care and Handling of Chickens, Turkeys and Breeders from Hatchery to Processing Plant*, standards that are developed in conjunction with industry and animal care stakeholders.

CFC has worked diligently with its partners to create the best possible Animal Care Program for Canada's chicken farmers. The Animal Care Committee consulted over forty Canadian stakeholders representing farmers, industry, academia, farm animal councils, catching companies, humane organizations, federal and provincial governments, the veterinary profession, as well as restaurants and grocers on the content of the program. The Program has been piloted on chicken farms across Canada.

In 2006, the Committee continued to work closely with provincial boards as the final details of the program were worked out. In addition, the first steps toward integrating the Animal Care Program with the Food Safety program were completed.

The Animal Care Program has been targeted for completion in 2007. CFC looks forward to continuing its work with industry partners—including the Canadian Federation of Humane Societies, poultry welfare specialists and the Canadian Veterinary Medical Association—to ensure that the highest standards of animal care are being followed. A successful, auditable Animal Care Program will help demonstrate that Canadian chicken farmers belong with world leaders in animal care.

The National Farm Animal Care Council

In 2006, CFC became a member of the National Farm Animal Care Council (NFACC). NFACC is striving to achieve a national, coordinated approach to responsible farm animal care in Canada.

NFACC was established in 2005. Currently, 21 organizations are represented on the council.

Danny Wiebe, chair of CFC's Animal Care Committee, is CFC's representative on the NFACC council.

As one of its first orders of business, NFACC is looking to establish a process for developing and revising the Canadian Codes of Practice for the Care and Handling of Livestock. The Canadian Agri-Food Research Council previously provided this function, but due to its dissolution in 2006, NFACC has undertaken this role.

For over two decades, CFC has played an active role in the support and development of the *Recommended Code of Practice for the Care and Handling of Chickens, Turkeys and Breeders from Hatchery to Processing Plant*. In the past, the review process has involved participation from commodity organizations, several different levels of government, the Canadian Veterinary Medical Association, the Canadian Federation of Humane Societies, the Canadian Council on Animal Care and academics specializing in animal behaviour, to ensure that the appropriate standards for the care and handling of chickens were outlined in the code. The codes are designed to promote sound management and welfare practices.

CFC looks forward to continuing its support of the Code's development process and to working effectively with NFACC to address other animal care issues in Canada. We must all work to ensure that the Canadian chicken industry's stringent regulations and recommendations on the care and handling of chickens are met and followed.



Poultry Research

CFC's long-term commitment to research and innovation is one of the keys to the success of the chicken industry in Canada. Research allows our sector to grow both domestically and internationally, as we look for ways to make our quality product even better and respond to evolving consumer preferences. A strong and responsive industry will be a safeguard for our future.

With this in mind, the Canadian Poultry Research Council (CPRC) was established in 2001 by the five national poultry organizations in Canada. The establishment of CPRC was prompted by the recognition that there had been an erosion of both human and physical resources with respect to research, education and technology transfer related to the poultry sector.

CPRC's mandate is to create and implement programs for poultry research and development that address specific industry needs. **Ian Blenkharn**, from Nova Scotia, is CFC's

representative to CPRC and was elected as CPRC's Chair in 2006.

CPRC has been successful in its endeavour to foster poultry research in Canada. To date, CPRC has allocated \$488,637 to poultry research and these funds have been leveraged to over \$1.7 million. Furthermore, CPRC has committed an additional \$687,684 to poultry research for projects that are currently under consideration for matching funding and which could be leveraged for another \$3.7 million.

Poultry Research Priorities

CPRC has been soliciting research in six priority areas, as identified at a workshop in late 2005. Over 80 participants representing academia, industry and government, participated in the priority setting process. The research priority areas are:

- ▲ Animal Welfare
- ▲ Antibiotic Replacement
- ▲ Environmental Concerns
- ▲ Food Safety
- ▲ Poultry Health and Disease
- ▲ Product Development/Value-Added Products

AviMicroNet

In 2004, the CPRC Board of Directors approved four research projects for funding under CPRC's Avian Microbiology Research Network (AviMicroNet). Details on these projects were reported in CFC's 2004 Annual Report. The four projects are nearing completion; CPRC expects to receive final reports in 2007.

Environmental Research

In CFC's 2005 Annual Report, it was reported that six Environment projects were submitted to the Natural Sciences and Engineering Research Council/Agriculture and Agri-Food Canada (NSERC/AAFC) research partnership program for consideration for matching funding. Four of these projects were approved. In total \$82,237 was allocated by CPRC to fund these projects; CFC contributed \$41,119. With matching funding, total funding for these projects reached \$712,649.

Food Safety and Poultry Health Research

Also in 2005, the CPRC Board of Directors approved up to \$363,363 in funding for seven research projects in the area of Food Safety and Poultry Health; (up to) \$218,018 will be contributed by CFC.

These projects have been submitted to the NSERC/AAFC research partnership program for consideration for matching funding. To date, four of these projects have been approved and the remainder are still under review. A decision is expected in early 2007.

The four Food Safety and Poultry Health projects approved for funding are:

- 1) Title: *Immunization of broiler chickens against necrotic enteritis*. Lead Researcher: J. Prescott, University of Guelph
- 2) Title: *Immunity of T cell-mediated immune response to avian influenza virus in the chicken*. Lead Researcher: S. Sharif, University of Guelph
- 3) Title: *Development of second generation RNA interference constructs against avian influenza virus*. Lead Researcher: S. Golovan, University of Guelph
- 4) Title: *Novel multivalent vaccines for avian health*. Lead Researcher: E. Nagy, University of Guelph

The three projects still under consideration address novel vaccines, methods of transmission for *Campylobacter* and alternatives to antibiotics.

Poultry Welfare and Behaviour

In 2006, the CPRC Board of Directors approved up to \$324,821 in funding for six research projects in the area of Poultry Welfare and Behaviour; CFC will contribute up to \$194,893 over three years. These projects have been submitted to the NSERC/AAFC research partnership program for consideration for matching funding. A decision is expected in 2007.

The poultry welfare and behaviour projects cover topics such as the effect of lighting programs on bird welfare, transportation, alternative euthanasia methods, the impact of ammonia on birds and the economics of improving broiler welfare.

CFC's Funding Contributions in 2006

At the end of 2006, CFC's Research Fund totalled approximately \$4.32 million. Interest earned by the Research Fund is the source of the annual support for poultry research projects and initiatives. CFC makes regular contributions to the Research Fund, which leads to more funding support to foster Canada's science and innovation in the poultry industry.

CFC will continue to work closely with CPRC and other stakeholders to ensure that the industry remains competitive on the world stage and state-of-the-art through ongoing support of poultry research.

Government Relations: Serving Canadian Chicken Farmers



It is important that the direction taken by the government complements the work being done by industries.

The federal election started the year off as Canadians elected a Conservative minority, led by Prime Minister **Stephen Harper**, on January 23, 2006. The 39th Parliament, which opened on April 3rd, consisted of 124 Conservatives, 103 Liberals, 51 Bloc Québécois and the 29 New Democrats.

This election changed the political landscape of Ottawa considerably and prompted a thorough review of the new Conservative agenda. The Conservative platform addressed supply management by stating that it would “ensure that agricultural industries that choose to operate under domestic supply management remain viable. Canada needs efficient production planning, market-based returns to producers and predictable imports to operate domestic supply management.”

The new government faced a barrage of questions and statements in the early days of the House. In fact, the first three questions they faced after the throne speech were all on agriculture. It was anticipated that the Conservatives will move forward on several key agriculture issues as the party has deep roots in rural Canada.

On Parliament Hill

Prime Minister Harper appointed the Honourable **Chuck Strahl** as Minister of Agriculture and Agri-Food, and the Honourable **David Emerson** as Minister of International Trade. Parliamentary Secretaries were **David Anderson** for Agriculture and **Helena Guergis** for International Trade. The Agriculture critics were **Wayne Easter**, Liberal, **André Bellavance**, Bloc Québécois, and **Alex Atamanenko** for the NDP.

Parliament Hill buzzed with agricultural activity, including a series of major protests in the spring. Thousands of farmers targeted Parliament Hill, 24 Sussex and key food and gas installations around the city. Farm leaders were able to attract national attention to the income crisis and the wide-felt frustration towards the Canadian Agriculture Income Support (CAIS) program.

Since the election, numerous pieces of legislation have dealt with agriculture, the first being Bill C-218 introduced by Liberal Member of Parliament (MP), Wayne Easter. This bill on supply management, which is essentially the same as that of **Lynn Myers** in the

38th Parliament, is an Act for the recognition and promotion of agricultural supply management.

Bill C-238, a private members bill on single-ingredient labelling was introduced by Liberal MP **Tom Wappel**. This legislation would have made labelling single ingredient foods, such as raw chicken, mandatory despite concerns over how industry would be able to comply. The bill was defeated in the House at second reading.

One issue that did not take long to come back onto the legislative agenda was animal cruelty. Senator **John Bryden** introduced Bill S-213 which proposes increasing penalties for offences. Although Minister of Justice, **Vic Toews**, announced earlier in the year that the government did not intend to introduce any further animal cruelty legislation in the House, Liberal MP, **Mark Holland**, introduced Bill C-373, which is essentially the same as its predecessor, Bill C-50. The Bill proposes more extensive changes to the *Act to amend the Criminal Code (Cruelty to Animals)*. Neither bill has made much progress.



Prime Minister Harper wasted no time in introducing the Accountability Act, Bill C-2, when the House resumed after the election. The legislation is one piece of a broader government accountability and transparency action plan. The bill proposes many amendments affecting advocacy work, such as reporting on communication with parliamentarians. The bill has been passed by the Senate and was recently returned to the House of Commons. If approved by the House, it will receive Royal Assent and become law. CFC will monitor the legislation and assess its impact on industry advocacy activities.

In mid-June, the SM-5 (dairy, poultry and egg industries) made a presentation to the House of Commons Agriculture Committee along with *l'Union des producteurs agricoles*, the Canadian Agri-Food Trade Alliance and the Canadian Cattleman's Association on the state of the World Trade Organization (WTO) negotiations. CFC Chairman **David Fuller** was one of the representatives for the SM-5. He emphasized the need for a balanced deal for Canadian agriculture—one that would benefit both Canadian exporters and supply management.

At the Policy Level

On November 14th, the Federal/Provincial/Territorial Ministers of Agriculture officially launched the Next Generation of Agriculture and Agri-Food Policy. The first round of consultations began in December by invite only and focused on five thematic areas: Renewal, Market Development & Trade, Food Safety & Quality, Environment, and Innovation & Science. Although it was originally intended to be fast-tracked and completed in November, Business Risk Management was eventually included in Round 1 because it was recognized that more work needed to be done.

CFC received an invitation to consult on each thematic area and a CFC representative was present at each one. Round 1 of the consultations focused on one theme per meeting. Of particular importance to CFC are the areas of Business Risk Management, Market Development & Trade and Food Safety & Quality.

The recognition of supply management and its three pillars as effective risk management is a key component of Business Risk Management, as well as the development of programming to address gaps in coverage for farmers that suffer disasters such as avian influenza.

For Market Development & Trade, CFC wants to ensure that adequate focus is on the domestic market. Profitability for the Canadian agri-food sector begins with healthy sectors on the domestic front. Currently, over 70% of Canada's revenue from agriculture and agri-food production comes from the domestic market.

Food Safety remains a critical priority for CFC and with our *Safe, Safer, Safest* program, it is important that the direction taken by the government complements the work being done by industries. Government has an important role to play in this area, particularly in assisting with the development of a comprehensive animal health strategy that would move from ad-hoc programming to a consistent and comprehensive manner of dealing with health concerns such as avian influenza and BSE.

CFC will remain involved in the consultations of the next generation of agriculture policy as we move into Round 2 and 3 in the winter/spring of 2007.

At the Grassroots

Grassroots activity kicked into high gear in March with a lobby month. Rather than doing a Lobby Day in Ottawa, the SM-5 targeted MPs in their home ridings. It was a low-key approach that got farmers out to their MPs on trade issues before the WTO negotiations heated up in the summer.

The provinces have been active in the grassroots efforts by helping to secure many of these meetings with provincial government representatives. The provincial SM-5 in

British Columbia, in particular, has become well organized over the past year by formalizing its coalition structure and increasing its level of activity.

To complement and facilitate grassroots activity, the national SM-5 launched the **www.farmsandfood.ca** website in 2005. It is designed to provide information to the general public, but more importantly as a communication tool for our farmers to reach out to parliamentarians at each level of government. Each province and individual farmer has quick access to current information on trade and the industry. The site will be revamped early in 2007 to gain more functionality and become even more effective.

The SM-5 also launched an ad campaign in late 2005, and early 2006, which placed ads in national newspapers and agriculture press across the country. The effects of the campaign continue to be measured. The ads promoted supply management as an effective domestic means of feeding Canadians, while highlighting the stakes at the WTO.

At the National Level

CFC held numerous meetings with politicians, including Ministers Strahl and Emerson on issues such as avian influenza compensation, Animal Disease Strategy and Tariff Rate Quota administration. CFC also participated in the joint annual reception in March with the other poultry and egg agencies and held its own reception in November. Both had a good turnout of politicians and assistants and provided several opportunities for dialogue and to meet newcomers to the Hill.

The year closed out with **Stéphane Dion** winning the Liberal leadership race in Montreal in December. Although many expected either **Michael Ignatieff** or **Bob Rae** to win, Dion received a majority on the fourth ballot. Dion's first week as leader was watched closely as many wanted to see what he had to offer in the face of an election in 2007. 🐔

HONG KONG IS AN OCEAN AWAY



BUT THE FUTURE OF CANADIAN FAMILY FARMS WILL BE DECIDED THERE.

Canada's dairy, poultry and egg farmers are worried. The outcome of the World Trade Organization negotiations in Hong Kong could jeopardize supply management in Canada. A decision made on the other side of the world threatens the livelihood of our farmers and the well-being of Canada's rural communities.

Now is the time to stand firm for Canadian values like fairness, our ability to choose "made in Canada" food, and a stable income for our farmers without expensive taxpayer-funded subsidies. We need our government leaders to secure a fair trading environment that lets Canadians determine the type of agriculture we want, now and for the future.

KNOW WHAT'S AT STAKE

Our farms and food are at risk at the December WTO meeting in Hong Kong. There is nothing on the table that benefits any sector of Canadian agriculture. To learn more, please visit www.farmsandfood.ca.

A MESSAGE FROM CANADA'S DAIRY, POULTRY AND EGG FARMERS
www.farmsandfood.ca

Chicken: A Good Choice

Canadians love chicken—and for good reason! They love its taste, its value, its variety and its convenience. Canada's chicken farmers are proud to grow the high-quality chicken that consumers can trust.

From coast-to-coast, people are talking about chicken, as they learn more about the care and dedication that farmers put into their work through a national campaign by the chicken industry to reassure consumers that chicken in Canada continues to be a safe and nutritious choice for their families.

In early 2006, CFC's ongoing surveys began to point to the fact that on one hand, consumers were feeling oversaturated with media 'hype' regarding avian influenza, whereas on the other, they felt as though they were missing key facts about the virus. This was supported by repeated anecdotal reports from the processing, restaurant and grocery industries, which pointed to increased concerns being expressed by consumers about avian influenza.

While consumers were very confident in Canada's food systems, it became apparent that there was an emerging need to battle misinformation and retain this trust and confidence.

In response, the Board of Directors decided to enact a strategy to carefully address the concerns of consumers, as well as to ensure that we provide information to our stakeholders as required. The idea was to empower those working directly with consumers with clear and concise information about avian influenza. This would allow those on the front lines to respond directly and truthfully to consumer concerns.

Any strategy being developed had to bear in mind the market scenario, which demonstrated that Canadians continue to consume chicken with confidence. CFC did not want to create concern where there may not be any.

The strategy was pre-emptive in nature, ensuring that if avian influenza is found in Canada, consumers did not change their consumption patterns, as has been seen in other countries.

The launch of the Avian Influenza Consumer Education Campaign saw the creation of a series of communications resources, developed for use by the restaurant, foodservice and grocery industries. Specifically designed to be used in a consumer confidence crisis or when employees raised concerns, materials included brochures, posters, tent cards, notepads, point-of-purchase

information and fact sheets. They were made available on the CFC website in both English and French and in several different formats to facilitate their use.

The industry brochures were placed in the October issues of *Restaurant News* and *Canadian Grocer* magazines, referencing the availability of the additional resources, providing general information about avian influenza, along with other information about the Canadian chicken industry as a whole.

To buttress the information being provided to our grocery, restaurant and foodservice partners, CFC launched a smaller information campaign to directly reassure consumers about the health and safety of Canadian chicken.

A three-month initiative was deployed to include advertorial content in the August and September issues of *Canadian Living*, *Coup de Pouce*, *Today's Parent* and *Enfants Québec* with a full brochure in their October issues. A recipe contest was also launched to draw more consumers to the CFC website, where a robust avian influenza section was developed to respond to consumer concerns.

Spreading the Word

Throughout 2006, the issue of avian influenza held a strong place in the minds of both consumers and the media.

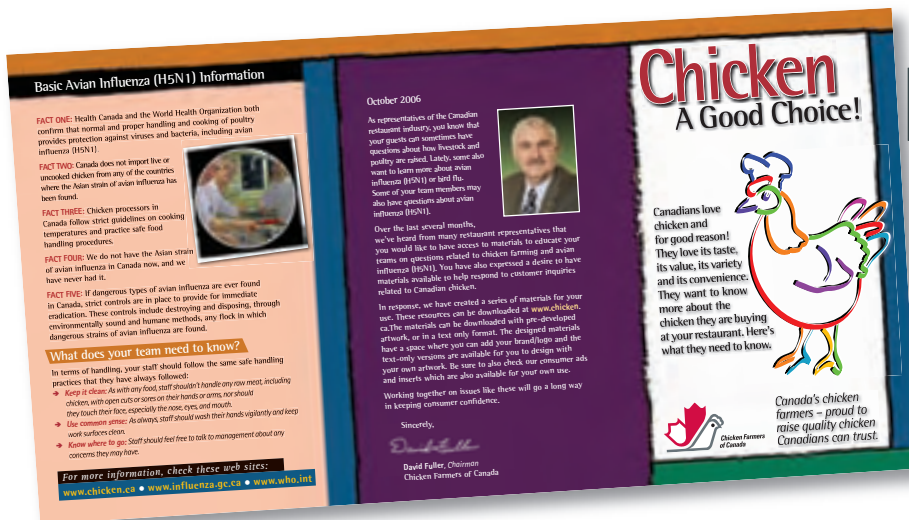
CFC spent a good portion of 2006 assessing consumer behaviour and attitudes, determining who is most trusted to speak on the subject, assessing the general knowledge of consumers on the subject of avian influenza, and testing key messages and scenarios. The results of

these studies have given CFC direction and a fuller understanding of what information consumers need.

Over 94% of Canadians are aware of avian influenza and make a strong mental association between the virus and chicken—but being aware does not mean being concerned—the level of concern about avian influenza is steadily declining and many consumers believe that the media may be responsible for 'over-hyping' the issue.

Throughout 2006, the issue of avian influenza held a strong place in the minds of both consumers and the media.





Chicken is Part of a Healthy Lifestyle

The valuable work being done within the Promotion/Education Campaign continued into 2006, targeting consumers, health professionals and children as key audiences.

In 2006, CFC connected with health professionals through sponsorships of the Dietitians of Canada Annual Conference and the Canadian Diabetes Association Professional Conference. CFC also sponsored the

Canadian Culinary Awards which provided an opportunity to educate the culinary community across Canada about the health and nutrition benefits of chicken.

CFC developed several new resources for dietitians and health professionals in 2005 and 2006. These resources, the CFC Nutritional Fact Series, were developed as takeaway pieces for health professionals to hand out to their patients after first counselling them, and have been widely distributed.


The first factsheet addressed healthy eating and encouraged a high fibre/whole foods diet. The second was about kids and in particular, the role parents play in promoting healthy eating and lifestyle habits. The third focused on diabetes and a healthy lifestyle.

These resources were distributed at the conferences CFC attended and are available electronically on the CFC website. CFC has received many requests for the fact sheets, as well as the accompanying food journal, which can be used to track food consumption and is a useful tool when consulting with a dietitian or other health professional.

CFC continued to add to its database of chicken recipes. A total of 52 recipes were developed in 2006 by a registered dietitian. The recipes focused on healthy eating. Many of these recipes were high in fibre and low in fat and sodium in keeping with the CFC Nutritional Fact Series.

CFC developed a new website for children in 2006. The new component has been developed to complement our current kids' site and will be accessible through www.chicken.ca in 2007. It is aimed at children aged 9 to 13, whereas our current kids' site is aimed at younger children.

Next year, CFC will continue its outreach to the next generation of consumers, by offering games, fact sheets and chicken-related information for school projects and personal interest.

Projects like these allow kids to appreciate the work that the Canadian chicken industry does to protect the consumer and to bring them nutritious chicken they can trust. 

CFC and its partners have worked hard, telling consumers that the consumption of cooked chicken does not pose a human health risk—and the message is gradually getting through—CFC has seen an 11% drop in consumers who falsely believe they can 'catch' avian influenza from cooked chicken, from 41% in 2005 to 30% in 2006. While this number is still high, industry-wide activities in 2007 will no doubt contribute to a further reduction.

Other highlights include:

- ▶ Consumers have a favourable public attitude towards chicken in terms of consumption, confidence and trust
- ▶ The proximity of an outbreak, along with the speed of containment and response, are key factors in reducing the impact of any avian influenza outbreak upon consumption
- ▶ Industry partnership with government is seen as key to the successful resolution of any avian influenza crisis

This demonstrates the ongoing need for an information campaign and, within the larger framework of an animal disease strategy, communicating to consumers has been identified as a critical priority for 2007.



Monitoring & Enforcement

CFC's Monitoring & Enforcement unit

ensures that Canada's chicken industry produces the right amount of chicken to meet consumer needs by ensuring compliance with the regulations and policies established by CFC. By remaining vigilant, CFC can ensure a level playing field for all industry participants and preserve the stable policy environment.

In 2006, staff audited provincial commodity boards and processing facilities for compliance with CFC policies for periods A-66 to A-69. The report for these periods was presented and approved by CFC Directors in October 2006.

Overmarketing Assessment

During the audit period A-68 and A-69, five provincial commodity boards were assessed overmarketing levies totalling \$2,898,849. The report was presented and approved by Directors in October 2006. CFC collected \$694,271 of overmarketing levies from four provincial commodity boards in November 2006 while Chicken Farmers of Ontario filed a complaint to the National Farm Products Council in November 2006 for the overmarketing levies assessed of \$2,204,578. The complaint is still pending.

Market Development

During the audit periods A-66 to A-73, seven processors marketed production received other than in accordance with the CFC Market Development Policy and were assessed levies totalling \$987,943. Four processors paid their levies, totalling \$118,949 while another's levy was reassessed at \$15,200 after a partial force majeure claim was approved by the Board. This remains to be paid.

One processor was assessed a levy of \$228,450 and has filed a complaint to the National Farm Products Council (NFPC). The NFPC offered alternative dispute resolution to mediate a solution but CFC declined the offer. Subsequently, the NFPC informed the processor that their complaint did not meet the requirements for a public hearing. The levy payment is still outstanding.

Another processor was assessed a levy of \$625,344 and has filed an application for judicial review in Federal Court. The case is pending.

In 2005, a processor that was assessed a market development levy of \$163,066 filed a complaint to the National Farm Products Council. CFC declined the NFPC's offer to mediate a solution by an alternative

dispute resolution. Subsequently, the NFPC informed the processor that their complaint did not meet the requirements of a public hearing. Since the processor failed to pay the levy, its market development licence may now be revoked or suspended. A hearing is scheduled early in 2007 where the processor will have the opportunity to show cause to the CFC Board of Directors as to why its licence should not be revoked or suspended.

In 2005, another processor that was assessed a market development levy of \$59,549 filed an application for judicial review in the Federal Court. The case will be heard early in 2007.

CFC Policies

In 2006, the CFC Board of Directors completed a comprehensive review of the Market Development Policy and Monitoring & Enforcement Policy. Before implementing the approved amendments, CFC will review its Regulations and Orders in 2007 to ensure consistency with both policies.

An amendment to the Canadian Chicken Licensing Regulations was implemented in 2006 giving CFC the authority to automatically suspend a processor's licence for failure to pay a market development levy assessment. The new amendment is effective from period A-75.

Interprovincial Movement of Live Chickens (in kg live weight)

Province	2006		2005	
	To	From	To	From
British Columbia	3,080,000	—	1,035,000	—
Alberta	242,000	—	238,000	—
Saskatchewan	—	5,579,000	—	2,093,000
Manitoba	2,258,000	—	820,000	—
Ontario	22,036,000	27,652,000	24,895,000	26,164,000
Quebec	27,652,000	21,888,000	26,164,000	24,371,000
New Brunswick	—	—	—	—
Nova Scotia	4,643,000	76,000	4,728,000	—
Prince Edward Island	—	4,716,000	—	5,252,000
Newfoundland & Labrador	—	—	—	—
Total	59,911,000	59,911,000	57,880,000	57,880,000

Saskatchewan's new processing facility continued to ship live chickens to out-of-province facilities until July 2006 compared to 2005 when shipments only began in the last quarter.

Interprovincial Movement

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

Inter-Period Quota Transfers

In 2006, CFC received four requests for inter-period quota transfers totalling 422,711 kilograms live weight compared to six requests in 2005 totalling 606,036 kilograms live weight. 🐔



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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, 2006 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2005 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated February 10, 2006.

Chartered Accountants

February 2, 2007

A member firm of
Deloitte Touche Tohmatsu

Statement of Operations

year ended December 31, 2006

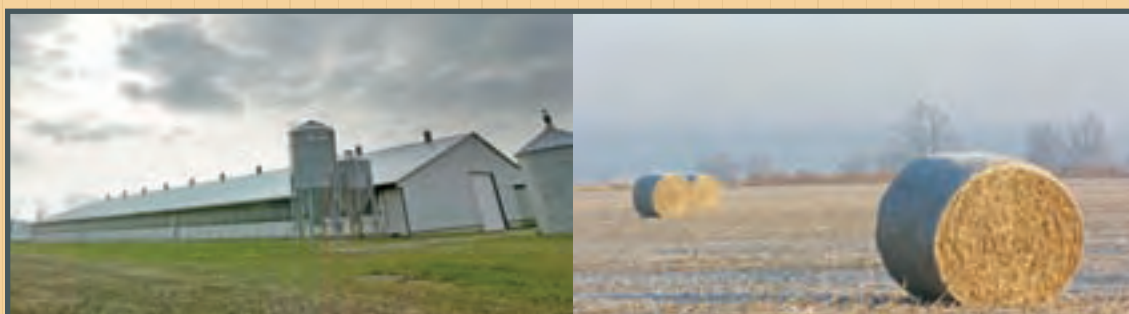
	General Fund	Promotion Fund	Research Fund	2006	2005
Revenue					
Levy and fee revenue	\$ 5,824,677	\$ —	\$ —	\$ 5,824,677	\$ 5,858,912
Interest and other revenue	391,253	95,307	159,088	645,648	508,195
Overmarketing and market development levies	—	813,220	—	813,220	1,224,338
	6,215,930	908,527	159,088	7,283,545	7,591,445
Expenses					
Amortization of capital assets	71,837	—	—	71,837	68,849
Avian influenza remediation	13,000	—	—	13,000	26,692
Bad debt – promisory note	—	—	—	—	434,678
Canadian Poultry Research Council	—	—	93,119	93,119	100,000
Committees	158,020	—	—	158,020	140,387
Communication	362,493	—	—	362,493	435,220
Directors and alternates	1,160,209	—	—	1,160,209	1,199,914
Membership fees	118,252	—	—	118,252	127,535
Office	407,547	—	—	407,547	440,710
Online business initiative	82,053	—	—	82,053	108,475
Professional fees	457,951	—	—	457,951	455,763
Promotion activities	—	17,710	—	17,710	20,512
Provincial commodity boards funding	500,000	—	—	500,000	—
Salaries, benefits and travel	1,953,373	—	—	1,953,373	1,855,674
Special studies	428,914	703,764	—	1,132,678	396,805
Trade	158,041	—	—	158,041	495,838
Translation	125,702	—	—	125,702	99,328
	5,997,392	721,474	93,119	6,811,985	6,406,380
Excess of revenue over expenses	\$ 218,538	\$ 187,053	\$ 65,969	\$ 471,560	\$ 1,185,065



Statement of Changes in Fund Balances

year ended December 31, 2006

	General Fund	Promotion Fund	Research Fund	2006	2005
Balance, beginning of year	\$ 6,805,228	\$ 2,640,066	\$ 4,257,475	\$ 13,702,769	\$ 12,517,704
Excess of revenue over expenses	218,538	187,053	65,969	471,560	1,185,065
Balance, end of year	\$ 7,023,766	\$ 2,827,119	\$ 4,323,444	\$ 14,174,329	\$ 13,702,769
Consists of:					
Invested in capital assets	\$ 166,335				
Unrestricted	6,857,766				
	\$ 7,023,766				



Balance Sheet

as at December 31, 2006

	2006	2005
Current assets		
Cash	\$ 1,333,763	\$ 860,119
Restricted cash (Note 6)	796,370	875,956
Short-term investments (Note 3)	2,842,847	3,528,500
Accounts receivable (Note 4)	1,041,551	950,609
Prepaid expenses	22,662	31,720
	6,037,193	6,246,904
Investments (note 3)	9,416,782	8,802,149
Capital assets (note 5)	166,335	205,081
	\$ 15,620,310	\$ 15,254,134
Current liabilities		
Accounts payable and accrued liabilities	\$ 652,205	\$ 675,409
Deferred revenue (Note 6)	793,776	875,956
	1,445,981	1,551,365
Commitments (note 7)		
Fund balances		
Invested in capital assets	166,335	205,081
Internally restricted – Promotion Fund	2,827,119	2,640,066
Internally restricted – Research Fund	4,323,444	4,257,475
Unrestricted	6,857,431	6,600,147
	14,174,329	13,702,769
	\$ 15,620,310	\$ 15,254,134

On behalf of the Board:

David MacKenzie, *Finance Committee, Director*

Erna Ference, *Finance Committee, Director*

Martin Howlett, *Finance Committee, Director*

Notes to the Financial Statements

year ended December 31, 2006

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 and other interest revenue not allocated to the other funds.

The Promotion Fund reports the overmarketing and market development levies collected and expenses that relate to the promotion and marketing of chicken, as indicated in the Market Development Policy and the Monitoring and Enforcement Policy. It also reports interest earned on resources held for the purpose of the Promotion Fund.

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	Term of lease

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

The estimated useful life of capital assets, the net realizable value of accounts receivable and accrued liabilities are the most significant items where estimates are used.

3. INVESTMENTS

	2006		2005	
	Cost	Market Value	Cost	Market Value
Short-term investments	\$ 2,842,847	\$ 2,842,847	\$ 3,528,500	\$ 3,545,115
Government of Canada savings bonds	3,803,794	3,761,059	6,612,312	6,566,455
Farm Credit Canada notes	1,000,250	986,836	999,366	982,972
Canada Housing Trust bonds	4,612,738	4,600,396	1,190,471	1,182,896
	9,416,782	9,348,291	8,802,149	8,732,323
	\$12,259,629	\$12,191,138	\$12,330,649	\$12,277,438

Short-term investments are comprised of cash in the amount of \$84,288 (2005 – \$NIL) and Government of Canada bonds in the amount of \$2,758,559 (2005 – \$3,528,500) which mature over the next year bearing an interest rate of 4.5% (2005 – 5.75%).

3. INVESTMENTS (continued)

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 (2005 – five years). Interest rates for these securities range from 3.5% to 5.5% (2005 – 3.5% to 5.75%).

During the year CFC purchased a total amount of \$3,504,058 of investments, disposed of \$3,675,968 and amortized premiums for an amount of \$100,890.

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 and accrued interest on investments.

5. CAPITAL ASSETS

	2006			2005
	Cost	Accumulated amortization	Net book value	Net book value
Office equipment	\$277,584	\$212,849	\$ 64,735	\$ 83,499
Computer equipment	159,631	116,149	43,482	61,522
Leasehold improvements	108,992	50,874	58,118	60,060
	\$546,207	\$379,872	\$166,335	\$205,081

During the year CFC purchased \$33,090 of capital assets.

6. RESTRICTED CASH AND DEFERRED REVENUE

In 2005, CFC received \$875,956 as full and final payment of a vitamins class action settlement. The monies received are to be used by CFC to decrease the cost of on-farm audits of CFC's food safety assurance program, to enhance or increase on-farm biosecurity, and to allocate funds to research and development for protocols and methods to alleviate and contain any foreign animal disease outbreak in Canada.

	2006	2005
Balance, beginning of year	\$ 875,956	\$ —
Settlement received	—	875,956
Interest earned	27,014	—
Recognized as revenue	(109,194)	—
Balance, end of year	\$ 793,776	\$ 875,956

The difference between the restricted cash balance of \$796,370 and the deferred revenue balance of \$793,776 is due to interest receivable and accrued liabilities not yet paid at the end of the year.

The expenses incurred and recognized as revenue include \$91,700 to decrease the cost of on-farm audits of CFC's Food Safety Assurance Program and \$17,494 for the development for protocols and methods to alleviate and contain any foreign animal disease outbreak in Canada which are recognized in special studies. The revenue is recognized in interest and other revenue.

7. 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:

2007	\$ 140,136
2008	125,299
2009	123,180
2010	56,790
	\$ 445,405

8. EMPLOYEE PENSION PLAN

CFC has a defined contribution pension plan providing benefits to employees. The contribution is a net percentage of the employees' annual income. The total contributions made by CFC under this plan in 2006 were \$56,627 (2005 – \$54,278).

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash, restricted cash, short-term investments, accounts receivable and accounts payable and accrued liabilities approximates their fair value because of the relatively short period to maturity of these instruments.

Market value of long-term investments consisting of bonds and notes is based on published market quotations and is disclosed in Note 3.

10. STATEMENT OF CASH FLOWS

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

11. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.