



ANNUAL
REPORT
2009



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For presentation to the Minister
of Agriculture and Agri-Food, the
Honourable Gerry Ritz, and the
Farm Products Council of Canada.

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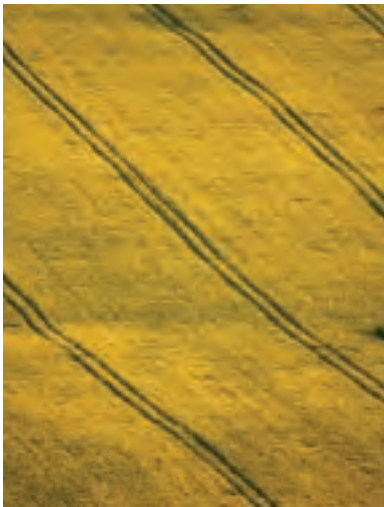
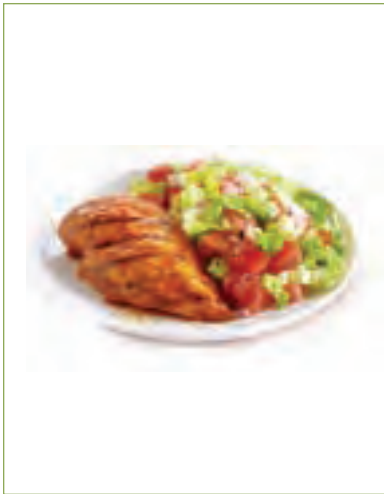
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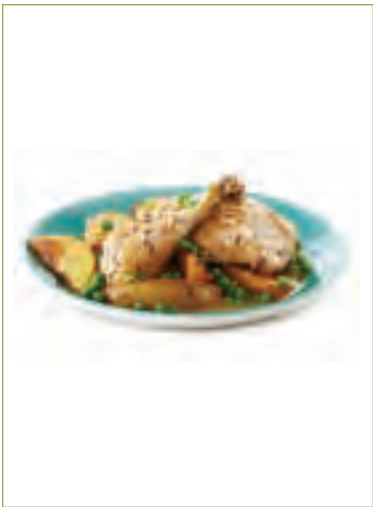
FOOD
FOR
THOUGHT



THOUGHT
FOR
FOOD



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WHO WE ARE AND WHAT WE DO

who we are

Chicken Farmers of Canada (CFC) is a national organization, funded completely through farmer levies paid according to the amount of chicken marketed. Established over 30 years ago, CFC is proud of its role in a continuing agriculture success story and for many great years of raising the quality chicken that Canadians trust.

mission statement

To build a strong, competitive, consumer-centered Canadian chicken industry that meets the challenges of a changing world, and to profitably grow its position as the protein leader in Canada.

what we do

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 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.

organization structure



MESSAGE FROM THE CHAIR: FOOD FOR THOUGHT



In 2009, Chicken Farmers of Canada (CFC) faced many challenges to the allocation setting process which absorbed an enormous amount of energy and resources.

The creation of an Oversight Committee in the fall of 2008, appeals against allocations and a strained relationship with the Farm Products Council of Canada were just some of the issues the Board of Directors had to deal with this past year.

Throughout this annual report you will read how the Board of Directors dealt with these, and a number of other key issues that faced our industry. The Board of Directors showed leadership and professionalism in tackling the issues and continues to work in the best overall interest of the Canadian chicken industry.

CFC's Board of Directors takes the allocation setting process very seriously, understanding clearly what the impacts are on our partners and on consumers if we do not do our job properly at the Board table. We must continue to work collectively as an industry and make the right decisions to maintain a strong and efficient Canadian chicken industry that continues to serve the Canadian consumer.

One concern raised by the Board of Directors was the leakage of chicken products entering Canada illegally. We need to make sure that the programs that are provided for our industry partners are working correctly, programs such as Tariff Rate Quota, Import to Re-Export and mature chicken. It is up to the CFC Board of Directors, along with CFC staff, to monitor these programs on an ongoing basis.

As farmers and industry partners, we must not let our guard down when it comes to the trade file either as there are a number of negotiations taking place, both at the multilateral (WTO) and bilateral fronts (Canada-EU). Both the multilateral or bilateral negotiations could

have a significant impact on our system. We must continue to deliver a strong message to all of our politicians, at every level, of the importance and success of supply management to Canada.

Looking ahead, the Board of Directors held a very successful strategic planning session in early October to set a clear road map for 2010; identifying the critical priorities that the board needs to address in the coming year. As an organization, we must continue to plan for the future to keep ahead of the issues and be ready for new challenges.

I would like to express my gratitude to Agriculture and Agri-Food Minister, Gerry Ritz for his support and for working with us to ensure the continued success of the Canadian chicken industry and to the federal government for its unwavering support for supply management.

On behalf of the Board of Directors, I would also like to express our gratitude to Bill Smirle, Chairman of the Farm Products Council of Canada, for his support for supply management in 2009.

Members of CFC's committees, and especially the Chairs, are also to be commended for pushing their agendas forward on the various challenges that faced our industry throughout the year.

The CFC Board of Directors faced a difficult year and deserves the thanks and appreciation of the entire industry. Their support of my role as Chair, in particular the members of the Executive Committee, and their relentless work and allegiance to the Canadian chicken industry enabled us to take on and overcome many issues.

I feel that it is essential that I take the time to acknowledge CFC's unfaltering staff and General Manager, Mike Dugate, for their continuing support and commitment to the Canadian chicken industry.

As an industry, we need to continue to work closely together and make good decisions with all stakeholders in the value chain to keep the Canadian chicken industry strong and vibrant. Growth will be a key to our future.

Chicken continues to be the 1st protein choice of Canadians, but the challenge for our industry will be to ensure the ongoing growth of per capita consumption. The opportunity is ours for the taking if we are all prepared to take on this challenge together as an industry.

As Chair, I know we have the resources, the capability, the leadership skills and the knowledge to carry CFC into the future and to keep our industry on the leading edge in agriculture.

A handwritten signature in black ink, appearing to read 'David Fuller'.

David Fuller, Chair

MESSAGE FROM THE GENERAL MANAGER: THOUGHT FOR FOOD

As our society becomes more thoughtful about the food that it eats for health, safety, ethical and environmental reasons, we in the food industry are obliged to adjust and communicate how we are meeting these evolving consumer expectations.

This past year marked a watershed for CFC in both addressing and communicating these consumer expectations:

- CFC approved, received veterinary, grocer and humane society support, and implemented its new auditable animal care program.
- CFC revised its food safety program with enhanced biosecurity provisions.
- CFC took steps on antimicrobial resistance, from both a research and a surveillance perspective.
- CFC also redefined how it communicates with consumers through its new Consumer Relations Strategy, which includes a social media component comprised of consumer blogs, recipes and newsletters. CFC will continue to build on this base to create a real two-way connection with our consumers.

Internationally, there has been a real movement to address global food insecurity. Food shortages, droughts, disease outbreaks and fluctuating prices have all threatened the production and supply of safe, fresh food. CFC joined with other Canadian and international groups to tackle this issue.

In Geneva, we shared our perspectives on this critical issue, particularly regarding how the WTO takes into account the negative impact that unfettered trade liberalization can have on farmers and the food industry to be sustainable and feed the world's growing and urbanizing population.

At a national level, CFC is the voice of farmers. As a national agency under the *Farm Products Agencies Act* and a Federal-Provincial Agreement signatory, CFC's objective is to provide a measure of power in the marketplace for the farmers it represents. Those same farmers recognize that for farmers to succeed the whole chicken industry must succeed.

CFC and the supply management system for chicken proved their worth in 2009. Through the leadership of CFC and its member organizations, the Canadian chicken industry survived the global economic recession better than other livestock sectors in Canada and better than the chicken industry outside Canada. In fact, by charting a steady course of reducing supply by about 1% over the year, industry margins were improved with only a minor drop in chicken consumption. As a result, the whole industry is on a strong financial footing from which to grow as we enter 2010.

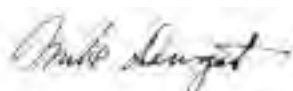
Despite the fact that CFC continues to be one of the most proactive organizations in the agri-food industry, and a good example of the cooperative federalism governance model, CFC was challenged throughout 2009 by the Farm Products Council of Canada to change how it meets its obligations to farmers and consumers under the Act. This diverted an enormous amount of CFC's energy and resources away from its strategic priorities and blurred the appropriate division of roles and responsibilities between the national agencies and the FPCC as envisaged under the Act.

While a significant portion of this related to the CFC allocation setting process and the oversight committee established by FPCC, other issues such as auditor and inspector guidelines and quota allocation and levies order questions and indicators also contributed.

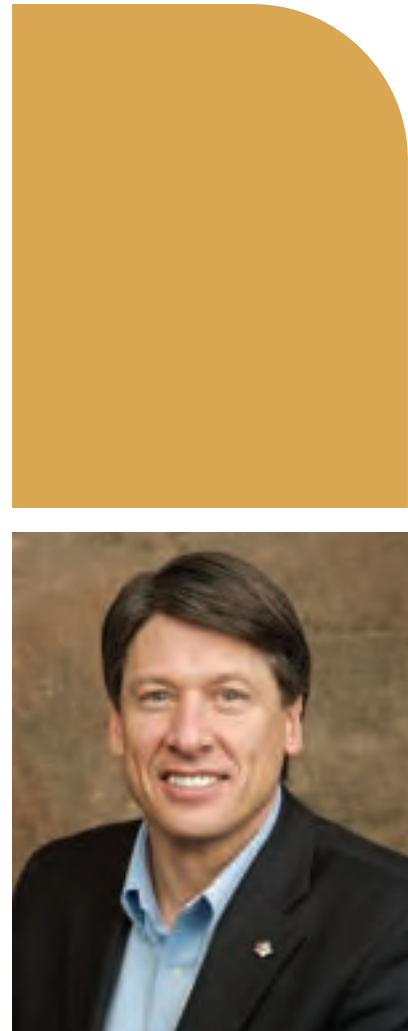
For the first time ever, CFC was compelled to challenge two FPCC decisions to the Federal Court. The CFC Board of Directors did not take this decision lightly as it had always had a good working relationship with FPCC. The seriousness of the issue was underscored by the fact that CFC was joined by six provincial boards in its judicial review application. Late in the year, CFC sought the intervention of the Minister to put things back on track. His intervention provided optimism that the situation will be corrected in early 2010.

In the end, policy is never static. CFC has evolved over the years to meet the challenges of a changing market place and agri-food industry environment. At the same time, the basic tenets of supply management remain more relevant today than ever, and we must not lose sight of why and how national agencies were established.

I would like to thank the CFC Board of Directors and the entire CFC staff for all their remarkable work and for rising to face the challenges together. As we push forward into 2010, their leadership, drive and support are critical to the ongoing success of our consumer-driven industry.



Mike Dugate, General Manager



THE CFC BOARD OF DIRECTORS AND COMMITTEES IN 2009

the board

Front row (l to r): Ian Hesketh (FPPAC – Further Poultry Processors Association of Canada), Chair: David Fuller (Nova Scotia), Martin Dufresne (Quebec), Erna Ference (Alberta)

Middle row (l to r): David Janzen (British Columbia), Brian Payne (CRFA – Canadian Restaurant and Foodservices Association), Danny Wiebe (Manitoba), Mike Pickard (Saskatchewan), Yvon Cyr (New Brunswick)

Back row (l to r): Reg Cliche (CPEPC – Canadian Poultry and Egg Processors Council), John Vissers (Nova Scotia), Luc Gagnon (CPEPC), Ruth Noseworthy (Newfoundland & Labrador)

Absent at time of photo: Urs Kressibucher (Ontario), David MacKenzie (Prince Edward Island)



the committees

EXECUTIVE COMMITTEE

Chair: David Fuller (Nova Scotia)
1st Vice-Chair: Martin Dufresne (Quebec)
2nd Vice-Chair: Urs Kressibucher (Ontario)
Member-at-large: Erna Ference (Alberta)

PRODUCTION POLICY COMMITTEE

Chair: Keith Fuller (B.C. alternate)
Yvon Cyr (New Brunswick)
Martin Dufresne (Quebec)
Luc Gagnon (CPEPC)
Ian Hesketh (FPPAC)
Urs Kressibucher (Ontario)
Brian Payne (CRFA)

FOOD SAFETY COMMITTEE

Chair: David Janzen (B.C.)
Reg Cliche (CPEPC)
Carole Girard (Quebec alternate)
Adrian Rehorst (Ontario alternate)
John Vissers (Nova Scotia)

ANIMAL CARE COMMITTEE

Chair: Danny Wiebe (Manitoba)
Marc Cormier (N.B. alternate)
Carole Girard (Quebec alternate)

PROMOTION COMMITTEE

Chair: Mike Pickard (Saskatchewan)
Reg Cliche (CPEPC)
Jake Wiebe (Manitoba alternate)

FINANCE COMMITTEE

Chair: David MacKenzie (P.E.I.)
until September 2009
Brian Payne (CRFA)
became Chair in October 2009
David Janzen (B.C.)
Ruth Noseworthy (Newfoundland
& Labrador) replaced D. MacKenzie
on the committee

CANADIAN POULTRY RESEARCH COUNCIL REPRESENTATIVE

Jacob Middelkamp (Alberta alternate)

CANADIAN FEDERATION OF AGRICULTURE DELEGATES

Erna Ference (Alberta)
David Fuller (CFC Chair)

NATIONAL FARM ANIMAL CARE COUNCIL REPRESENTATIVE

Danny Wiebe (Manitoba)

HUMAN RESOURCES REPORT: CFC STAFF

new to the roost:

Lisa Riopelle (full-time)

Lise Newton-Lalonde (maternity replacement)

flew the coop:

Tracy Oliver

CFC happily did not undergo many staff changes in 2009 but welcomed a few new faces to the CFC family and celebrated a long standing employee. In June, Janet Noseworthy, Senior Government Relations Officer, celebrated 10 years with CFC and was honoured by her peers. In late August of 2009, Lisa Riopelle was hired on a full-time basis as our Administration Coordinator, replacing Tracy Oliver. Lise Newton-Lalonde has been on contract at CFC twice since 2008 to cover two different maternity leaves. The organization is located in Ottawa and is staffed by 22 employees.



Mike Dungate
General Manager

Stéphanie Turple
Executive Assistant



Janet Noseworthy
Senior Government
Relations Officer

Yves Ruel
Manager of Trade & Policy

Mihai Lupescu
Senior Policy Analyst



Michael Laliberté
Manager of Finance

Jae Yung Chung
Auditor

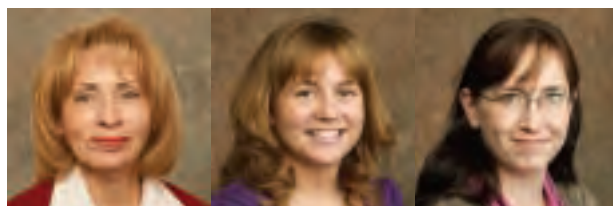
Maria Elena Baisas
Bookkeeper



Steve Leech
National Program Manager
(Food Safety, Animal Care & Research)

Jennifer Gardner
Animal Care & Research
Coordinator

Caroline Wilson
OFFSAP Coordinator



Paula Doucette
Manager of Administration
& Human Resources

Lisa Riopelle
Administration Coordinator

Rebecca Derry
Meeting &
Recording Coordinator



Lude Hena-Gilles
Translation Coordinator

Jan Rus
Manager of Market
Information & Systems

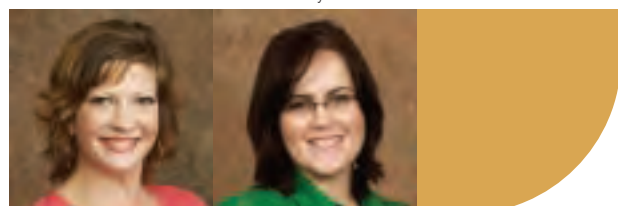
Lori Piché
Market Information Officer



Lise Newton-Lalonde
Acting Manager of
Communications
(Maternity leave replacement
for Lisa Bishop-Spencer)

Marty Brett
Senior Communications
Officer

Johanne Neeteson
Promotion/Education Officer



Elyse Ferland
Communications Officer

Stephanie St.Pierre
Graphic Design/
Web Administrator

STRATEGIC PLANNING: SETTING PRIORITIES

Each year, CFC's Board of Directors and Executive Management Team take the opportunity to celebrate the successes of the previous year and to set priorities for the next. The 2010 strategic planning meeting was held in London, Ontario on September 30-October 1, 2009.

Directors reviewed progress in 2009, conducted an environmental scan for 2010, discussed and set the priorities for 2010 and had a presentation and full discussion on best governance practices as they relate to CFC. In general, Directors were pleased with the overall success of 2009, in spite of the economic recession and the significant diversion created by a number of issues with Farm Products Council of Canada (FPCC). For 2010, consumer expectations, awareness and public health were considered to be key determining factors.

On October 1st, Ian Cullwick from Deloitte & Touche discussed governance models with Board members. The key issue raised for CFC was its existing committee structure. Directors agreed to: review the large size of the Production Policy Committee, ensure that ad hoc committees were aligned with the work requirements of CFC, and address the representational element of committee membership.

However, the bulk of the two-day strategic planning meeting was focused on designing strategies for 2010 that correspond with the priorities stated in CFC's five-year strategic plan (2009-2013). CFC Directors agreed upon the following priorities for 2010.

critical priorities for 2010

ALLOCATION SETTING

Ensure interprovincial movement (IPM) supports the orderly marketing of chicken; review and assess CFC's Market Development Policy; obtain a decision on differential growth; finalize an agreement on how to incorporate a medium/long-term approach in the allocation setting process; and resolve outstanding issues with FPCC.

ANTIMICROBIAL RESISTANCE AND ANTIBIOTIC ISSUES

Obtain a finalized methodology for the Canadian Integrated Program for Antimicrobial Resistance Surveillance (CIPARS) "On-Farm Antimicrobial Use and Resistance Surveillance" program; develop an antimicrobial research program; and initiate an industry position/policy regarding antimicrobial use.

WTO AGRICULTURE NEGOTIATIONS

Work with industry, provincial and federal governments 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 WTO agriculture negotiations.

other priorities for 2010

ANIMAL CARE

Implement/audit the CFC Animal Care Program on farms; raise awareness of CFC's program and participate in National Farm Animal Care Council activities; finalize a free-range animal care program, and develop a national strategy for animal care programming in the catching and transport sector.

ANIMAL HEALTH

Finalize a strategy acceptable to the chicken industry for meeting the 2011 traceability objectives defined by the FPT Agriculture Ministers; finalize avian biosecurity standards for the supply sector; continue with the investigation of an acceptable compensation and indemnification program for chicken farmers affected by a disease occurrence; establish a National Farmed Animal Health and Welfare Strategy outlining Canada's approach to animal health management for the next 5-10 years.

BOARD GOVERNANCE AND SUCCESSION PLANNING

Review the composition and mandates of CFC committees; review CFC governance policies and practices; and develop a succession plan for the CFC Board of Directors and Executive Management Team.

CONSUMER RELATIONS STRATEGY – CONSUMER EXPECTATIONS COMPONENT

Conduct the 2010 Usage & Attitude Survey of Canadian consumers; develop an antimicrobial use and resistance media communications plan; incorporate the Animal Care Program into existing promotional and communications plans/material; and update and expand new information on animal disease, food safety, animal care, trends, preferences, etc.

CONSUMER RELATIONS STRATEGY – ONLINE COMPONENT
Redesign the CFC public website to focus more on consumers; develop a leading-edge searchable recipe database; and expand consumer outreach by building on the base established in 2009, with a focus on new consumer niches, such as health care professionals, food bloggers, and youth such as college and university students.

**CONSUMER RELATIONS STRATEGY –
OUTREACH COMPONENT**

Pursue public relations, sponsorship and information initiatives to further relationships with dietitians, health professionals, culinary experts, food bloggers and others in a position to inform consumers about the healthy benefits of chicken; continue relationship building and education with young adults and kids using existing sites; and offer online media training sessions with a concentration on interaction with the media during a crisis situation.

CONTINGENCY SUPPLY PROTOCOL

Develop a protocol for reduced/increased supply during a disease outbreak.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Implement a year-round chicken donation program in partnership with the Ottawa Food Bank; launch CFC's overall CSR program "Under Our Wing", and the chicken donation program *The Chicken Challenge*.

IMPORT TO RE-EXPORT PROGRAM

Ensure that the administration of Foreign Affairs and International Trade Canada's (FAITC) Import to Re-Export Program and the Canada Border Services Agency's (CBSA) duty deferral program do not create distortions on the domestic market.

INDUSTRY EFFICIENCY AND COMPETITIVENESS

Develop a work plan to address efficiency and competitiveness issues based on the collection of benchmark data.

ON-FARM FOOD SAFETY ASSURANCE PROGRAM (OFFSAP)

Finalize a revised Free Range On-Farm Food Safety Assurance Program; request a decision by the CFC Board of Directors on proceeding with a 3rd party audit of OFFSAP to obtain full government recognition; and ensure consistent implementation of OFFSAP (producer manual and management manual) across the country.

ONLINE BUSINESS INITIATIVE

Conduct assessments of CFC's current private portal and internal IT infrastructure, as well as an assessment of current and future needs for CFC's private portal (through a survey of staff, Directors, Alternates,

provincial boards, and external users), and internal IT infrastructure through a survey of staff; conduct an assessment of CFC's internal document management systems and procedures; obtain a decision on the direction of CFC's private portal in terms of platform, modules, features, and integration with existing and planned technologies in use at CFC; develop an overall IT roadmap and strategy for the next 3-5 years, and make a decision on CFC's IT infrastructure.

**PROVINCIAL PROMOTIONS
PROGRAM – YEAR 3**

Implement the 2010 Provincial Promotions Program; review the Provincial Promotions Program and investigate possible options for 2011 and beyond.

**TARIFF RATE QUOTA 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.



**CORPORATE SOCIAL RESPONSIBILITY (CSR) –
PROVIDING A PROTEIN SOURCE TO THOSE IN NEED**

Taking into account that our farmers are providing a food commodity, CFC and The Ottawa Food Bank created a pilot project in late 2009, *The Chicken Challenge*, as part of the "Under Our Wing" program to be launched in 2010, whereby CFC will purchase chicken products from a processor every quarter, through a bidding process managed by CFC, and donate the product to The Ottawa Food Bank. CFC intends *The Chicken Challenge* project to be the first of various initiatives of "Under Our Wing".

MARKET WATCH

The Canadian chicken industry experienced a challenging, yet ultimately successful, year in 2009 due to unfavourable economic conditions, our fair share of allocation issues, consistently high feed costs and strong competition from other meat proteins.

Allocations in 2009 were set conservatively in order to weather the difficult economic conditions and to restore margins in the processing sector. Allocations for five of the six allocation periods in 2009 were set at, or below the base allocations, and the last period was set at 1% above base. Combined domestic allocations for these six periods ended up being nine million kg (0.8%) less than total production the year before. Wholesale prices and margins improved steadily to near historic highs over the course of the year.

Per capita chicken consumption in 2009 is estimated to be 31.5 kg, a slight decrease from 2008 and the first drop since 1995. Preliminary numbers indicate that beef per capita consumption remained stable at 29.3 kg and pork per capita consumption increased by 5% to 24.7 kg in 2009. Per capita consumption of turkey decreased slightly to 4.6 kg, while consumption of lamb and veal remained unchanged from 2008.

provincial production

Canadian chicken production remained above the one billion mark, but fell slightly below the record level attained in 2008, dropping to 1,009.5 million kg (Mkg), a decrease of 0.8% (7.7 Mkg). Nationally, a drop of 6.2 Mkg (0.7%) in production for the domestic market accounted for most of the decrease. Production under CFC's market development program fell by an estimated 1.5 Mkg (2.6%) compared to 2008.

In 2009, the CFC Board of Directors dealt with three requests for additional allocation under CFC's Exceptional Circumstances clause. The first request came from Ontario, asking for an additional allocation of 150,000 kg for period A-93 to address a potential shortfall in supplies for a processor due to shrinking supplies inside and outside the province in a peak demand period. The second and third requests were both related to the 2010 Olympic Winter Games in Vancouver, and came from Ontario and B.C. Ontario requested an additional volume of 201,835 kg for period A-96, while B.C. requested an additional 603,165 kg for periods A-95 and A-96 combined. Directors approved additional allocation to B.C. of 103,442 kg for period A-95 and 310,324 kg for period A-96, for a total of 413,766 kg.

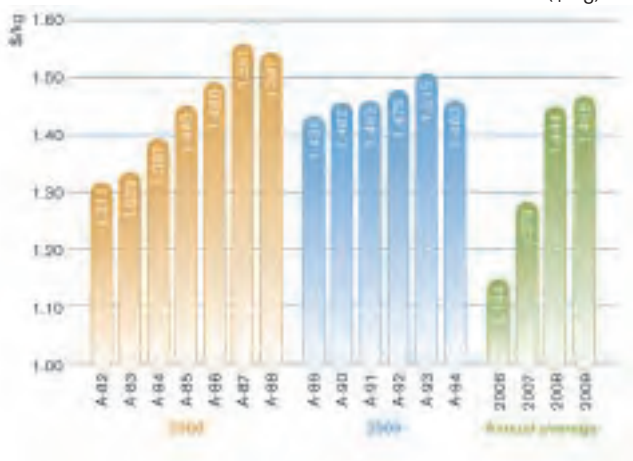
2009 PROVINCIAL PRODUCTION OF CHICKEN
(⁰000 kg eviscerated)

Province	2009	2008	% Change
British Columbia	153,000	157,384	-2.8%
Alberta	88,824	88,695	0.1%
Saskatchewan	37,797	38,674	-2.3%
Manitoba	42,367	42,422	-0.1%
West	321,988	327,176	-1.6%
Ontario	329,006	330,086	-0.3%
Quebec	279,879	280,332	-0.2%
Central	608,885	610,418	-0.3%
New Brunswick	27,361	27,921	-2.0%
Nova Scotia	34,513	34,584	-0.2%
Prince Edward Island	3,645	3,715	-1.9%
Newfoundland & Labrador	13,150	13,487	-2.5%
Atlantic	78,670	79,707	-1.3%
CANADA	1,009,543	1,017,301	-0.8%

producer prices

Producer prices were at high levels for the majority of the year but remained just below the record-high prices achieved in late 2008. The average Canadian producer price in 2009 was \$1.468 per kg, 2.4 cents higher than in 2008, and 19 cents higher than in 2007, mostly due to higher feed costs. Declining feed costs at the end of 2009 caused the average producer price to decrease by nearly five cents in period A-94.

CANADIAN WEIGHTED AVERAGE PRODUCER PRICE (\$/kg)



wholesale prices

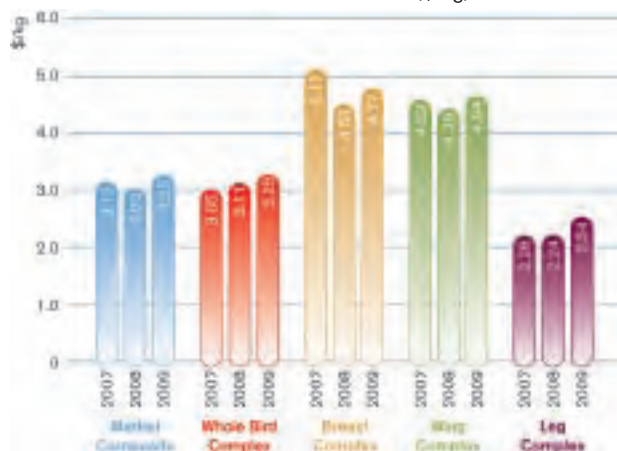
Wholesale prices remained above 2008 levels throughout most of 2009, maintaining an overall upward trend and record highs (data available since 2002). The only exception is the price of breast meat that averaged 24 cents above 2008 levels but 40 cents below the historical high set in 2007.

The average market composite for the entire year was \$3.25, up 22 cents (7%) from 2008. Wholesale prices for all composites (breast

meat, wings, dark meat, and whole birds) were higher than in 2008 ranging from 14 to 29 cents. The EMI (Express Market Inc.) breast complex averaged \$4.77; 24 cents (5%) higher than in 2008.

Wing prices started off the year 2009 at record high levels, lost some ground during the summer months following the normal seasonal trend and recovered back up to historic highs during the last quarter of the year. The average EMI wing complex in 2009 was \$4.64, 29 cents (7%) higher than in 2008. Dark meat prices, as measured by the leg complex, maintained record high levels throughout the entire year reaching a peak of \$2.73 in the fall and holding an average at \$2.54, 29 cents (13%) higher than in 2008. The EMI whole bird complex increased for the fourth consecutive year from \$3.11 in 2008 to \$3.25 in 2009, a 14 cent (5%) increase.

ANNUAL AVERAGE WHOLESALE PRICE (\$/kg)



(Note: In cooperation with 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).

retail prices

The Consumer Price Index (CPI) as reported by Statistics Canada for fresh and frozen chicken (the only national indicator for national chicken retail prices) showed a considerable increase for the third year in a row in 2009. The CPI for chicken in 2009 was 134.0 compared to 128.0 in 2008 and 122.9 in 2007, representing yearly increases of 4.1% and 4.7% in 2008 and 2009 respectively.

(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).

In comparison, the consumer price index for all items combined, better known as "the cost of living index", in 2009 was 0.3% higher than last year and the one for all food items was up 4.9%. Chicken prices at the retail level were up-and-down during the first half of the year, remained stable until December when prices decreased to finish the year below the annual average.

All other competing meats experienced price increases at the retail level in 2009 with beef and fish experiencing more pronounced increases than chicken. Retail beef prices increased 5.8% and fish

and seafood prices increased 7.2% compared to 2008. Meanwhile, pork prices increased 3.6%, while retail turkey prices were only slightly higher than the year before by 0.2%.

imports

Foreign Affairs and International Trade Canada (FAITC), reported that a total of 158.2 Mkg of chicken was imported into Canada during 2009. FAITC 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 2009 was calculated as 76,235,700 kg; 876,375 kg more than in 2008. According to preliminary year-end statistics, a total of 75,115,354 kg of chicken and chicken products was imported under the TRQ. Imports under the "import to compete" program were 7 Mkg, 2 Mkg more than in 2008. The "import to compete" program allows Canadian manufacturers to import chicken to produce processed chicken products that are not on Canada's Import Control List. This list includes specialized products such as chicken dinners. Global imports and imports to compete, combined, were 82.1 Mkg, representing 8.1% of previous year's production.

In 2009, chicken parts (bone-in and boneless) accounted for 83.4% of all TRQ imports, 2.9% more than last year. Further processed chicken and live chicken imports accounted for 16.4% and 0.15% of all TRQ imports, respectively. Only a very small amount of whole eviscerated chicken was imported.

As in the past, the U.S. was the largest supplier of chicken products imported under the TRQ at a total of 52.6 Mkg (70.1% of the total global imports) with a total value of \$139.6 million. Global imports from Brazil totalled 18.7 Mkg (24.9%) with a value of \$43.3 million. The other countries of origin in 2009 were Thailand at 3.0 Mkg (\$9.0 million), Chile at 0.7 Mkg (\$2.0 million), and a small quantity from Israel with a value of \$0.2 million. The total value of all products imported under the TRQ was \$194.1 million, \$24.8 million (14.6%) more than last year.

FAITC also issued additional import permits under the "import to re-export" program (IREP) which allows imports of chicken and chicken products into Canada to be further processed. All imports under this program must be exported within a three month period. In 2009, a total of 76.1 Mkg was imported under this program, 6.3 Mkg (7.7%) less than in 2008, but almost three times the amount that was imported under this program in 2003.

IMPORTS

Province	2009	2008	% Change
Global imports	75,115,354	73,696,948	2%
Imports to compete	7,001,945	4,964,853	41%
Imports to re-export	76,115,894	82,428,570	-8%
Special imports	0	278,084	-100%
Imports for market shortage	0	0	-
CANADA	158,233,193	161,368,455	-2%

Source: Foreign Affairs and International Trade Canada

MARKET WATCH (continued)

exports

Based on a combination of Agriculture and Agri-Food Canada export data and an estimate for Canadian exports to the U.S. (USDA import data), approximately 124.0 Mkg of Canadian chicken was exported in 2009, down 7% compared to 2008.

According to Statistics Canada data, the largest purchaser of Canadian chicken and chicken products in 2009 was the U.S. with 54.0 Mkg; 4.6 Mkg (8%) less than in 2008. The second largest export market was the Philippines where 21.1 Mkg was shipped; 0.7 Mkg less than in 2008. Other important export markets were Hong Kong, Taiwan, South Africa, Macedonia, Afghanistan and Gabon. Exports to Russia, traditionally a large consumer of Canadian chicken, fell from 5.8 Mkg in 2008 to 2.4 Mkg in 2009.

According to the same data, the value of Canadian chicken exports in 2009 was \$289 million, 0.1% higher than in 2008. Exports to the U.S. are estimated at \$196 million; 3% higher than in 2008 and accounting for over two-thirds of the total export value in 2009.

storage stocks

Frozen chicken inventories started and ended the year at 37.4 Mkg, and followed normal seasonal changes throughout most of the year until the fall which saw unusual increases until falling back to normal levels in December.

Inventories of whole bird and miscellaneous (such as MSM (mechanically separated meat), giblets, skin, feet) categories increased 0.6 Mkg (61.1%) and 1.9 Mkg (106.1%) respectively throughout 2009, while the further processed and cut-up categories decreased over the course of the year. Frozen inventories of cut-up chicken decreased 2.1 Mkg (12.1%), while stocks of further processed chicken in cold storage showed a small decrease of 0.3 Mkg (1.6%).

Further processed chicken accounted for over half of all chicken products in cold storage in 2009. Within the further processed category, stocks of further processed boneless breasts fell by 0.7 Mkg (20.8%) in 2009, while frozen inventories of other further processed products (including tenders, strips, nuggets, patties and cooked wings) increased by 0.4 Mkg (2.9%).

interprovincial movement

CFC monitors the number of live chickens that move in the inter-provincial and export trade, and reports the figures to each provincial commodity board. Total interprovincial movement (IPM) increased significantly in 2009 as a result of a substantial increase of IPM between Ontario and Québec. IPM from New Brunswick to Québec also increased due to a business conflict in N.B. between producers and a processor. As well, Saskatchewan producers began to send live chickens to Manitoba in 2009.

INTERPROVINCIAL MOVEMENT OF LIVE CHICKENS (in kg live weight)

Province	2009		2008	
	To	From	To	From
British Columbia	—	—	1,446,000	—
Alberta	—	—	—	3,062,000*
Saskatchewan	—	1,954,000	1,438,000	—
Manitoba	1,954,000	—	178,000	—
Ontario	39,377,000	38,506,000	26,130,000	34,593,000
Quebec	49,768,000	39,740,000	35,710,000	26,130,000
New Brunswick	27,675,000	10,971,000	25,003,000	1,117,000
Nova Scotia	—	22,651,000	—	19,922,000
Prince Edward Island	—	4,952,000	—	5,081,000
Newfoundland & Labrador	—	—	—	—
TOTAL	118,774,000	118,774,000	89,905,000	86,843,000

*From September 21 to November 21, 2008, a processing plant in Alberta was affected by a strike and some chickens were slaughtered at processing facilities in other western provinces.



ALLOCATION ISSUES

Faced with a downturn in the global economy, CFC Directors responded with a series of consistent cutbacks in allocation. Despite this appropriate and measured response, downstream stakeholders filed complaints with the Farm Products Council of Canada (FPCC) regarding the allocations for three periods. In addition, CFC introduced an allocation report card in late 2009, spent considerable time and resources on differential growth and identified the drivers and some possible solutions to deal with the increasing interprovincial movement of live chicken.

CFC also faced several issues with FPCC throughout 2009. FPCC created an Oversight Committee for the Canadian chicken industry in late-2008. CFC initiated a judicial review of FPCC's decision to refuse to prior approve the A-93 quota allocation and FPCC's decision not to conduct a public hearing regarding the A-93 allocation and related issues. In September, FPCC introduced new questions and indicators for allocations and levies orders.

complaints

The Canadian Poultry and Egg Processors Council (CPEPC), Further Poultry Processors Association of Canada (FPPAC) and Canadian Restaurant and Foodservices Association (CRFA) filed a joint complaint on CFC's allocation decision for period A-89. Then, CPEPC and FPPAC filed a joint complaint on A-90 while CPEPC, FPPAC and CRFA filed individual complaints on A-93, claiming that the allocations set for these periods were too high and would weaken the chicken industry. The FPCC prior-approved A-89 and A-90 but initially declined to prior-approve A-93. CFC decided to resubmit the same allocation decision and the FPCC eventually prior-approved the allocation. FPCC has yet to make a decision on these complaints, or for the earlier complaint on A-87.

allocation report card

CFC's Production Policy Committee spent considerable time and effort in developing an allocation report card. The main components of the report card are healthy ranges for storage stocks, imports, and processor margins, and its purpose is to have a common understanding of what the market factors indicate in terms of market conditions. Agreement

was reached on the healthy ranges for storage stocks and imports, but additional work remains on the healthy range for processor margins.

differential growth

CFC Directors identified Differential Growth as a key priority for 2009, and dedicated a lot of resources to finding a way to address this issue. CFC agreed to a set of guiding principles at a one day industry and government consultation meeting in May 2009. With these in hand, Directors explored several detailed options and frameworks throughout the year. A consensus on how to go forward on this issue has yet to be reached.

interprovincial movement (IPM)

Increasing IPM of live chicken resulted in industry working together to find a solution. CFC met with the National Association of Agricultural Supervisory Agencies (NAASA) in February to discuss the history and drivers of IPM. NAASA arranged an industry-wide meeting in September, at which the provincial boards and processing industry associations from Central Canada agreed to work on finding a solution. Work continued for the rest of the year and into 2010.

oversight committee

FPCC established a chicken industry Oversight Committee following FPCC's investigation into CPEPC's complaint on A-87. The committee was comprised of representatives from CFC, CPEPC, FPPAC, CRFA and FPCC, with an objective of ensuring that coordinated actions were developed and implemented to improve CFC's allocation setting process. The committee met monthly in 2009 and filed its final report in early 2010.

judicial review

In August, CFC initiated two judicial reviews of FPCC decisions related to the A-93 allocation. While this was a difficult decision, CFC Directors felt they had no other choice to address their concerns with how FPCC is handling complaints and its consideration of CFC's allocation decisions. In November, CFC filed its affidavits and six provincial boards joined the case. A decision is expected in mid-2010.

quota and levies

In September, FPCC issued new questions and indicators to be used by Council in making decisions related to quotas and levies. These questions and indicators raised serious concerns for all national agencies about the appropriate roles and responsibilities of FPCC and the agencies under the *Farm Products Agencies Act*. Despite the strong concerns expressed by all agencies, FPCC approved the questions and indicators in December.





DOMESTIC AND INTERNATIONAL TRADE:

WHILE THE DOHA ROUND IS SIMMERING, CANADA'S FTA AGENDA IS ON FIRE



2009 was an uneventful year for the Doha Round of multilateral trade negotiations. Numerous efforts made by Pascal Lamy, Director General of the WTO and by the handful of countries heavily engaged in the negotiations (Australia, New Zealand and, occasionally, Brazil or the European Union) barely managed to keep the Round alive. To close out the year, a "housekeeping" Ministerial Conference was held in Geneva, with no mandate to discuss Doha Round-related matters.

Canada remained active in 2009 pursuing its own bilateral trade agenda with no less than 8 bilateral free trade initiatives that were signed or launched. The year's highlights included the entering into force of the free trade agreement (FTA) with EFTA countries (Norway, Switzerland, Iceland and Lichtenstein) and the launching of a Comprehensive Economic and Trade Agreement (CETA) with the European Union.

CFC activities

CFC continued to monitor WTO negotiations while assessing the potential implications on the entire Canadian chicken industry. Together with representatives from dairy, poultry and egg sectors (the SM-5), CFC participated in a WTO Public Forum in September and a Ministerial Conference in December. While in Geneva for the WTO Public Forum, Canadian dairy, poultry and egg representatives took the opportunity to organize a meeting with farmers and civil society representatives from other countries to present the Call for Coherence draft declaration. The intent is to raise awareness on the diverse and often conflicting goals pursued by different international agreements and ensure that WTO negotiations take into consideration fundamental rights such as food security.

CFC continued to be active on the domestic front, ensuring strong federal and provincial government support for supply management. CFC participated in the various public consultations organized by Foreign Affairs and International Trade Canada (FAITC) on Canada's free trade agreement initiatives. CFC supports FTA initiatives in principle, provided that chicken over-quota tariffs are excluded from reductions or elimination, and provided that market access for chicken products remains within the current limits. Canada already imports over 7.5% of its domestic market of chicken meat and products; a percentage that is well above the access other countries provide, and makes Canada one of the largest importers of chicken.

a calm year for the WTO

The lack of activity on the Doha Round in 2009 was primarily due to an indifferent U.S. Administration. The Obama Administration focused

almost exclusively on its domestic agenda, which included the economic downturn and healthcare reform. This translated into very little engagement by Americans in WTO talks and resulted in a very thin agenda and little progress in any negotiating area.

Agriculture negotiations were also slow to start in the first half of 2009 and only picked up slightly in the fall. After the summer break, negotiators returned to Geneva to work on two different fronts: scheduling and outstanding issues in negotiations. The work on scheduling is highly technical in nature and consists of how exactly WTO members are going to schedule their commitments once a modalities agreement is reached. It covers such issues as: what data will be used in scheduling; what are the data sources; what reference years will be used; how to average the various data; what indicators should be included in the schedules; what table templates will be used (headings, layout, etc) and so on. Negotiators met several times during week-long discussions to address these technical details.

The more substantial work addressed by negotiators in the second half of 2009 related to "unfinished business" and contentious issues remaining around the December 2008 draft modalities text, which is still pertinent as the basis for further negotiations.

Several week-long meetings were held where negotiators basically reaffirmed their old positions or detailed the reasons for their positions, without actually compromising on any of the issues. The entire exercise became an opportunity for the Agriculture Negotiations Chair to take stock of each country and group's position and to clearly identify which areas require negotiations and which only need political solutions by ministers.

In this context, Canada reaffirmed its support for supply management and its position of no reductions in over-quota tariffs and no additional market access. Regardless of the slow progress, it must be stated that 80% of agriculture modalities are probably already completed, and as such, approximately 20% need to be resolved. Thus, when the final push comes, things could move quickly and completion may be achieved in a matter of days or weeks and not months or years that we have come to expect from the WTO.

The 7th WTO Ministerial Conference took place in Geneva between November 30th and December 2nd. Since WTO rules stipulate one such meeting is required every two years, and the previous one took place in December 2005 in Hong Kong, this meeting was long overdue. This year's Ministerial was low profile, and had no mandate to tackle any aspect of the Doha Round.

Pascal Lamy took a couple of hours to update ministers on where things were at in negotiations, while waiting for their guidance on how to proceed beyond December 2009. No formal decision was taken at the end of the three-day gathering, but the Chair of the Conference, Chilean Finance Minister, Andrés Velasco, indicated in the summary of proceedings that all ministers reaffirmed the need to conclude the Doha Round in 2010 and asked for a stock-taking exercise to take place no later than the end of March 2010.

In the meantime, senior officials would continue consultations on how to narrow the gaps between their positions and move forward.



a busy year for Canada's bilateral agenda

In May, Canada officially launched bilateral negotiations with the European Union on a Comprehensive Economic and Trade Agreement, one that goes beyond a traditional free trade agreement to include substantive provisions in such areas as: trade in services, investment, government procurement and the movement of labour. The EU is Canada's second largest trading partner after the United States, with a 10% share of bilateral trade (imports plus exports) in Canada's total trade (trade with the U.S. accounts for 66% of Canada's total trade).

In 1995, Canada had a trade deficit with the EU of about \$6 billion, which has grown over time to \$18 billion in 2008. It is hoped that this agreement will open new markets for Canadian exporters and bring more balance to this trading relationship.

At the time of writing this report, supply management was not officially off the negotiating table. However, the Canadian government has repeatedly affirmed its strong support for the Canadian dairy, poultry and egg sectors and indicated that as negotiations advance, Canada would ensure there are no cuts to over quota tariffs and that market access for European dairy and poultry products will be part of Canada's overall international legal obligations (in the case of chicken, imports represent 7.5% of the domestic market).

Another significant development this year was the entrance into force, in July, of the FTA with EFTA countries (Norway, Switzerland, Iceland and Lichtenstein). Trade with these four countries represents 1.4% in total Canadian trade and Canada's trade deficit

increased from \$2 billion in 1995 to \$5 billion in 2008. Another FTA that entered into force this year was one with Peru, in August.

In 2009, Canada also completed negotiations and signed FTAs with two other countries, Jordan, in June, and Panama, in August. In September, Canada opened negotiations on a possible FTA with Ukraine, and started an exploratory process for assessing the merits of an FTA with Morocco.

In November, Canada re-engaged with India with the view of possibly negotiating a Comprehensive Economic Partnership Agreement. For the time being, the two parties agreed to set up a Joint Study Group to look at key sectors of interest and the possible parameters of an agreement.

Finally, the FTA with Columbia, which was signed back in November 2008, was intensely debated in the House of Commons as part of the final approval process.

All these trade initiatives fit into Canada's overall objective of opening up new markets for Canadian exporters and maintaining a level playing field with Canada's competitors whom already benefit from preferential relations with these markets. It is a continuation of the Canada-U.S., NAFTA, Canada-Chile and other agreements; all of which have incorporated provisions that provide significant access to the Canadian market in a way that supports supply management, and there is no reason to believe that future agreements cannot be concluded on the same basis.

a year of continuity in TR2 allocation

For the first time since 1999, the Tariff Rate Quota (TRQ) allocation methodology was decided before the beginning of the year. Therefore, the major discussions in 2009 related to defining the allocation methodology for future years. During the fall of 2009, FAITC announced a continuation of the 2008-2009 methodology for the next two years.

As part of the two-year allocation methodology announced in 2008, a few provisions were implemented in 2009. One was related to the traditional quota holders who now must meet the same eligibility requirements as the processors, distributors or foodservice applicants, depending on the nature of their business.

Prior to the change, the only criterion for traditional quota holders was to be involved in the food industry. Since 2009, traditional quota holders have to buy and sell a minimum of 220,000 kg if they are involved in distribution or foodservice, or 250,000 kg if they are involved in processing. This change resulted in the elimination of three traditional quota holders who did not meet the thresholds.

The second change was with imports exceeding the 7.5% TRQ level. Companies manufacturing products not subject to import controls (Non-ICL) received their imports in two instalments. The first instalment covered the volume within the 7.5% TRQ, for which they can import any chicken products. For the second instalment, they must demonstrate that their annual sales justify the second part of their allocation, which exceed the TRQ, and those additional imports must be on a like-for-like basis.

The like-for-like rule implies that if you are manufacturing a Non-ICL product with breast meat, you must import breast meat, therefore a substitution to another product, such as wings, is not allowed. In 2009, 87.5% of the Non-ICL requirements were met by the imports in the first instalment, and 12.5% were imported on a like-for-like basis.

In the case of processors, distributors and food service import quota holders, they were allocated the same volume as in 2008, plus the annual growth of the TRQ. In the end, total imports under the TRQ reached 82.4 million kilograms (Mkg) representing 8.1% of the previous year's production. Despite the changes implemented in 2009, the level of imports beyond our international commitments of 7.5% increased from 2008 with a significant number of applications for new or additional sales of Non-ICL products. This shows again the critical need to modify the 13% rule, which stipulates that products with 87% or less chicken are not subject to import controls.

future allocation methodology

Since most stakeholder groups represented at the Tariff Rate Quota Advisory Committee (TQAC) recognized that the methodology used for 2008 and 2009 was probably the best compromise, there was no major attempt to modify it. The only concern expressed related to the issuance of like-for-like import permits for the second instalment of the Non-ICL allocation. Some quota holders expressed that their import permits were not giving them the flexibility to import the product of their choice and that the like-for-like rule was restricting their ability to sell their import allocation. CFC opposed this view as not being the

goal of the Non-ICL allocation. During the fall, FAITC announced the continuation of the 2009 methodology for the years 2010 and 2011, with the maintenance of the like-for-like requirement for the imports exceeding the TRQ.

The other request for future allocations was related to the distributor pool that is currently shared on an equal basis between more than 200 distributors. Within this large group, the size of operations differ significantly and it was proposed that large distributors that have acquired distributors be allowed to receive the equal share allocation related to those acquired companies. The department is analyzing the implications of this request and the precedents it could create within other pools in the chicken TRQ allocation methodology. This will be discussed again in 2010.

IREP

The import to re-export program (IREP) continued to attract a great deal of attention in 2009. The increasing use of this program raises concerns within the industry due to risks of leakages into the domestic market if some products are not re-exported, in contravention of the program. Although use was slightly down from 2008, 77.3 Mkg was imported to be re-exported in 2009, representing a decline of 6.2%. Expertise has been shared between the industry and FAITC to identify all potential risks and increased verification efforts have been deployed by the department to ensure compliance with the policy. In addition, the department has agreed to a long standing request from CFC to publicly release the name of the companies using the program, as is the case for other import quota holders.



ON-FARM FOOD SAFETY

A product of forward thinking and direction from the CFC Board of Directors, with an integral role played by provincial boards, the Canadian chicken industry has developed and implemented a reliable and credible on-farm food safety system.

revised 2009 OFFSAP manual

The CFC Food Safety Committee worked diligently through 2009 to review and revise the *Safe, Safer, Safest* manual. The review was based on feedback from farmers, provincial board comments, subject specialists and the Canadian Food Inspection Agency's "Producer Biosecurity Standards and Guidelines".

Based on a significant amount of consultation with provincial boards, the final revisions to the program were approved by the CFC Board of Directors in September 2009.

Canada's chicken farmers are proud of the world-class on-farm protocols that are part of CFC's On-Farm Food Safety Assurance Program (OFFSAP), *Safe, Safer, Safest*.

Safe, Safer, Safest is the national standard for chicken producers in Canada; the manual recommends the most modern methods and techniques for on-farm food safety, emphasizing health, cleanliness and safety throughout each step of the production cycle. As part of its evolution, *Safe, Safer, Safest* now includes even more comprehensive biosecurity measures to protect animal health.

The revised producer manuals were circulated to farmers by provincial boards in late 2009. As part of the manual, each farmer was provided with a pamphlet describing the significant changes to the program, a poster that combined the new OFFSAP requirements and the Animal Care Program requirements, as well as a CD that contains all of the record forms in electronic format. The Flock-Specific Record Keeping Forms combined the requirements for the OFFSAP and the Animal Care Program to help ease implementation.

All farmers are expected to be implementing the requirements of the revised program by March 28, 2010. As of this date, all audits will be conducted to the standard of the revised manual, and farmers will have to meet those requirements to maintain certification under the program.

Once the review of *Safe, Safer, Safest* was completed, the CFC Food Safety Committee turned their attention to the Free Range OFFSAP manual. Starting in the fall of 2009, the committee began to review the current requirements and to examine where changes would be required. This work will continue through the early part of 2010 as consultations occur with provincial boards and free range farmers.

auditable & enforceable program

Since the first on-farm audit that took place in 2001, CFC and the Canadian chicken industry have worked diligently to increase enrollment in the program. Activities such as group training sessions with farmers and one-on-one assistance at the farm level have helped to move the program forward.

To date, over 2,700 farmers (96% of producers) are certified on the *Safe, Safer, Safest* program and over 97% have been audited. Once enrolled, farms are audited on an annual basis.

To ensure compliance with the program, provincial boards (with whom the regulatory authority exists) have made the program mandatory for farmers; mandatory measures can be enforced by a reduction in allocation, fines or other means. To date, 7 provinces have enforcement mechanisms through regulations or policies, while the remaining 3 are in the process of drafting regulations or have them in from of their supervisory boards.



Based on the implementation of these mandatory policies, it is anticipated that the number of certified farmers will be close to 100% by the end of April 2010.

government recognition

The Federal-Provincial-Territorial governments have developed a comprehensive set of requirements for on-farm food safety programs that guide commodities towards full recognition of their programs. Government recognition provides the credibility that industry needs to promote the implementation of the program to downstream stakeholders and consumers.

CFC has been an industry leader in obtaining recognition from the government for *Safe, Safer, Safest*. There are three phases to the government recognition process.

Phase 1: Technical Review of the producer manual to determine conformance with the HACCP principles as defined by *Codex Alimentarius*.

- CFC was the first farm organization to receive Phase 1 technical recognition of the producer manual in July 2002.

Phase 2: Technical Review of the Management System to determine conformance with government requirements.

- CFC was the second farm organization to receive Phase 2 technical recognition of the management system in July 2006.

Phase 3: Full implementation of the producer manual and management system, followed by a 3rd party audit.

- CFC is in full implementation mode and is preparing for the 3rd party audit.

In order to prepare for the 3rd party audit, CFC holds management reviews on an annual basis, performs internal audits at each of the provincial board offices and conducts witness audits on auditors to ensure consistency of application of the program.

Internal audits, witness audits and auditor training sessions will continue through 2010 as CFC prepares for the 3rd party audit.

In the foreseeable future, CFC intends to achieve full recognition of *Safe, Safer, Safest* by the federal, provincial and territorial governments. This will require an integrated effort from all stakeholders and once achieved, will be invaluable in promoting the development, implementation and status of the program to consumers and stakeholders.

animal disease report

AVIAN INFLUENZA SURVEILLANCE

Throughout 2009, the Canadian Food Inspection Agency conducted avian influenza surveillance through the Canadian Avian Influenza Surveillance System (CANAISS). All poultry commodities were included in the surveillance program in the pre-slaughter component. For chickens, only roasters were tested as broilers are considered epidemiologically insignificant based on their age at processing.



In total, 311 poultry flocks were tested in 2009, all resulting in negative tests. The pre-slaughter component will continue operation throughout 2010 and the expectation is that CANAISS will expand over the next year to include testing on ducks and geese.

HEALTH OF ANIMALS ACT COMPENSATION WORKING GROUP

After the case of avian influenza in turkeys in 2009, Federal Agriculture Minister Gerry Ritz directed the Canadian Food Inspection Agency to re-examine the compensation maximums assigned to poultry and to finalize the compensation calculation models.

CFC was appreciative of this directive and has been working with the Canadian Food Inspection Agency and Agriculture and Agri-Food Canada to ensure that the calculation model used for chickens accurately reflects the variable and fixed costs throughout the cycle of production. Finalizing this work will ensure that chicken farmers receive fair market value for flocks that are ordered depopulated. The objective of the working group is to finalize its work in the first half of 2010.



POLITICS AND POLICY IMPLICATIONS



With the CFC office located in the nation's capital and in close proximity to Parliament Hill, government relations is a daily CFC activity. Whether it be reviewing potential legislation that may impact on-farm programs, hosting a reception or attending a committee hearing to bring forth the industry's views on policy initiatives that may impact our producers, CFC is always mindful of the best interests of the chicken industry. This involves monitoring government policy and politics on many fronts.

Canadian Federation of Agriculture (CFA)

On February 25th, during the CFA Annual General Meeting, elections were held for President and Vice-President of the Federation. Laurent Pellerin from Quebec was elected as the new President of CFA, Ron Bonnett from Ontario as 1st Vice-President, and Garnett Etsell from British Columbia as 2nd Vice-President.



The Honourable Gerry Ritz, Minister of Agriculture and Agri-Food, spoke to CFA members during their Annual General meeting. Members had the opportunity to ask questions, convey concerns and ideas directly to the Minister. Michael Ignatieff, Official Leader of the Opposition, also addressed the AGM and expressed his interest in working with farmers to create policies that bridge the urban and rural divide.

On July 8th, CFC Chair, David Fuller was among industry representatives who participated in CFA's Tripartite Roundtable. The Honourable Gerry Ritz, Minister of Agriculture and Agri-Food, and the Honourable Jean-Pierre Blackburn, Minister of National Revenue and Minister of State (Agriculture), along with many provincial agriculture ministers were in attendance.

The discussion provided a valuable exchange among Ministers and industry representatives from all regions of Canada in three key areas: agriculture as a competitive and innovative sector, as a sector that responds to society's objectives, and as a sector that is proactive at managing risks.

joint annual reception

The four national poultry agencies held their Joint Annual Reception on March 25th at the Fairmont Château Laurier.

Industry leaders and staff from Chicken Farmers of Canada, Turkey Farmers of Canada, Egg Farmers of Canada, and Canadian Hatching Egg Producers were on hand to discuss important issues with fellow

industry stakeholders, government officials, MPs, Senators and political staffers. Attendance was high and included Gerry Ritz, Minister of Agriculture and Agri-Food, three agriculture critics, Wayne Easter (Liberal), André Bellavance (BQ), and Alex Atamanenko, (NDP), as well as House of Commons Agriculture Committee Members, Larry Miller, (Chair), France Bonsant, Mark Eyking, Blake Richards, Bev Shipley and Brian Storseth.

federal / provincial / territorial meeting

A Federal/Provincial/Territorial (FPT) Agriculture Ministers' Meeting was held from July 8–10 in Niagara-on-the-Lake. CFC Chair, David Fuller, Martin Dufresne, CFC's 1st Vice-Chair, and CFC staff attended the FPT meeting as part of a larger supply management contingent that included representatives from the national dairy, poultry and egg industries, as well as representation from provincial dairy, poultry and egg marketing boards.

Federal, provincial and territorial agriculture ministers held key discussions around developments in agricultural policy, global economic challenges, as well as domestic issues such as climate and its impact on farmers. Ministers also discussed the situation of the pork industry, the *Growing Forward* programs, and strengthening the Canadian food safety system.

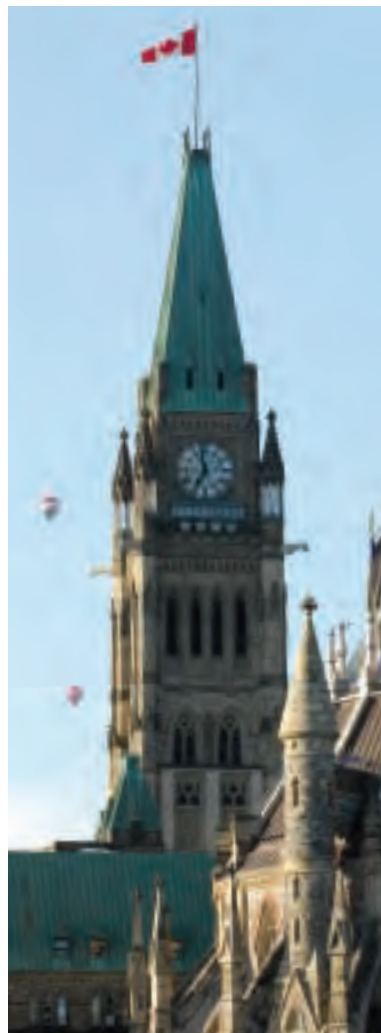
Ministers agreed to commit to move forward on a comprehensive national traceability system for livestock and poultry, expressed support for the Market Access Secretariat, and addressed bilateral and multilateral trade matters. Ministers reiterated support for advancing Canada's trade interests at the World Trade Organization (WTO) and in bilateral free trade agreement negotiations, notably with the European Union.

agreement on internal trade

On October 15th, the provincial Ministers of Agriculture met in Whitehorse where they agreed on text for the Agriculture Chapter of the Agreement on Internal Trade. Despite the assurances of federal and provincial governments incorporated in the October 15th communiqué – "The revised agriculture chapter will not apply to measures relating to supply management systems regulated by federal or provincial governments or provincially regulated marketing boards", the text of the agreement remains a concern to CFC.

Canada's dairy, poultry and egg farmers (the SM-5) worked with government in 2008 to make our concerns known and to provide text that would meet the objectives of the AIT while ensuring that supply management was not inadvertently undermined. The text that has now gone back to the provincial Premiers for ratification is similar to that which existed in 2008 and does not reflect the proposals put forward by the SM-5.

Most provinces appear to be ready to ratify the agreement and they feel that industry's concerns are not significant enough to warrant reopening the negotiations on the agriculture chapter. The SM-5 continues to work with governments, federally and provincially, to address our concerns.



committee appearances

On April 21st, Mike Dungate, General Manager of CFC, appeared before the House of Commons Standing Committee on Agriculture and Agri-Food.

The Committee was studying the competitiveness of Canadian agriculture. The topic provided CFC with the opportunity to emphasize that, as a strong, viable sector, CFC deals internally with challenges and as such, if we look to government for assistance, it is because we cannot make the changes required without them.

CFC also outlined the following issues that represent a challenge to our competitiveness and require government attention or even intervention:

- Import regulations
- WTO negotiations
- 13% Rule
- On-farm programs and feed prices

The House of Commons Standing Committee on Agriculture and Agri-Food established a new Sub-committee on Food Safety. The subcommittee was mandated to study food safety in Canada following the outbreak of *Listeriosis* that occurred in the summer of 2008, as well as other issues.

On May 6th, 2009, David Fuller, CFC Chair, and Mike Dungate appeared before the new subcommittee because food safety is a high priority for Canadian chicken farmers and critical to maintaining consumer confidence.

On October 6th, the House of Commons Standing Committee on International Trade held its first hearing on *The Defence of Supply Management at the WTO*. The first witnesses to appear were Don Stephenson, Assistant Deputy Minister, Trade Policy and Negotiations and Gilles Gauthier, Director General and Chief Agriculture Negotiator. Department officials were asked about the current state of negotiations and the impact on supply management. On October 8th, the Minister of International Trade, Stockwell Day, appeared before the committee to answer whether or not Canada would sign an agreement that did not protect supply management. The Minister was clear in stating that Canada would not sign if supply management was not protected.

In November the committee released the report entitled: "Defending Supply Management at the WTO", which reiterated the government's support for supply management. The report's sole recommendation was "That the government of Canada reaffirm its unequivocal support of, and commitment to defend, Canada's supply management system".



ANIMAL CARE: TAKING CARE OF BUSINESS

In 2009, CFC commenced training auditors for the purpose of auditing the Animal Care Program. To date, approximately 90% of auditors have completed the Animal Care Auditor Training Course.

Implementation of the Animal Care Program has begun, and the first audits are expected to take place in early 2010. Management of the Animal Care and Food Safety programs have been integrated in order to make the two programs easy for farmers to implement concurrently. Furthermore, the stocking density requirements of the Animal Care Program will be phased-in over five years, commencing in December 2008.

The CFC Animal Care Program itself was completed in 2008. It is an auditable program designed to demonstrate the high level and standards of the Canadian chicken industry's on-farm animal care. The 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*.

CFC worked diligently with its partners in order to create the best possible Animal Care Program for Canada's chicken farmers. The Animal Care Committee consulted with over forty Canadian stakeholders on the content of the program. A pilot program was also implemented on chicken farms across Canada.

In 2009, the Further Poultry Processors Association of Canada and the Canadian Federation of Independent Grocers became the latest supporters of CFC's Animal Care Program. In 2008, the Canadian Federation of Humane Societies and the Canadian Veterinary Medical Association both indicated their support for the implementation of the program.

The CFC Animal Care Committee has also completed the first draft of the Free-Range Animal Care Program. The committee will be working closely with provincial boards to finalize the details of the program. The Free-Range Animal Care Program is targeted for completion in 2010.

the national farm animal care council

CFC has been a member of the National Farm Animal Care Council (NFACC) since 2006. NFACC is striving to achieve a national, coordinated approach to responsible farm animal care in Canada with one of its key activities being to establish a process for developing and revising the Canadian Codes of Practice for the Care and Handling of Livestock.

NFACC's members represent 23 organizations, spanning a broad cross-section of the animal agriculture industries in Canada. Danny Wiebe, Chair of CFC's Animal Care Committee, is CFC's representative on the NFACC council.

In 2009, NFACC completed the revision of the Code of Practice for dairy cattle. This revision was the pilot of its new Code of Practice development process which has now been finalized. NFACC also completed a draft Animal Care Assessment model; a project that NFACC hopes to finalize in 2010.

Due to NFACC's limited budget in 2009 and 2010, they submitted a request for funding under the Agri-Flexibility program to fund NFACC's primary activities including updating the Codes of Practice for the beef, pork and equine sectors and finalizing an Animal Care Assessment model.

This is based on its new business plan, a process that began in 2007, to secure enough funding to make NFACC a sustainable organization. NFACC had previously operated under start-up funding received through Agriculture and Agri-Food Canada's Advancing Canadian Agriculture and Food Program. Today, NFACC's core funding comes from its membership.

CFC looks forward to working effectively with NFACC on animal care issues in Canada and to building on recent successes.



SOCIAL MEDIA AND CONSUMER RELATIONS

Over the course of the last six months, consumers have joined the conversation about chicken and helped us build chickenfeeds.ca into a resource that speaks to all Canadians. CFC has been able to provide clear information on how our industry works, the nutritional value of Canadian chicken, how chicken is part of a healthy lifestyle, and dispelled some common myths and general misunderstandings about food safety and animal care. Consumers have real questions, and CFC is committed to addressing them by providing the real facts about chicken and the chicken industry in Canada.

the blog

In 2009, CFC redirected a portion of its communication resources to a new Social Media Strategy.

The main components of the strategy include a consumer focused blog, an e-mail newsletter and other micromedia. The blog, www.chickenfeeds.ca, features CFC's communication unit members and some celebrity guest bloggers. The site also features podcasts from renowned cooks and nutritionists.

The site's content focuses on general consumer information such as nutrition, facts about chicken, how to cook chicken safely, recipes, and news from the industry. Guest posts and podcasts link nutrition tips to current events.

The CFC blog is a consumer-channel that allows the organization to communicate key messages on food safety, animal care and cooking directly to the consumer. Written by CFC staff, in conjunction with external content creators, the blog is written to address core organizational objectives and encourage sharing of content among peer groups.

CFC conducts regular consumer studies, and through these we have learned about consumers' many questions regarding the chicken they purchase. CFC wants to answer these questions in real time. Our new blog and weekly electronic newsletter are part of CFC's commitment to transparency and giving people the information they want.

This year also saw the creation of an e-mail newsletter with the purpose of increasing the number of people in CFC's contact network. Subscribers to the *Weekly Wing* newsletter receive nutrition tips, an email digest of the blog, and a recipe of the week.

micromedia

CFC also began to engage in micromedia through Twitter. This has enabled CFC to connect with a network of people in a one-to-one capacity, and has proven to be an effective way to promote blog posts and blogger events, influence conversation around a single topic, understand conversations around particular topics, and develop a core network of goodwill that can be leveraged in times of crisis. This audience tends to be more engaged and this was also found to be a good way of retransmitting information by tying into their networks.

looking ahead

In the fall of 2009, CFC's Board of Directors approved a new Consumer Relations Strategy. The plan builds on the 2009 Social Media Strategy, and is designed to bring all of CFC's communications and promotional initiatives into one comprehensive strategy that provides a focused approach to understanding, educating and providing value to our consumers, all with a goal of growing the demand for Canadian chicken.

The strategy encompasses three main components – online activities, consumer outreach activities and consumer expectations research – that are designed to work together as a comprehensive plan to increase CFC's outreach to our key external audiences.

By bringing together all of these activities into one plan, CFC will ensure that all of its communications activities remain in line with CFC's five-year Strategic Plan.



overview of CFC promotion activities 2009

Promotion activities in 2009 once again focused on educating consumers and health professionals, who are key influencers on health and healthy eating, on the benefits of including chicken as part of a healthy lifestyle. The second year of the Provincial Promotion Program was also completed.

provincial promotion program

All ten provinces applied for and were approved for their full entitlement to promotion funds in 2009. The projects covered a wide range of activities including revamping websites, adding to existing advertising campaigns, the creation of booklets and videos on raising chickens, and providing support and information on healthy eating to pregnant women in specific communities. The target audiences and themes have been reviewed and established for 2010.

promotion seminar

A successful promotion seminar was held in June 2009 in Toronto where representatives from each of the provinces, CFC and the Board's Promotion Committee attended. During this meeting, participants have a chance to present their promotion activities, hear about what others are doing, talk about their experiences, discuss any issues and learn from each other. The direction for the Provincial Promotion Program is discussed during this meeting prior to the recommendations being made to the CFC Board of Directors by the Promotion Committee.

usage & attitude focus groups

Focus groups were held in Halifax, Toronto and Vancouver in the fall of 2009 to assess any new challenges or issues from a consumer perspective on chicken. The focus groups provide direction prior to conducting the full Usage & Attitude Survey which will take place in early 2010 with participants from across the country. The U&A survey is conducted every three years and was first completed in 1995.

promotion / education campaign

A heavier focus was placed on CFC's involvement with health professionals in 2009. CFC participated in two additional conferences this year; the Primary Care Conference in Toronto in May and the first Obesity Network Conference in Kananaskis, also in May. CFC also sponsored the Dietitians of Canada annual conference and the Canadian Cardiovascular Congress.

Two of our nutrition factsheets were updated, with more current information and have been made available to health professionals and their patients. The nutrition factsheets series and food journals are designed to be teaching tools for health professionals. Patients are counselled on making lifestyle and dietary changes and then are given the factsheet to take home as a reminder of how to make those changes. While the factsheets don't focus on chicken, each of them includes references to eating lean protein as part of a healthy diet, such as chicken and features healthy chicken recipes. All of the fact-



sheets are available online or in pads of 50 for health professionals to order in English and French.

CFC also sponsored the Canadian Culinary Awards in November, which is held at the Royal Winter Fair in Toronto. The winner of the English cookbook category was *Small Plates for Sharing*, Laurie Stempfle, Ed. (Company's Coming Publishing Limited, Edmonton). The winner of the French cookbook category was *Ricardo: parce qu'on a tous de la visite: cuisiner en toutes circonstances* by Ricardo (Les Éditions La Presse, Montréal). The food writers present had an opportunity to visit, amongst others, the Chicken Farmers of Ontario booth and the Food Safety pavilion.

Two media training sessions were held this year, with the first being an advanced workshop in Calgary attended by the western provinces. The second was a beginner's session in Newfoundland. The more general Ambassador training program is now available online for stakeholders to participate in at their convenience. This training provides participants with the basics for making presentations or speaking to a group.



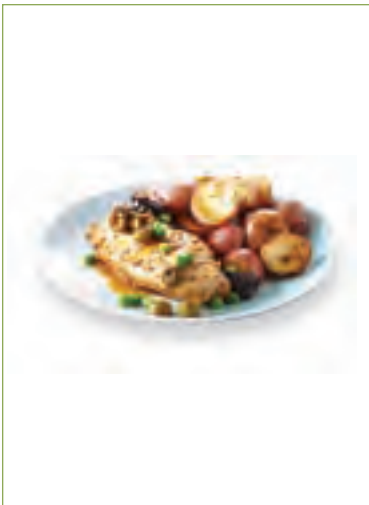
CFC also jointly sponsored the National Agriculture Awareness Conference held in Saskatoon this year. Attendees at this conference are mainly agriculture educators from across the country, including representatives from the provincial Agriculture in the Classroom programs and provincial and federal government representatives. There were several themes that emerged from the conference including: the growing disconnect between consumers and farming, myths about food and incorrect assumptions (different levels of organic and organic products aren't necessarily healthier), sustainability and traceability are growing concerns with consumers and websites and other online mediums such as blogs, Facebook and Twitter are the new public awareness forums.

The Fun Farm, a website for 9 to 12-year-olds created and launched in 2007, was promoted via an online contest throughout 2009. The contest involved kids sending e-cards to friends and then put in a draw for an iPod shuffle for them and their friend. The t-shirt contest was also continued where students can win their own design of a t-shirt for themselves and their classmates.



Fifty-two new original recipes were developed and photographed for posting on CFC's website. Recipes generate the most traffic on CFC's website and are usually viewed late afternoon for 'dinner ideas'. The focus of recipes continues to be on healthy, low-fat, higher fibre, low-sodium dishes that health professionals can also refer to in their practice.

The three year study with the George Morris Centre was completed and the results shared with stakeholders. Pork, lamb, and veal also participated in the study. This research consisted of two main areas; monthly diaries filled out by families and a usage & attitude survey, similar to the one CFC conducts every 3 years. The goal of this study was to provide farmers with valuable information, find new markets and grow existing markets. The information will be further disseminated in 2010.



POULTRY RESEARCH: FORWARD THINKING

CFC is one of the five founding members of the Canadian Poultry Research Council (CPRC). The CPRC was established in 2001 with a mandate to create and implement programs for poultry research and development that address specific current and future industry needs. Jacob Middelkamp, from Alberta, is CFC's representative on the CPRC Board of Directors. In 2009, Jacob was elected as Chair of CPRC.

To date, CPRC has allocated \$1,400,045 to foster poultry research and these funds have been leveraged to over \$7.4 million. Furthermore, CPRC has committed an additional \$221,437 to poultry research for projects that are currently under consideration for matching funding and which could be leveraged for another \$850,000.

The research priority areas targeted by CPRC are:

1. Animal Welfare
2. Antibiotic Replacement
3. Environmental Concerns
4. Food Safety
5. Poultry Health and Disease
6. Product Development/Value-Added Products

In addition, CPRC has also solicited research in the area of novel feed-stuffs. Research into alternatives to conventional grains (especially corn) for use in poultry rations has become an emerging priority due to the increasing demand for those grains from the energy sector (ethanol).

poultry welfare & behaviour and food safety & quality research

In 2009, CPRC considered research in the areas of poultry welfare & behaviour and food safety & quality. The CPRC Board of Directors approved up to \$600,000 in funding for ten research projects of which (up to) \$200,000 will be contributed by CFC.

CPRC has packaged all of the projects approved by the CPRC Board within an application to the Canadian Agri-Science Cluster Initiative. This application was prepared under the guidance of Dr. Steve Leeson at the University of Guelph.

The application focuses on three main components with three to four individual projects grouped under each of the main themes.

1. Enteric diseases of poultry, as impacted by reduced emphasis on the use of feed-borne antibiotics and their potential for impacting human health.
2. Avian influenza as it affects the poultry industry and its potential for zoonosis and associated societal concerns.

3. Specific aspects of poultry farming that impact bird welfare and related societal issues.

The expected outputs from this research include:

- Development of a novel vaccine to protect birds against pathogenic Clostridia bacteria
- Development of a vaccine against Salmonella enteritidis for bird and consumer protection
- Production of an encapsulated essential oil as a natural alternative to antibiotics to control gut pathogens
- Determination of the molecular basis of avian influenza virus adaptation to domestic poultry
- Determination of the minimal infectious dose of avian influenza that can be used to define regulatory quarantine restrictions
- Development of vaccines to protect poultry against avian influenza
- Development of guidelines for improved diet-restriction programs for poultry breeding stock
- Identification of novel pre-vitamin compounds leading to improved bone strength of meat birds

The total budget for the Cluster Initiative is just over \$3 million. Approximately 13 organizations have partnered in the Cluster application, representing a significant collaboration in support of poultry research in Canada.

CPRC transition plan

CPRC has been successful in achieving many goals since its inception. To continue this success, CPRC's role has evolved to the point where a transition plan is required to ensure that the goals of the organization continue to be achieved.

The current expanded goals of the CPRC are to strengthen the relationship with the federal government, increase the value of government investment in research, maximize poultry research investment/partnership opportunities in Canada, enhance communication between the research and industry communities, liaise with CPRC member organizations and other poultry research funding organizations and expand capacity to adequately maximize Canadian investment in poultry research.

To this end, CPRC has developed a transition plan to hire a full-time Executive Director and to move the office to Ottawa, where staff will be in a better position to communicate with government officials. This transition plan is currently being considered by member organizations and further development is expected in 2010.

CFC's research fund

By the end of 2009, CFC's research fund reached just over \$5.2 million, demonstrating CFC's ongoing commitment to research. Interest earned by the Research Fund is the source of CFC's annual support for poultry research projects and initiatives.

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

MONITORING & ENFORCEMENT

auditing the system

In 2009, staff completed the audits of the provincial commodity boards for compliance with CFC policies from periods A-82 to A-89. CFC's external auditors completed the audit of processing facilities for periods A-86 to A-89 and initiated the audit of periods A-90 to A-93. The audit report for periods A-82 to A-85 was presented to CFC Directors in July 2009, while the report for periods A-86 to A-89 will be presented in February 2010.

overmarketing assessment

During the audit periods A-86 and A-87, two provincial commodity boards were assessed overmarketing levies totalling \$66,042. During the audit periods A-90 and A-91, two provincial commodity boards were assessed overmarketing levies totalling \$16,723. The report for both audit periods was presented and approved by the CFC Board of Directors in November 2008 and the levies were received in December 2009.

In 2006, CFC assessed overmarketing levies of \$2,204,578 against Chicken Farmers of Ontario (CFO) for the audit period A-68 and A-69. A 2007 memorandum of understanding scheduled the levy payments to occur over five years in five equal payments with interest charged at 3% per annum. The third instalment of \$440,916 plus interest was received in October 2009.

market development

During periods A-84, A-86 and A-91, three primary processors marketed production they received other than in accordance with the CFC

Market Development Policy and were assessed levies of \$12,340, \$7,906, and \$75,000, respectively. The processors forwarded the levies to CFC in 2009.

In 2006, a primary processor was assessed market development levies of \$228,450 for periods A-66, A-67 and A-68. A show cause hearing for non-payment of levies is on hold while a provincial appeal is still pending. The processor also signed an undertaking where it agreed not to market any chicken pursuant the CFC Market Development Policy throughout the period of adjournment.

auditor and inspector guidelines

The *Farm Products Agencies Act* provides for an agency to be audited annually by an auditor appointed by the Governor in Council, and the Minister may designate any qualified person as an inspector for the purposes of the Act. In 2009, the Farm Products Council of Canada (FPCC) provided the national poultry agencies with draft auditor appointment and inspector designation guidelines for review and comment. The guidelines are to facilitate and clarify the process for Governor in Council appointment of auditors and ministerial designation of inspectors.

Several meetings were held during the last quarter of the year between the poultry agencies and the FPCC, as well as with ministerial staff to finalize the guidelines. In January 2010, the poultry agencies submitted final proposed guidelines and comments to FPCC. CFC believes that these guidelines, as submitted, will fully satisfy the requirements of the Minister's office and the *Farm Products Agencies Act*, as well as the operational requirements of the Agencies. The auditor and inspector guidelines are expected to be implemented in 2010.

inter-period quota transfers

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

In 2009, CFC received 2 requests for inter-period quota transfers totalling 207,364 kilograms live, compared to 2 requests in 2008 totalling 64,818 kilograms live.



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Auditors' Report

The Minister
Agriculture and Agri-Food Canada

The Farm Products Council of Canada

The Members of
Chicken Farmers of Canada

We have audited the balance sheet of Chicken Farmers of Canada ("CFC") as at December 31, 2009 and the statements of operations, changes in fund balances and of cash flows for the year then ended. These financial statements are the responsibility of CFC'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 CFC as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

Chartered Accountants
Licensed Public Accountants

January 29, 2010

A member firm of
Deloitte Touche Tohmatsu

STATEMENT OF OPERATIONS

year ended December 31, 2009

	General Fund	Promotion Fund	Research Fund	2009	2008
REVENUE					
Levy and fee revenue	\$ 6,035,563	\$ -	\$ -	\$ 6,035,563	\$ 6,100,396
Interest and other revenue	427,032	151,187	199,386	777,605	767,621
Overmarketing and market development levies	-	178,011	-	178,011	160,510
	6,462,595	329,198	199,386	6,991,179	7,028,527
EXPENSES					
Amortization of capital assets	47,461	-	-	47,461	58,120
Canadian Poultry Research Council	-	-	127,668	127,668	146,860
Committees	187,079	-	-	187,079	230,635
Communication	170,784	-	-	170,784	221,762
Directors and alternates	1,356,601	-	-	1,356,601	1,156,945
Membership fees	130,696	-	-	130,696	129,264
Office	448,595	-	-	448,595	424,671
On-line business initiative	86,250	-	-	86,250	111,788
Professional fees	473,417	-	-	473,417	280,969
Promotion activities	-	200,141	-	200,141	205,572
Salaries, benefits and travel	2,181,934	-	-	2,181,934	2,091,837
Special studies	324,725	839,428	-	1,164,153	1,307,044
Trade	165,991	-	-	165,991	207,185
Translation	128,046	-	-	128,046	127,927
	5,701,579	1,039,569	127,668	6,868,816	6,700,579
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES					
	\$ 761,016	\$ (710,371)	\$ 71,718	\$ 122,363	\$ 327,948

STATEMENT OF CHANGES IN FUND BALANCES

year ended December 31, 2009

	General Fund	Promotion Fund	Research Fund	TOTAL	
				2009	2008
BALANCE, BEGINNING OF YEAR	\$ 8,798,202	\$ 5,276,263	\$ 5,286,866	\$19,361,331	\$18,260,306
Excess (deficiency) of revenue over expenses	761,016	(710,371)	71,718	122,363	327,948
Net (decrease) increase in unrealized gains on available-for-sale financial assets	(113,018)	(96,875)	(77,434)	(287,327)	773,077
BALANCE, END OF YEAR	\$ 9,446,200 ^❶	\$ 4,469,017	\$ 5,281,150	\$19,196,367	\$19,361,331
Accumulated unrealized gains on available-for-sale financial assets	\$ 234,466	\$ 111,991	\$ 131,434	\$ 477,891	\$ 765,218
❶ Consists of:					
Invested in capital assets	\$ 100,618				
Unrestricted	9,345,582				
	<u>\$ 9,446,200</u>				

BALANCE SHEET

as at December 31, 2009

	2009	2008
CURRENT ASSETS		
Cash	\$ 1,336,211	\$ 978,688
Short-term investments (Note 5)	2,806,145	2,665,210
Accounts receivable (Note 6)	1,685,887	1,450,789
Restricted cash (Note 7)	598,968	680,743
Prepaid expenses	33,019	48,836
	6,460,230	5,824,266
INVESTMENTS (Note 5)	13,824,251	13,886,652
ACCOUNTS RECEIVABLE (Note 6)	440,916	881,832
CAPITAL ASSETS (Note 8)	100,618	135,850
	\$ 20,826,015	\$ 20,728,600
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,030,680	\$ 686,526
Deferred revenue (Note 7)	598,968	680,743
	1,629,648	1,367,269
COMMITMENTS (Note 9)		
FUND BALANCES		
Invested in capital assets	100,618	135,850
Internally restricted - Promotion Fund	4,469,017	5,276,263
Internally restricted - Research Fund	5,281,150	5,286,866
Unrestricted	9,345,582	8,662,352
	19,196,367	19,361,331
	\$ 20,826,015	\$ 20,728,600

ON BEHALF OF THE BOARD


Brian Payne, Finance Committee, Director


David Janzen, Finance Committee, Director


Ruth Noseworthy, Finance Committee, Director

STATEMENT OF CASH FLOWS

year ended December 31, 2009

	2009	2008
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess of revenue over expenses	\$ 122,363	\$ 327,948
Items not affecting cash		
Change in fair value of available for sale financial assets	(42,034)	17,884
Amortization of capital assets	47,461	58,120
	127,790	403,952
Changes in non-cash operating working capital items (Note 11)	43,098	(44,787)
	170,888	359,165
INVESTING		
Purchase of capital assets	(12,229)	(50,065)
Purchase of investments	(3,014,285)	(3,921,885)
Proceeds on sale of investments	2,690,459	2,702,811
Decrease in restricted cash	81,775	22,497
Decrease in long-term accounts receivable	440,915	440,915
	186,635	(805,727)
NET CASH INFLOW (OUTFLOW)	357,523	(446,562)
CASH POSITION, BEGINNING OF YEAR	978,688	1,425,250
CASH POSITION, END OF YEAR	\$ 1,336,211	\$ 978,688

NOTES TO THE FINANCIAL STATEMENTS

year ended December 31, 2009

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. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) 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 & Enforcement Policy, and expenses incurred in collecting overmarketing and market development levies. 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 poultry industry in Canada.

Revenue recognition

CFC recognizes revenue using the deferral method of accounting.

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

Cash

Cash is classified as held-for-trading and carried at fair value.

Investments

Short-term investments and investments are classified as available for sale and recorded at fair value. Interest on interest-bearing investments is calculated using the effective interest rate method.

The fair values of securities are based on quoted market prices when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities or other third-party information.

Transaction costs related to investments are expensed as incurred. Unrealized gains and losses on available for sale financial assets are recorded directly in fund balances until realized when the cumulative gain or loss is transferred to interest and other income.

Accounts receivable

Accounts receivable, including due from related parties, are classified as loans and receivables and carried at amortized cost.

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

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are classified as other liabilities and carried at amortized cost and fair value approximates amortized cost.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP 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.

NOTES TO THE FINANCIAL STATEMENTS

year ended December 31, 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3. CHANGES IN ACCOUNTING POLICIES

In September 2008, the Canadian Institute of Chartered Accountants (CICA) issued amendments to several of the existing sections in the 4400 series - *Financial Statements by Not-For-Profit Organizations*. Changes apply to annual financial statements relating to fiscal years beginning on or after January 1, 2009. Accordingly, CFC adopted the amended standards for its fiscal year beginning January 1, 2009. The amendments include: a) additional guidance in the applicability of Section 1100, *Generally Accepted Accounting Principles*; b) removal of the requirement to report separately net assets invested in capital assets; c) requirement to disclose revenues and expenses in accordance with EIC 123, *Reporting Revenue Gross as a Principal Versus Net as an Agent*; d) requirement to include a statement of cash flows in accordance with Section 1540, *Cash Flow Statements*; e) requirement to apply Section 1751, *Interim Financial Statements*, when preparing interim financial statements in accordance with GAAP; f) requirement for non-for-profit organizations that recognize capital assets to depreciate and assess these capital assets for impairment in the same manner as other entities reporting on a GAAP basis; g) requirement to disclose related party transactions in accordance with Section 3840, *Related Party Transactions*; and h) new disclosure requirements regarding the allocation of fundraising and general support costs.

These amendments had no significant impact on CFC's financial statements.

4. CAPITAL MANAGEMENT

CFC's capital consists of Fund Balances as described in Note 2 and presented on the Balance Sheet. CFC's objectives in managing capital are:

- to ensure that sufficient financial resources are in place to deliver on the priorities set by the Board of Directors during its annual strategic plan review;
- to maintain a minimum reserve in the General Fund of twelve months of budgeted operating expenses;
- to invest funds in financial instruments permitted under the *Farm Products Agencies Act*;
- to determine, on an annual basis, the appropriate levy imposed on farmers for marketing chicken; and
- to build the internally restricted Research Fund to \$10 million where only revenue generated from the capital investment will be used to fund research projects.

The reserve of the General Fund as of December 31, 2009 is 18 months of the budgeted operating expenses (2008 - 13 months). CFC has complied with its capital policies and objectives throughout the year.

5. INVESTMENTS

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	\$ 2,751,472	\$ 2,806,145	\$ 2,638,317	\$ 2,665,210
Export Development Canada bonds	341,962	343,288	-	-
Farm Credit Canada notes	365,599	379,841	363,718	385,086
Guaranteed Investment Certificates (GICs)	1,500,000	1,500,000	500,000	500,000
Canada Housing Trust bonds	11,193,473	11,601,122	12,284,609	13,001,566
	13,401,034	13,824,251	13,148,327	13,886,652
	\$ 16,152,506	\$ 16,630,396	\$ 15,786,644	\$ 16,551,862

Short-term investments are comprised of Canada Housing trust bonds in the amount of \$2,806,145 (2008 - Farm Credit Canada notes and Government of Canada bonds in the amount of \$2,665,210) which mature over the next year bearing interest at rates that range from 3.55% to 3.75% (2008 - 3.5% to 5.5%).

Bonds and notes are debt obligations paying interest rates appropriate to market at their date of purchase. The bonds, notes and GIC's mature at face value on a staggered basis over the next five years (2008 - five years). Interest rates for these securities range from 2.2% to 5.8% (2008 - 3.55% to 4.8%).

Investment risk

The maximum investment risk to CFC is represented by the fair value 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.

NOTES TO THE FINANCIAL STATEMENTS

year ended December 31, 2009

6. ACCOUNTS RECEIVABLE

Accounts receivable consist of levies and fees, overmarketing levies receivable from the provincial organizations and accrued interest on investments.

CFC has a long-term account receivable from the Chicken Farmers of Ontario totaling \$881,832 (2008 - \$1,322,747) which has a fair value of \$878,535 (2008 - \$1,295,448). This account receivable bears interest at 3% per year with final repayment expected to occur in 2011.

7. 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.

	2009	2008
Balance, beginning of year	\$ 680,743	\$ 700,186
Interest earned	3,325	19,657
Recognized as revenue	(85,100)	(39,100)
Balance, end of year	\$ 598,968	\$ 680,743

The expenses incurred include \$85,100 (2008 - \$39,100) for on-farm audits of CFC's Food Safety Assurance Program. The revenue is recognized in interest and other revenue of the General Fund.

8. CAPITAL ASSETS

	2009			2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Office equipment	\$ 294,789	\$ 259,987	\$ 34,802	\$ 40,370
Computer equipment	211,634	154,596	57,038	69,141
Leasehold improvements	110,504	101,726	8,778	26,339
	\$ 616,927	\$ 516,309	\$ 100,618	\$ 135,850

9. 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:

2010	\$ 137,957
2011	158,831
2012	166,562
2013	176,807
2014	155,499
2015 - 2020	889,706
	<u>\$1,685,362</u>

10. 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 2009 was \$61,403 (2008 - \$53,535).

11. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	2009	2008
Accounts receivable	\$ (235,098)	\$ 51,109
Prepaid expenses	15,817	(17,454)
Accounts payable and accrued liabilities	344,154	(58,999)
Deferred revenue	(81,775)	(19,443)
	<u>\$ 43,098</u>	<u>\$ (44,787)</u>