
CANADIAN DAIRY COMMISSION
CORPORATE PLAN SUMMARY
FOR 2009-2010 TO 2013-2014

OPERATING AND CAPITAL BUDGETS
FOR THE DAIRY YEAR ENDING JULY 31, 2010

Corporate Plan dated April 1, 2009

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EXECUTIVE SUMMARY

In the next five years, the activities of the Canadian Dairy Commission (CDC) could be influenced by the outcome of the World Trade Organization (WTO) negotiations on agriculture. If a new WTO Agreement on Agriculture was reached, it could have some effects on the Canadian dairy industry. Because the CDC's activities are so closely linked to the situation of this industry, some impacts would be expected on the Commission. However, the exact nature and magnitude of these impacts are unknown at this time and negotiations have made little progress in the last year.

While collaboration between producers and processors remains possible on certain issues such as fluid milk pricing, research and food safety, discussions regarding industrial milk pricing and milk allocation have been difficult at times. The CDC feels that these discussions are necessary for the viability of the industry and will therefore make every effort to bring the two parties closer together.

The structural surplus of skim milk solids remains an issue that affects producer returns. The Commission will increase its efforts in finding new markets for surplus skim milk solids. Furthermore, an industry-wide strategy will have to be discussed, adopted and implemented in the longer term to deal with this issue. In the meantime, the CDC will continue to look for new markets for these milk components.

Finally, human resources are a priority. Retirements and employee mobility create challenges in hiring and employee retention. The CDC will continue its efforts to attract and retain employees and to encourage team building.

Because the external and internal environments of the CDC have remained largely the same as 12 months ago, the goals of the CDC for 2009-2010 to 2013-2014 remain as follows:

1. The Canadian dairy industry successfully adapts to change.
2. The Canadian dairy industry takes a strategic approach to market development.
3. The CDC is a dynamic, learning organization that lives its values.

These goals will be reviewed annually.

The CDC is not planning any major capital projects in the coming years, as can be seen in the attached capital budget. From the positive balance generated by its commercial operations, the CDC will continue to finance specific projects that benefit the Canadian dairy industry. Such projects include scholarships for graduate students, the Dairy Marketing Program, and support for the Quality Milk Program (a HACCP-based program that is designed to increase the quality of the milk delivered by Canadian dairy farms). Within the Dairy Marketing Program, the CDC has recently approved a program expansion that will result in the launch of a Matching Investment Fund for innovation in dairy ingredients markets in the summer of 2009.

In addition, the CDC will match \$2.5 million of the industry's investment in the promotion of fluid milk in Canada. The CDC is also considering contributing funds to a research initiative in partnership with producers, processors and Agriculture and Agri-Food Canada.

I PROFILE OF THE CANADIAN DAIRY COMMISSION

CDC at a glance

Created in 1966

61 employees (as of April 1, 2009)

Location: Ottawa

Web site: www.cdc-ccl.gc.ca

Budget 2009-2010 (fiscal year): \$ 8.098 million

Year of operation: August 1st to July 31st

Legislation: *Canadian Dairy Commission Act* and Dairy Products Marketing Regulations
Financial Administration Act
Public Service Labour Relations Act
EEC Aged Cheddar Cheese Export Regulations

Mandate

The Canadian Dairy Commission (CDC), a federal Crown corporation, plays a central facilitating role for the multi-billion dollar Canadian dairy industry. Created in 1966 through the *Canadian Dairy Commission Act*, the CDC reports to Parliament through the Minister of Agriculture and Agri-Food Canada. Its legislated objectives are twofold: to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment; and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality.

Funded by the federal government, dairy producers and the marketplace, the CDC strives to balance and serve the interests of all dairy stakeholders — producers, processors, further processors, exporters, consumers and governments.

Listed in Part I of Schedule III of the *Financial Administration Act*, the CDC has the authority to purchase, import, store, process and sell dairy products; to investigate matters relating to the production, processing or marketing of any dairy product; and to help promote the use of dairy products. Federal-provincial agreements now provide the authority for many of the programs and activities that the CDC staff administers and facilitates on a day-to-day basis.

Summary of activities

To achieve its mandate, the CDC works with provincial governments and industry stakeholders such as dairy producers¹, processors, further processors and consumers. The CDC, on the federal government's behalf, facilitates and supports the dairy industry in the development and implementation of major policies and programs.

The CDC oversees, on the industry's behalf, the core features of the current orderly marketing approach in the dairy sector. This is done by:

- operating domestic seasonality and surplus removal programs;
- administering the Special Milk Class Permit Program, the Domestic Dairy Product Innovation Program, and the Dairy Marketing Program;
- calculating and recommending to the industry the level of the national Market Sharing Quota for industrial milk in Canada;
- setting support prices for butter and skim milk powder;

¹ Underlined words or phrases are further described in Appendix A.

- administering the industry's pooling systems; and,
- administering Canada's imports of butter to respect the minimum access requirements established by the World Trade Organization.

The CDC chairs the Canadian Milk Supply Management Committee (CMSMC) and in this capacity, appraises the committee on matters of interest or concern that require resolution and, when necessary, proposes various solutions or alternatives which could contribute to more orderly and efficient marketing.

Organization and structure

As of April 1, 2009, the governing board was composed of the following three members:

Randy Williamson, Chairman (mandate ends August 2010)

Gilles Martin, Commissioner (mandate ends August 2010)

John Core, CEO (mandate ends October 2011)

All positions are part-time appointments.

The Commission is accountable to Parliament through the Minister of Agriculture and Agri-Food.

II STRATEGIC ISSUES FOR THE PLANNING PERIOD

A) Assessment of results for 2008-2009

The goals set by the CDC for the last period, along with a brief summary of the status of achievement of each goal, are described below.

STRATEGIC GOALS

Goal 1. The Canadian dairy industry successfully adapts to change.

Objective	Performance indicators for 2008-2009	Status as of April 1, 2009
The dairy industry has acted on a recommendation from a working group of key stakeholders on future pricing and its related issues.	<ul style="list-style-type: none">• An exploratory meeting was held between the CDC, DPAC and DFC• An agreed to process was identified to address the pricing issues, as well as the key steps of the process• The process has been completed	<ul style="list-style-type: none">• Two meetings were held.• The parties could not reach consensus on a process and discussions are on hold.
Important events and trends affecting the dairy industry, including the WTO negotiations, are monitored and their impacts are evaluated.	<ul style="list-style-type: none">• Models or impact analyses are prepared which measure the impact of identified changes• 12 trade reports are prepared for the Commission• 4 meetings are held with AAFC's Chief Negotiator• Impacts of new trade rules have been evaluated as needed	<ul style="list-style-type: none">• The CDC prepared analysis concerning the effectiveness of the import control measures, pricing of Class 5(c) and continuous quota management.• The reports were prepared and presented to the Commission• Meetings were held• No evaluation was performed since no new trade rules were adopted. The CDC continues to monitor the status of tariff walls.

Objective	Performance indicators for 2008-2009	Status as of April 1, 2009
An active negotiation on harmonization issues in preparation for a national pool negotiation (revenue and market sharing).	<ul style="list-style-type: none"> • A milk allocation agreement between QC and ON is prepared • An agreement on Class 1 pricing in the 4 Western Provinces is signed 	<ul style="list-style-type: none"> • Negotiations are ongoing • Negotiations are now at the national level and an agreement should be in place for February 2010.
The level of harmonization of plant milk utilization audits has improved.	<ul style="list-style-type: none"> • Harmonization opportunities have been identified and solutions proposed to CMSMC • Ontario, Québec, Alberta and BC have been invited to discuss the continuity of their audit function with the CDC • Impact of expanding CDC's plant audit activities on the CDC's resources has been evaluated 	<ul style="list-style-type: none"> • Discussions were held with the Western provinces about harmonizing plant loss rules with the rules in the East. • Discussions were held with these provinces but the CDC is not prepared to accept new mandates for plant audits at this time.
The stakeholders of the dairy industry have a better understanding of the mechanisms of their industry.	<ul style="list-style-type: none"> • Two training sessions have been offered to technical advisors of the industry. • A minimum of 5 sessions have been offered to decision makers of the industry in various regions of Canada 	<ul style="list-style-type: none"> • One session was given in September and a second one is planned for May 2009. • 6 sessions were held across the country and 2 others are planned for May 2009.
The CDC works in partnership with AAFC, DPAC, and DFC to develop a strategy for dairy-related research.	<ul style="list-style-type: none"> • The Commission has made a decision regarding its staff and financial involvement as part of the agreed dairy research strategy 	<ul style="list-style-type: none"> • The CDC participates in an initiative to develop a research cluster with AAFC, DPAC, and DFC.

Goal 2: The Canadian dairy industry takes a strategic approach to market development.

Objective	Performance indicators for 2008-2009	Status as of April 1, 2009
<p>The strategy to encourage the use of Canadian dairy ingredients has been further developed.</p>	<ul style="list-style-type: none"> • The Dairy Marketing Program has been evaluated • A survey of ingredient users has been completed • The market for dairy ingredients has been analyzed, a report prepared and proposals presented to CMSMC 	<ul style="list-style-type: none"> • The evaluation was performed and the report presented to the Audit Committee on June 10, 2008. Several recommendations are already implemented • The survey has not been completed • A matching investment fund was approved in April 2009. Its objective is to support larger scale product development initiatives that incorporate the use of milk and milk ingredients. This fund will be available August 1, 2009.
<p>New uses for surplus SNF have been identified and recommendations have been presented to the Market Committee.</p>	<ul style="list-style-type: none"> • The use of MPC in nutraceutical products under Class 4(a)1 has been reviewed • The impact of Class 5(a), (b) and (c) pricing on use of SMP has been evaluated • Potential new markets for SNF have been evaluated 	<ul style="list-style-type: none"> • The CMSMC and Market Committee approved a recommendation to adopt a more competitive pricing formula in Class 5(c) to encourage the use of SNF type products. • Evaluation of pet food, processed meat and nutraceutical sectors has been completed.

Objective	Performance indicators for 2008-2009	Status as of April 1, 2009
Recover lost markets and prevent future market losses.	<ul style="list-style-type: none"> • The major causes of market loss have been identified • Impact analyses are completed • Recommendations were presented to the Market Committee 	<ul style="list-style-type: none"> • The CDC and the Market Committee started work on the development of a long-term competitive strategy to preserve and grow the market for dairy ingredients.
The CDC works in partnership with the industry stakeholders to grow the market.	<ul style="list-style-type: none"> • The performance of the 3-year fluid promotion program has been evaluated to determine its impact on market growth and a report has been presented to the Commission • The CDC made a decision on its involvement in market growth activities beyond 2008 • Analysis and expertise to evaluate proposals brought forth by the industry have been provided 	<ul style="list-style-type: none"> • The four promotion agencies (DFC, FPLQ, PMMP and BCDF) presented a report to the Commission on March 10, 2009. The report showed that fluid milk sales increased following the promotion initiatives supported by the CDC. • The Commission decided to invest \$2.5 million in 2009 for a national fluid milk promotion program provided that provinces match this contribution.

Goal 3: The CDC is a dynamic, learning organization that lives its values.

Objective	Performance indicators for 2008-2009	Status as of April 1, 2009
The impact of the requirement to adopt the new international accounting standards has been identified.	<ul style="list-style-type: none"> • Impact review completed • Financial Statements prepared using IFRS • OAG gives clean audit report 	<ul style="list-style-type: none"> • Achieved • Achieved • The audit report will be presented in the fall of 2009.
The OAG has approved CDC's implementation of the new accounting standards for financial instruments.	<ul style="list-style-type: none"> • Financial Statements prepared using new standards • OAG gives clean audit report • A process/procedure to be followed by all sections when entering into contractual agreements has been developed • All Sections are following the new procedure for contracts 	<ul style="list-style-type: none"> • Achieved • The audit report will be presented in the fall of 2009 • Contract procedures are expected to be approved by the end of the dairy year
The succession plan is completed and implemented.	<ul style="list-style-type: none"> • Key position profiles have been completed • Feeder groups (internal and external) are identified • Career paths for potential internal successors to key positions are established 	<ul style="list-style-type: none"> • Profiles are completed • Feeder groups and career paths will be established once the draft Succession Plan is approved by senior management in May 2009.
The new performance management program was fully implemented.	<ul style="list-style-type: none"> • Managers and staff are using the new performance review and feedback form and complying with the requirements of the program 	<ul style="list-style-type: none"> • Achieved
The training budget is based on individual development plans.	<ul style="list-style-type: none"> • Yearly training budget is established according to the new method • All staff have an Individual Development Plan (IDP) with costs included in the administrative budget 	<ul style="list-style-type: none"> • Achieved • Achieved
The CDC developed new initiatives for the purpose of employee retention and attraction.	<ul style="list-style-type: none"> • Survey results from the "Best Small and Medium Employers" are communicated to all staff 	<ul style="list-style-type: none"> • The CDC awaits the results of the Public Service Survey to present all results at the same time.

Objective	Performance indicators for 2008-2009	Status as of April 1, 2009
	<ul style="list-style-type: none"> • An action plan was prepared based on survey results • Recognition and rewards Program has been evaluated • Exit interviews are conducted 	<ul style="list-style-type: none"> • The plan will be prepared using results from both surveys • Evaluation of the Recognition and Rewards Program will be finished by the end of the dairy year • Exit interviews are conducted when employees leave the CDC
The mandate and role of the CDC is better understood by Portfolio organizations	<ul style="list-style-type: none"> • Communication strategy was written and approved by the Commission • Activities of the communications strategy carried out at opportune time 	<ul style="list-style-type: none"> • The CDC developed a brochure outlining its major programs which was circulated to all Portfolio organizations. • The CDC made several presentations on its activities to Portfolio organizations. • The CDC evaluated its Communication Services.

In addition to the above goals, the CDC continued to operate its usual activities. In July and December 2008, the CDC announced increases to the support prices of butter and skim milk powder. The July announcement followed a special request from Dairy Farmers of Canada and was granted based on the rising costs of fuel, fertilizers and feed. The new support prices took effect on September 1, 2008 and represented a 2% increase. The December announcement came into effect on February 1, 2009 and represented a 1% increase. Together, the two increases were equivalent to an increase of \$2.48 per hectolitre of milk, with \$2.19 going to producers and \$0.29 going to processors.

As demand for dairy products varied throughout the year, the CDC continued to adjust quota every two months. As a result, the national market sharing quota (MSQ) started the 2008-2009 dairy year at 181.52 million kg of butterfat² and stands at 178.84³ kg of butterfat as of April 1, 2009, a 1.5% decrease. The forecasted economic weakness in 2009 may have a

² Including a growth allowance of 1.5%.

³ Including a growth allowance of 0.5%.

impact on dairy product consumption as uncertainty may cause consumers to change their buying behaviour. Overall sales at the retail level will likely remain stable as consumers decide to eat at home, however, restaurant sales are expected to decline significantly (the Canadian Restaurant and Food Services Association is expecting a 2.5% decrease in restaurant sales in 2009). In the grocery stores, a “trade down” is expected as consumers shift their focus to value brands and private labels.

Overall, the CDC will have accomplished most of its goals by the end of July 2009. Some had to be put on hold because the dairy industry was just not ready to move forward (in the case of the future industrial milk pricing, for example). Other activities are ongoing. Most of these involve discussions and negotiations with members of the industry and will be continued into the next dairy year. Others refer to management initiatives at the CDC (succession plan, international accounting standards) and will also be continued into the next dairy year.

The completion of many of our goals in 2008-2009 has allowed the dairy industry to increase its level of harmonization and its awareness of the current environment. As for internal goals, their completion made the CDC more efficient in fulfilling its role and better prepared for change. These are advantages that will be useful as the CDC continues to play its facilitating role in the Canadian dairy industry in 2009-2010.

B) Analysis of the external environment

a) World Trade Organization Negotiations

For several years now, the Canadian dairy industry has been expecting a new agreement on agriculture at the World Trade Organization (WTO). Since all Canadian exports of dairy products made from in-quota milk are considered subsidized, a new WTO agreement may further impact Canadian exports and the CDC. In 2007-2008, the CDC exported 16.4 million kg of skim milk powder (SMP) as part of the Surplus Removal Program.

In the last year however, WTO negotiations made little progress. In the meantime, it is important for the CDC to maintain focus on the following issues.

b) Divergence between producers and processors

Conducting fruitful discussions between producers and processors is challenging, particularly on strategic subjects such as a pricing method for industrial milk and milk supply. This underpins the need for an increased leadership role for the CDC as it is generally perceived to be a neutral and knowledgeable facilitator.

c) Demand for Dairy Products and Structural Surplus

Since the beginning of the 2008-2009 dairy year, demand for dairy products has stabilized. Demand from the restaurant sector has experienced a decline that can be attributed to the current economic recession. However, the structural surplus of milk solids non fat continues to be a concern and its disposal will become even more challenging if a new WTO agreement prevents Canada from any subsidized exports. In 2009-2010, the CDC will increase its efforts to find ways to reduce the effect of surplus milk solids non fat.

d) Workforce renewal

Several of the people holding key positions at the CDC will be eligible for retirement in the next few years. This is coupled with the fact that the younger members of its workforce are very mobile. Employee attraction and retention is therefore a strategic challenge. The CDC intends to develop a plan to address this challenge.

C) Assessment of CDC resources

a) Financial resources

The CDC is fortunate to have stable funding. Approximately half of its administrative budget comes from government appropriations whereas the other half comes from the industry. Revenues its commercial operations allow the CDC to engage in certain activities that benefit the entire dairy industry.

b) Human resources

The CDC's employees are knowledgeable and experienced within their respective specialized field. The CDC invests in training and development to ensure that employees succeed at meeting CDC's goals.

Recruiting employees with specialized knowledge in the fields of agricultural economics and the dairy industry remains a challenge due to the small number of potential candidates. Employee attraction and retention are therefore important. The CDC has participated in the national "Best Small and Medium Employers Study" and the results of this study will be examined along with the results of the Public Service Employment Survey, which are expected in the summer of 2009. This will help us direct our efforts to better meet employee expectations.

In addition, in an attempt to deal with a lean workforce and increases in stakeholder demands, the CDC automates and streamlines as many processes as possible to increase efficiency.

c) Material resources

The CDC does not own real estate, vehicles, or specialized equipment. The material resources of the CDC include computers, software, databases, and office furniture. These are used to conduct the policy and operation activities of the CDC. Computers and the necessary software are updated on a regular basis and therefore material resources are deemed to be adequate.

The CDC leases office space from Agriculture and Agri-Food Canada under a five-year lease which is due to expire at the end of March 2012.

III STRATEGIES, GOALS AND PERFORMANCE MEASURES

A) Description of strategies

Because the environment of the CDC has not changed significantly in the last 12 months, the CDC has kept the three strategic areas of intervention identified last year.

a) A more adaptable dairy industry

The CDC intends to exercise leadership on several fronts:

- harmonizing dairy policies to make market conditions more uniform across the country for both producers and processors in preparation for the creation of a national all milk pool;
- pursuing discussions on a revised pricing methodology that would be adapted to the results of the current environment and possibly, to the results of the World Trade Organization (WTO) round of negotiations;
- preparing for the conclusions of the WTO negotiations;
- improving the information circulated to the industry.

b) Strategic market development

To increase the demand for Canadian dairy products and to try to find longer term solutions to the structural surplus of milk solids non fat, the CDC will further develop a more strategic approach to the development and supply of markets for dairy products. The CDC will focus on identifying specific market growth opportunities, increasing support for product innovation and developing new competitive pricing strategies for dairy ingredients, especially for the SNF-based products.

c) A renewed, stable workforce

In the area of human resources management, the general strategy of the CDC will be to prepare successors for people in key positions who are eligible for retirement and to favour employee retention. To achieve this, the CDC will concentrate on planning, policies, learning, and employee retention measures.

B) Goals, objectives and performance measures

Over the next five years, the CDC hopes to continue to work in close collaboration with the major stakeholders of the Canadian dairy industry, as well as with provincial governments, to move the industry forward and help this very important segment of the Canadian economy to adapt to a changing environment.

The CDC has identified the following goals for the planning period, which are in line with the analysis of the environment discussed in Section II and with the strategies outlined in Section IIIA. The goals are for the next five years, but will be reviewed every year and are subject to change based on the policy decisions made at the CMSMC, the conclusions of the current round of WTO negotiations, and the general orientations of the federal government. Given this changing environment, it would be very difficult to pinpoint where the CDC will be on the longer term. In any case, the CDC will continue to play its facilitating role in the Canadian dairy industry, working closely with the stakeholders to move the industry forward.

The objectives listed for each goal could be attained over a shorter period and are likely to change after one year.

GOAL 1: The Canadian dairy industry successfully adapts to change.

OBJECTIVES	PERFORMANCE INDICATORS
Key dairy industry stakeholders are discussing the evolution of the dairy industry within supply management.	<ul style="list-style-type: none">• A background document on the main issues facing the dairy industry, including pricing methodology, national pooling and WTO issues, has been prepared.• Key stakeholders have been consulted.• Stakeholders are engaged in discussions.
The CDC is better prepared to deal with potential issues impacting the industry.	<ul style="list-style-type: none">• The efficiency of tariff walls is monitored on a continuous basis and reported to the industry in collaboration with AAFC.• An industry plan has been developed to face a sudden surge of imports.• The roles of the CDC, AAFC and CFIA have been clarified in the case of an industry emergency affecting domestic milk supply.• Regular WTO reports are presented to the Commission and regular meetings are held with Canadian negotiators.• New communication tools are put in place to better inform the dairy industry.

GOAL 2: The Canadian dairy industry takes a strategic approach to market development.

OBJECTIVES	PERFORMANCE INDICATORS
Net opening stocks of skim milk powder equivalent on August 1, 2010 are below 20,000 tonnes.	<ul style="list-style-type: none">• The Market Committee has been advised of new market opportunities reaching 10,000 t• A new pricing strategy for milk solids non fat started on February 1, 2010.• A report presented outlining the potential means to reduce the production of milk solids non fat at the farm has been presented to the CMSMC.• Utilization of SMP in animal feed totals 30,000 t.
The growth of the Canadian market for dairy products and components is supported by CDC initiatives.	<ul style="list-style-type: none">• 5 Matching Investment Fund projects are underway.• The CDC participates on the Board of Directors responsible of the administration of the research cluster funding from AAFC.• If applicable, a decision was made on CDC's participation in the research cluster funding proposal.• Agreements have been signed with industry promotion organizations.

GOAL 3: The CDC is a dynamic, learning organization that lives its values.

OBJECTIVES	PERFORMANCE INDICATORS
CDC managers embrace creative best practices for employee attraction and retention.	<ul style="list-style-type: none">• CDC managers have received training on the expectations of the various generations in the workplace.• The CDC employee turnover rate is below the average of the Public Service.• Within the succession plan of the CDC, potential successors for 50% of key positions have been identified.• Development plans have been established for these successors.
CDC employees have a good knowledge of the various CDC activities and a general understanding of the dairy industry.	<ul style="list-style-type: none">• 5 teams of the CDC have presented their activities to the rest of the staff.• At least 20 staff members have followed a course on the processing of dairy products.• Staff meetings are held monthly.• An orientation session on the milk supply management system has been offered to all staff.• A new orientation method has been implemented and used with new employees.

IV FINANCIAL INFORMATION

for the dairy years ending July 31, 2008 to 2014

Major assumptions used in the preparation of the budget and forecast

Figures for 2007-2008 are actual. Figures for 2008-2009 are forecasted while those for subsequent years are projected.

During the dairy year 2007-2008, Canadian requirements finished the year at 179.6 million kg of butterfat. They continued to increase slowly during the beginning of the current dairy year and showed a slight decrease in the fall and winter of 2008. As of February 28, 2009, Canadian requirements stand at 178.0 million kg of butterfat. Given the recent trends and the state of the economy, it is reasonable to assume that the Canadian requirements will continue to decrease slightly during the rest of the 2009-2010 dairy year.

Beyond 2010, it is difficult to quantify all the variables and forecast potential developments, due to the possible changes within the dairy industry and the international trade environment.

Sensitivity of the projections to assumptions

The key factors in the budget presented are total production of industrial milk, domestic requirements, support prices and world market conditions for the sales of dairy products. Any significant changes in the assumptions will affect the budgeted results.

CANADIAN DAIRY COMMISSION
MARKETING OPERATIONS STATEMENT and BUDGET
for the DAIRY YEARS ending JULY 31, 2008 - 2014

(in thousands of dollars)

	Budget 2007-08	Actual Audited 2007-08	Budget 2008-09	Forecast 2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Sales	\$ 234,806	\$ 284,935	\$ 264,034	\$ 208,772	\$ 222,040	\$ 232,749	\$ 225,803	\$ 221,700	\$ 225,164
Cost of sales	229,251	280,875	257,762	210,097	215,773	219,108	217,033	213,797	217,227
Margin (loss) on sales	5,555	4,060	6,272	(1,325)	6,267	13,641	8,770	7,903	7,937
Operating expenses									
Dairy product assistance - Domestic	300	203	200	284	225	225	225	225	225
Carrying charges and miscellaneous costs	4,506	7,297	5,021	6,616	4,818	5,581	4,331	4,031	3,995
Cost of production - Pool share	881	1,016	717	892	805	821	837	854	871
Inventory write-down (reversal)	-	10,272	-	(2,935)	-	-	-	-	-
Promotional programs and activities	4,714	3,455	5,260	3,385	5,450	3,950	3,500	1,000	-
Administrative expenses - marketing activities	4,023	3,399	3,995	3,529	4,219	4,256	4,320	4,393	4,467
Total operating expenses	14,424	25,642	15,193	11,771	15,517	14,833	13,213	10,503	9,558
Net loss (gain) before funding	8,869	21,582	8,921	13,096	9,250	1,192	4,443	2,600	1,621
Pool funding	8,203	9,703	8,178	8,101	7,468	7,009	7,155	6,772	6,888
Provision for refund of the operational surplus (1)/(3)	1,931	718	2,922	(9,689)	-	8,227	5,157	4,408	4,443
Net results of operations	(2,597)	(12,597)	(3,665)	4,694	(1,782)	(2,410)	(2,445)	(236)	824
Surplus beginning of year	23,628	23,209	8,496	10,612	15,306	13,524	11,114	8,669	8,433
Surplus end of year (2)	\$ 21,031	10,612	4,831	15,306	13,524	11,114	8,669	8,433	9,257

NOTE: The Marketing Operations presented herein excludes all Government appropriated operating expenses.

Forward Exchange Contracts: As part of its foreign exchange risk management, the Canadian Dairy Commission enters into forward exchange contracts with regard to a portion of its export sales contracts. These contracts manage the risk due to fluctuations in exchange rates for sales negotiated in foreign currencies.

(1) Operational surplus consists of a portion of the Commission's margin on sales. The provision is set up in the year the margin is earned and refunded to provincial milk boards and agencies for the benefit of dairy producers the following year.

(2) Surpluses not directly payable to provincial milk boards and agencies at year end are carried forward and applied against future funding of their respective operations.

(3) For 2008-2009 the operating loss for 2007-2008 was recovered from the provincial milk boards and agencies

CANADIAN DAIRY COMMISSION
STATEMENT OF COSTS FINANCED BY THE GOVERNMENT OF CANADA
for the DAIRY YEARS ending JULY 31, 2008 - 2014

(in thousands of dollars)

	Actual Audited 2007-08	Forecast 2008-09	Budget				
			2009-10	2010-11	2011-12	2012-13	2013-14
Administrative expenses	\$ 4,003	\$ 4,150	\$ 3,881	\$ 3,915	\$ 3,922	\$ 3,922	\$ 3,922
Total costs financed by the Government of Canada	<u>\$ 4,003</u>	<u>\$ 4,150</u>	<u>\$ 3,881</u>	<u>\$ 3,915</u>	<u>\$ 3,922</u>	<u>\$ 3,922</u>	<u>\$ 3,922</u>

Notes:

The budget is based on the reference level of the fiscal year, adjusted where necessary to reflect the difference between the dairy year and the government fiscal year.

CANADIAN DAIRY COMMISSION
STATEMENT OF COSTS FINANCED BY THE GOVERNMENT OF CANADA
for the FISCAL YEARS ending MARCH 31, 2008 - 2014

(in thousands of dollars)

	Actual 2007-08	Actual 2008-09	Budget				
			2009-10	2010-11	2011-12	2012-13	2013-14
Administrative expenses	\$ 3,848	\$ 4,134	\$ 3,866	\$ 3,912	\$ 3,922	\$ 3,922	\$ 3,922
Total costs financed by the Government of Canada	\$ <u>3,848</u>	\$ <u>4,134</u>	\$ <u>3,866</u>	\$ <u>3,912</u>	\$ <u>3,922</u>	\$ <u>3,922</u>	\$ <u>3,922</u>

Notes:

In the foreseeable future the Commission will maintain its current level of staffing including the CDC's governing board which consists of a chairperson, a chief executive officer and a commissioner.

CANADIAN DAIRY COMMISSION
BORROWING PLAN
for the DAIRY YEARS ending JULY 31, 2008 - 2014

(in thousands of dollars)

Consolidated Revenue Fund

Loan transactions	Actual Audited 2007-08	Forecast 2008-09	Projected				
			2009-10	2010-11	2011-12	2012-13	2013-14
Balance at beginning of year	\$ 70,178	\$ 116,316	\$ 141,118	\$ 141,345	\$ 112,315	\$ 113,668	\$ 117,018
Drawings	219,587	171,423	160,000	160,000	160,000	160,000	160,000
Repayments	(173,449)	(146,621)	(159,773)	(189,030)	(158,647)	(156,650)	(158,453)
Balance at end of year	<u>\$ 116,316</u>	<u>\$ 141,118</u>	<u>\$ 141,345</u>	<u>\$ 112,315</u>	<u>\$ 113,668</u>	<u>\$ 117,018</u>	<u>\$ 118,565</u>
Average level during year:	\$80,508	\$101,841	\$101,000	\$80,000	\$80,000	\$85,000	\$85,000
Highest level during year:							
Month	April	June	June	June	June	June	June
Amount	\$119M	\$147M	\$147M	\$117M	\$119M	\$122M	\$123M

Member of Canadian Payments Association

Loan transactions	Actual 2007-08	Forecast 2008-09	Projected				
			2009-10	2010-11	2011-12	2012-13	2013-14
Balance at beginning of year	\$ 959	\$ 25,367	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200
Drawings	40,046	12,476	13,500	13,500	13,500	13,500	13,500
Repayments	(15,638)	(36,643)	(13,500)	(13,500)	(13,500)	(13,500)	(13,500)
Balance at end of year	<u>\$ 25,367</u>	<u>\$ 1,200</u>	<u>\$ 1,200</u>	<u>\$ 1,200</u>	<u>\$ 1,200</u>	<u>\$ 1,200</u>	<u>\$ 1,200</u>

Authority:

Under the authority of the Canadian Dairy Commission Act, the Commission may borrow money from the Government of Canada out of the Consolidated Revenue Fund.

The Commission has also established a line of credit with a member of the Canadian Payments Association. Currently, the Minister of Finance has authorized borrowings from the Consolidated Revenue Fund (CRF) for which the outstanding amount shall not exceed \$150 million (\$120 million 2007-2008) at any time.

The Minister of Finance has also approved lines of credit of up to \$50 million outstanding with members of the Canadian Payments Association.

Reason for borrowing:

These loans are required so that the Commission may fulfill its mandate within the CDC Act which is to
"a) purchase any dairy product and sell, or otherwise dispose of, any dairy product purchased by it;
b) package, process, store, ship, insure, import or export any dairy product purchased by the Commission".
The line of credit is necessary to provide bridge financing and ensure efficient operation of the pooling of market returns system administered on behalf of the provinces.

CANADIAN DAIRY COMMISSION
CAPITAL BUDGET

for the DAIRY YEARS ending JULY 31, 2008 - 2014

(in thousands of dollars)

	Actual 2007-08	Forecast 2008-09	Budget			
			2009-10	2010-11	2011-12	2012-13
						2013-14
Major capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Minor capital	156	121	181	140	140	140
Total capital budget	<u>156</u>	<u>121</u>	<u>181</u>	<u>140</u>	<u>140</u>	<u>140</u>

Minor Capital expenditures for the years 2008-2009 through to 2013-2014 are for the planned replacement of servers, desktop computers, laptops and peripherals. These amounts also include software licence fees purchases and renewals.

Minor capital costs are included as part of overall administrative expenses on the financial tables.

APPENDIX A

GLOSSARY OF DAIRY TERMS

Canadian Milk Supply Management Committee (CMSMC)

The CMSMC serves as the key national body for policy development and discussions respecting dairy production and processing sectors, and oversees the application of the National Milk Marketing Plan. The Canadian Dairy Commission (CDC) chairs and supports the CMSMC and its Secretariat, a technical committee which provides economic analysis and advice to the members of the CMSMC. The CMSMC has representation from producers and governments of all provinces. Representatives of national consumer, processor and producer organizations also participate as non-voting members. The CMSMC meets four times per year to review and consider the major economic and marketing factors affecting the dairy sector. It also reviews and monitors the CDC's marketing operations and promotional activities; the pooling systems established for market returns from certain milk sales; and provincial quota allocations and utilization. The CMSMC determines the national production target or Market Sharing Quota (MSQ).

Canadian Requirements

Total domestic consumer demand plus planned exports for all industrial milk processed into dairy products.

Dairy Producers

Dairy producers are farm owners and operators that keep a herd of cows and ship milk.

Further Processors

Further processors use milk or other dairy products such as cheese to manufacture other food products that are sold at the retail level.

Industrial Milk

Milk sold for processing into such dairy products as butter, cheese, ice cream or yogurt.

Market Sharing Quota (MSQ)

The MSQ is the national production target for industrial milk. This target is constantly monitored and adjusted when necessary to reflect changes in the domestic demand for industrial milk products, as measured in terms of butterfat, as well as changes in planned export activity. The CMSMC applies the terms of the National Milk Marketing Plan to establish the provincial shares of the MSQ. Each province allocates its share of the MSQ to its respective producers according to its own policies.

Processors

Processors are companies or co-operatives that buy raw milk and manufacture fluid milk and cream, or other dairy products.

Support Prices

Support prices are the prices at which the CDC offers to purchase domestically produced butter and skim milk powder under its Domestic Seasonality programs. Support prices act as reference prices and indirectly affect the price paid to producers for milk. They are established at levels designed to generate a fair return for producers.