Canadian Dairy Commission | Commission canadienne du lait

CANADIAN DAIRY COMMISSION

Annual Report 19-20

Canada

Mandate of the Canadian Dairy Commission

Under the *Canadian Dairy Commission Act*, the CDC's legislated objectives are:

- to provide efficient producers of milk and cream with the opportunity to obtain 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.

Mission statement

To provide leadership to enhance the vitality of the Canadian dairy industry for the benefit of Canadians.

Values

Excellence | Integrity | Leadership | Respect

Commission staff is available to serve you, in either official language, from 8 a.m. to 4:30 p.m. Eastern time, Monday to Friday (statutory holidays excluded).

The theme of the 2019-2020 annual report: Dairy is an important part of an active lifestyle.

Communications
Canadian Dairy Commission
Building 55, NCC Driveway
Central Experimental Farm
960, Carling Ave.
Ottawa, ON K1A 0Z2

Telephone: (613) 792-2000
TTY: (613) 792-2082
Facsimile: (613) 792-2009
E-mail: cdc-ccl@cdc-ccl.gc.ca
Internet: www.cdc-ccl.gc.ca

Catalogue No.: A88-2020

ISSN: 0382-3229

Design and production:
Element Design and Communications

Table of Contents

Report from the Board

We are pleased to present the Canadian Dairy Commission's (CDC) Annual Report for the 2019-2020 dairy year. As we conclude the year, the CDC is in a sound financial position and has achieved most of its Corporate Plan objectives with priorities on innovation, growth, responsive dairy policies to support the supply management system, and organizational excellence.

The dairy industry strives for excellence in everything that it does – from producing high quality milk to providing Canadians with a variety of quality dairy products. The many successes and challenges in the past year, both domestically and on the world stage, were handled with professionalism and dedication by CDC staff in co-operation with industry and government partners.

The CDC is proud to provide its support and expertise to the dairy industry. From the implementation of new trade agreements to market shocks and rapid demand shifts from food service to retail purchases due to the COVID-19 pandemic, the Canadian dairy industry worked diligently and with passion to respond to challenges in milk supply, processing capacity and distribution while ensuring that it remains a key contributor to the Canadian economy.

With the three recent free-trade agreements ratified by Canada (the Comprehensive Economic Trade Agreement (CETA), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and Canada-United States-Mexico Agreement (CUSMA), which came into force on July 1, 2020), the dairy industry is facing new market realities. Total market access to foreign competitors for dairy under all trade commitment, including CUSMA, is estimated at approximately 10% of Canada's production when market access will be fully granted. This changes the environment in which the CDC forecasts demand for Canadian dairy products to help provincial milk marketing boards determine producer quota. These new imports have created uncertainty in the forecast and will continue to do so for the next few years in terms of what kinds of dairy products are imported, when, and in which province. Matching milk production with demand may be challenging and the CDC is working with the industry and other government organizations to be able to establish better forecasts and audit systems.

The entry into force of CUSMA has also meant some important changes to Canadian dairy industry policies. As required by the agreement, milk classes 6 and 7 were eliminated and products formerly in these classes were reclassified according to their end use. The price of class 4(a) is now calculated as required in the CUSMA agreement using a formula which is based on the U.S. price of skim milk solids. To resume sales of skim milk solids into the animal feed market, the industry reestablished class 4(m). Other impacts of CUSMA on the Canadian industry include the imposition of a surcharge on exports on quantities of skim milk powder, milk protein concentrates and infant formula above certain threshold established in the agreement. The development of uses for Canada's excess skim milk solids has become a pressing issue for the coming years.

The industry had approximately 18 months to implement the significant structural changes required by CUSMA. Most changes needed the agreement of the 10 provinces, including a new method to pool revenues from classes 1 to 5(d) nationally. When provinces could not agree on that methodology, they turned to the CDC Board of Directors to arbitrate the issue. The Board of Directors established principles and processes and undertook to provide a fair hearing process, arbitrate within the spirit of supply management, address the interests of all producers and create an environment that would foster collaboration between the regions in the future. The Board met with the Eastern and Western pools separately to hear their respective positions, then carefully examined the issues submitted for arbitration, as well as the connections between these issues. A final decision about pooling in the new environment was communicated on May 8, 2020 and presented to the Canadian Milk Supply Management Committee on May 29, 2020.

To help alleviate the impacts of CPTPP and CETA, the Minister of Agriculture and Agri-Food, the Honourable Marie-Claude Bibeau, announced in August 2019, that the Government of Canada would make available $1.75 billion over eight years to supply-managed milk producers. In the first year, $345 million was provided through the Dairy Direct Payment Program (DDPP). Payments were based on the quota each producer held on August 31, 2019. Because the CDC disbursed subsidy payments to dairy farmers in the past as per the *Agricultural Stabilization Act*, Agriculture and Agri-Foods Canada before AAFC mandated the CDC to administer the DDPP and make these payments. We are proud to say that the CDC delivered on its mandate and eligible producers from coast to coast received their payment by March 31, 2020.

As was the case in most dairy-producing countries, the onset of the COVID-19 pandemic had significant impacts on the dairy supply chain in Canada. Suddenly, restaurants, coffee shops, schools and daycares closed, and consumers rushed to the grocery stores to stock up on essentials. For a few weeks at the end of March and beginning of April, Canadian marketing boards had to ask their members to dispose of milk at the farm. These boards also put in place strict production control measures as of April 1 and as a result, milk disposal came to a halt as soon as the 3rd week of April. Milk production in Canada dropped by 5.5% in April compared to March 2020 to align with the impact of COVID-19 on demand. This is quite an accomplishment on the part of producers in a season that normally sees the highest production levels of the year. Thanks to the supply management system, production was quickly adjusted according to new demand. Milk disposal ended up being equivalent to approximately one day of production.

In addition, to help the system cope with the high volatility in demand for dairy products, the CDC and the industry responded with dairy policy changes and requested an increase in CDC's borrowing capacity in order to implement these changes. In May 2020, the government amended the *Canadian Dairy Commission Act* to increase the CDC's borrowing limit by $200 million to a total of $500 million. This increased borrowing capacity made it possible for the CDC to temporarily support storage of additional cheese and butter and amend some of its programs to help the industry manage excess milk and maintain a strong supply chain. These measures have positively contributed to enabling the industry to adapt and respond to demand at the time of recovery. The CDC will continue to monitor the situation closely and help the industry deal with the effects of the pandemic.

The CDC continues to encourage the Canadian dairy industry to grow the market, innovate and adapt to new realities by offering programs and services that benefit the industry. Through the Matching Investment Fund, which provides non-repayable contributions for innovative projects and products that increase the use of dairy ingredients, and the Dairy Innovation Program, which provides milk to processors manufacturing innovative dairy products, the CDC supports projects that introduce new products using Canadian milk or dairy ingredients.

Also important to the CDC is supporting the establishment of a highly skilled, diverse workforce that is well adapted to meet the current and future needs of the dairy production and processing sectors. The Workplace Development Initiative (WDI) includes elements such as certified post-secondary curricula and continuous training and development. This initiative provides funding to organizations and institutions for the development and training of skilled employees in dairy production and manufacturing to improve productivity and competitiveness. It also promotes graduate studies in dairy and animal science to support research and help introduce new products, technologies, and markets to the dairy industry.

As an organization, the CDC plays an important role in providing direction and leadership to the industry. We offer guidance through the chairmanship of several industry committees and offer our knowledge and expertise to resolve current and emerging issues. We are pleased that CDC Commissioner, Ms. Jennifer Hayes, was reappointed to the Board in February 2020, for a three-year term. Also, in February 2020, Mr. Bob Ingratta joined the CDC Board of Directors as the new Chairperson for a two-year term. Mr. Ingratta's recent experience includes being Chief Executive Officer of the BC Milk Marketing Board for over five years. Mr. Ingratta's diverse board experiences along with his negotiation and leadership skills are well known within the industry. We are pleased to welcome Mr. Ingratta to the CDC. His skills and experience will be great assets to the CDC and to the dairy industry.

We take this opportunity to offer our sincere gratitude to industry stakeholders, provincial governments, the Minister's Office and our colleagues at AAFC and the other portfolio organizations for their constant co-operation and support. We would also like to thank Mr. Gaëtan Paquette, special advisor to the board, for his many contributions. And we applaud the invaluable contributions of the CDC employees who run our operations with efficiency and passion, and who demonstrate daily their dedication to this dynamic industry. It is a pleasure to be part of an organization that is committed to helping the Canadian dairy industry innovate and advance for a better future.

Bob Ingratta
Chairperson

Serge Riendeau
CEO

Jennifer Hayes
Commissioner

The Canadian Dairy Industry

The Canadian dairy industry operates on a "dairy year" basis, which runs from August 1 to July 31. Most dairy policy decisions are made by a federal-provincial committee called the Canadian Milk Supply Management Committee (CMSMC). The Canadian dairy industry operates under a supply management system where raw milk production is kept in line with demand using production quotas. Other key elements of supply management include regulated prices and import controls.

MILK PRODUCTION

The dairy industry was a significant contributor to the Canadian economy during the 2019 calendar year. It generated farm cash receipts of $6.99 billion.

In 2019, 10,371 dairy farms were shipping milk in Canada. The average farm had 92 cows and an average annual production of 37,003 kg of butterfat[1], a production per farm higher than that of 2018. Quebec and Ontario had the greatest percentage of dairy farms at 81%, followed by 13% in the Western provinces, and 6% in the Atlantic provinces.

Number of Farms and Cows

	Number of farms	Number of cows (thousands)
2015-2016	11,683	954.6
2016-2017	11,280	959.1
2017-2018	10,951	945.0
2018-2019	10,679	969.7
2019-2020	10,371	968.7

1 Milk production in Canada is expressed in kg of butterfat.

Milk Production by Province (million kg butterfat)

Province	2018-2019	2019-2020
Newfoundland and Labrador	2.07	2.01
Prince Edward Island	4.92	4.84
Nova Scotia	8.29	8.30
New Brunswick	6.44	6.33
Quebec	138.79	138.85
Ontario	121.33	124.82
Manitoba	16.70	16.59
Saskatchewan	12.20	12.47
Alberta	33.68	34.47
British Columbia	34.63	35.07
Total	**379.05**	**383.75**

MILK PROCESSING

In 2019, the dairy processing industry generated $14.8 billion in products, or 12.6% of all sales of processed products in the food and beverage industry. The dairy processing sector has 523 (2018)[2] dairy processing plants in Canada and employs approximately 27 150 people.

2 The 2019 statistics are not yet available because of the new *Safe Food for Canadians Act*.

DAIRY PRODUCT CONSUMPTION

Over the last year, Canadian consumers reduced their consumption of yogurt. However, consumption of higher-fat milk products such as homogenized milk, cheeses and butter increased.

In 2019-2020, retail sales of dairy products were strong for most categories. Demand for butter and cream remained robust with a respective 11.7% and 10.2% rate of increase at the retail level. In addition, growth in per capita cheese consumption has persisted, particularly for mozzarella and other everyday cheeses.

The trend related to a steady increase in demand for higher butterfat dairy products continued until the COVID-19 pandemic significantly changed the consumption trend of dairy products in March 2020. In particular, the drastic drop in the hotel, restaurant, and institution market was not fully compensated by the slight increase in the retail market.

Production control measures stabilized milk production. As a result, CDC and private butter inventories decreased slightly while still meeting demand.

MILK MARKETS

Canadian dairy producers supply two main markets:

- fluid milk, including creams and flavoured milks
- industrial milk used to make products such as butter, cheese, yogurt, ice cream and milk powders.

In 2019-2020, fluid milk accounted for approximately 27% of total utilization or 103.1 million kg of butterfat. The industrial milk market accounted for the remaining 73% of total utilization or 279.8 million kg of butterfat.

Provincial marketing boards and agencies purchase milk from producers and sell it to processors on behalf of producers for the manufacture of dairy products. The milk sold to processors in Canada is classified according to its end use based on the Harmonized Milk Classification System[3]. The price paid for milk by processors varies according to the milk class.

3 Harmonized Milk Classification System (https://cdc-ccl.ca/index.php/en/supply-management/harmonized-system-of-milk-classification/)

The Canadian Dairy Commission

The Canadian Dairy Commission (CDC) is a Crown corporation created in 1966 by the *Canadian Dairy Commission Act*. The Commission reports to Parliament through the Minister of Agriculture and Agri-Food to whom it serves as an advisor on matters related to the dairy industry. The CDC plays a central facilitating role for the dairy industry. In addition to operating elements of the milk supply management system, managing milk price setting, and ensuring milk production meets demand, the CDC administers several programs on behalf of the industry and encourages the industry to grow the market and innovate. Activities such as audits, pooling calculations, and imports are also part of the CDC's role and are progressing as per its Strategic Plan.

The CDC is part of the Agriculture and Agri-Food Portfolio along with Agriculture and Agri-Food Canada, the Canadian Grain Commission, Farm Credit Canada, the Farm Products Council of Canada, and the Canada Agricultural Review Tribunal. The CDC also works in partnership with the Canadian Food Inspection Agency.

The federal government funds about half of the CDC's administrative costs. Other sources of funds include dairy producers, the CDC's commercial operations, and the marketplace. The CDC supports the interests of all dairy stakeholders — producers, processors, further processors, exporters, consumers and governments. The CDC borrows money from the Consolidated Revenue Fund and from a line of credit to finance the programs it administers on behalf of the dairy industry.

Since supply management was first introduced to the dairy sector, the CDC has overseen two critical parts of the system: managing milk price setting and recommending milk production quota. Through its many roles and central facilitating function in the dairy industry, the CDC ensures that Canadian dairy farmers can obtain a fair return for their labour and investment.

It is important to avoid any shortage of dairy products and just as important to avoid production surpluses that are costly to handle, store and market. The CDC monitors national production and demand and recommends the necessary adjustments to the national production target for milk while ensuring that milk production in Canada matches demand from Canadian consumers. To achieve its mandate, the CDC works with provincial governments and dairy industry stakeholders such as dairy producers, processors, further processors, and consumers. On behalf of the dairy industry, it administers the revenue and market pooling agreements and develops, implements, and administers major programs such as the Special Milk Class Permit Program, the Dairy Innovation Program, the Domestic Seasonality Programs, the Dairy Marketing Program, the Dairy Export Program and the Milk Access for Growth[4] program.

The CDC chairs the Canadian Milk Supply Management Committee (CMSMC)[5] and in this capacity, apprises the Committee on matters that require resolution and, when necessary,

4 A description of CDC's programs is presented in the section of this report entitled Programs.

5 The CMSMC is the main national decision-making body of the dairy industry.

proposes various solutions, alternatives or recommendations to enhance orderly and efficient marketing with a particular attention to avoiding deficit or surplus milk production. The CDC performs a similar role for the Eastern Canadian Milk Pool (P5) and the Western Milk Pool (WMP)[6].

The Commission employs 72 people who work in its offices which are in Ottawa, Ontario. Since the success of the CDC depends on its employees' pursuit of excellence, the CDC encourages and supports superior individual and organizational performance.

CDC AT A GLANCE

Created in 1966

72 employees (as of July 31, 2020)

Location: Ottawa

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

Administrative budget 2019-2020 (dairy year): $9.645 million

Dairy year: August 1 to July 31

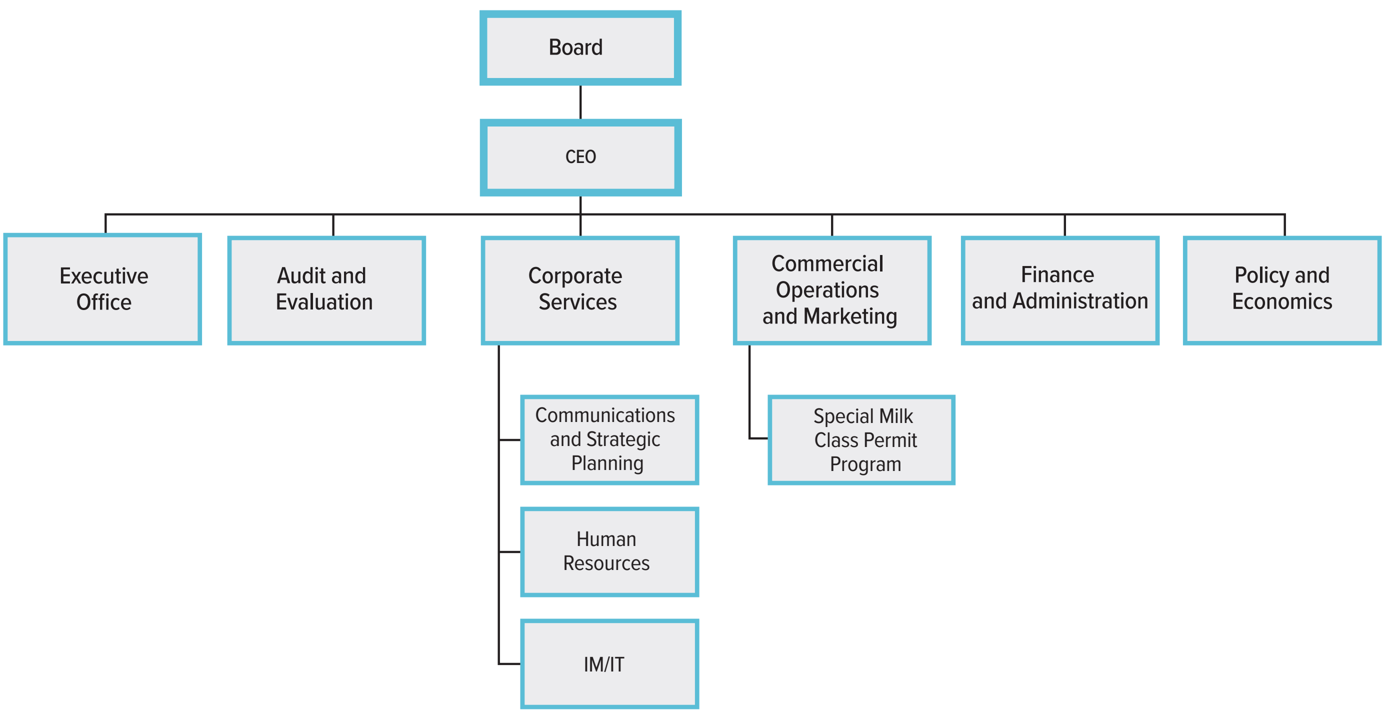
6 See p. 20 for more information on these pools.

Governance

The Canadian Dairy Commission (CDC) is governed by the *Canadian Dairy Commission Act*, the *Financial Administration Act*, and the *Federal Public Sector Labour Relations Act*. It is also governed by the following regulations:

- the *Dairy Products Marketing Regulations*
- the *EEC Aged Cheddar Cheese Export Regulations*
- the *Safe Food for Canadians Regulations*.

Structure of the Canadian Dairy Commission



GOVERNING BOARD

The governing board of the CDC is made up of a chairperson, a commissioner, and a chief executive officer (CEO). The CDC Board members are appointed by the Governor in Council and fulfill their mandates on a part-time basis. Members of the Board have a lengthy and varied experience in the dairy industry and together, they bring a balanced approach to decision-making. The governing board is responsible for the overall stewardship of the organization.

As part of the overall stewardship, the Board:

- approves the CDC's corporate plan, annual report, strategic plan, budget and financial statements;
- develops policies for the CDC and ensures that the principal business risks are identified and that appropriate systems to manage these risks are in place;
- ensures proper accountability through internal audits and evaluations of CDC's systems, practices and programs;
- reports on the CDC's activities and services to the industry as they relate to its legislated mandate and presents the related financial statements to the Canadian Milk Supply Management Committee at least four times a year; and
- receives and addresses the annual audit and the special examination reports of the Office of the Auditor General (OAG).

BOARD MEMBERS

Chairperson

Bob Ingratta
(appointed on February 5, 2020, for a two-year term)

Mr. Ingratta has acquired extensive experience as a member of various councils in the agricultural field. He has served as CEO of the BC Milk Marketing Board for more than five years before becoming a director of the Real Estate Board of Greater Vancouver and the Azura board of directors. His work on these various boards has allowed him to gain experience in negotiating, building relationships with different types of stakeholders, and providing sound and innovative governance services. Mr. Ingratta is the former president of the International Association of Milk Control Agencies and has extensive international regulatory experience gained in Japan, Europe, and Africa.

Commissioner

Jennifer Hayes
(reappointed on February 5, 2020, for a three-year term)

Jennifer Hayes is a dairy and beef farmer on Quebec's Gaspé Peninsula. She has extensive governance experience as an active member of the UPA (Union des producteurs agricoles). In addition to her position as a regional elected board member for Les Producteurs de lait de la Gaspésie-Les-Îles, Ms. Hayes was regional vice president for the beef producers' association, and an executive member of the provincial cull cattle and bob calf marketing committee. Ms. Hayes is recognized as a skilled rural development consultant in Eastern Quebec, specializing in official language minority communities, active in development initiatives across the province.

Chief Executive Officer

Serge Riendeau
(appointed May 14, 2018, for a three-year term)

Serge Riendeau is a leading figure of the Canadian dairy industry. He occupied a position on the board of the Agropur cooperative for 26 years and was its president for 15 years. In 2017, Mr. Riendeau retired and left his position as president of the cooperative. His management experience is rich and varied. From 1991 to 1997, Mr. Riendeau was involved in municipal politics as a counselor and mayor of the town of Barnston in Quebec. Mr. Riendeau has been operating a 700-acre dairy farm for 44 years: Riendeau et Gendron Inc. The dairy farm is located between Coaticook in Quebec and the American border. The herd has more than 500 heads.

COMMITTEES

BOARD COMMITTEES

Audit Committee

The Audit Committee ensures proper accountability over CDC operations as required by the *Financial Administration Act*. It reviews and approves the annual audit plan of the Auditor General and actively solicits the OAG expertise regarding the corporation's accounting principles and financial reporting. The committee meets quarterly to review the financial statements and receive internal audit and program evaluation reports.

Members

- Commissioner (chair)
- Chairperson
- Chief Executive Officer

Senior Management Team

The Senior Management Team (SMT) meets approximately every two weeks to discuss the daily operations of the CDC and to make the required decisions. During the COVID-19 pandemic, the SMT met daily to ensure continuity of operations and to support the industry through the many challenges that emerged.

It is supported by five advisory committees that develop plans and priorities, and advise management on human resources, internal audits and program evaluation, security, cybersecurity, and occupational health and safety. The SMT creates and amends CDC policies and reviews the administrative budget before it is presented to the Board. It also addresses issues relating to human resources, audit, evaluation, and governance, and acts as a sounding board for the CEO on industry-related matters and on recommendations to be presented to the Board.

Members

As of July 31, 2020, in addition to the CEO, the following positions make up the SMT:

- Senior Director, Commercial Operations and Marketing
- Director, Audit and Evaluation
- Director, Corporate Services
- Director, Finance and Administration
- Director, Policy and Economics
- Corporate Secretary
- Chief Security Officer

MANAGEMENT COMMITTEES

Human Resources Advisory Committee

The Human Resources Advisory Committee's mandate is to provide advice to the SMT on human resources priorities and initiatives. It meets twice a year or at the request of the chair.

Members

Director, Corporate Services (chair)
Manager, Human Resources Programs
Advisor, Human Resources (secretary)
A representative of employees in each service
A representative of managers

Internal Audit and Program Evaluation Advisory Committee

This committee develops internal audit and program evaluation plans for the review of CDC's systems, programs, policies, and practices. It is also responsible for monitoring the progress of internal audits and program evaluations as per the approved plans and of the resulting management actions. It meets at least three times per year and at the request of the chair.

Members

Chief Executive Officer (chair)
Senior Director, Commercial Operations and Marketing
Director, Audit and Evaluation
Director, Corporate Services
Director, Finance and Administration
Director, Policy and Economics
Manager, Audit
Senior Financial Officer

Occupational Safety and Health Committee

The Occupational Safety and Health Committee (OSH) serves as an advisory body to the SMT for all matters relating to the health and safety of CDC employees as mandated by the Canada Labour Code and associated regulations.

Members

An employee representative (co-chair)
An employer representative (co-chair)
A secretary
An employee representative
Champion of Mental Health (*ex officio*)

Risk and Security Committee

The Risk and Security Committee's mandate is to assist the SMT in meeting the security requirements of the Government of Canada related to the CDC's employees, information and assets, as well as in identifying and monitoring corporate risks and controls.

Members

Chief Security Officer
Director, Corporate Services
Audit Manager

Cyber Security Committee

The Cyber Security Committee (CSC) has been formed to manage all aspects of cyber security for the CDC. It evaluates incoming cyber security threats as they affect the assets and infrastructure, provides a forum to discuss emerging cyber-related risks and applies and maintains security policies on all IT security tools used at the CDC.

Members

Chief Security Officer
Information Technology Security Coordinator
Database Manager

CORPORATE GOVERNANCE

Planning and Reporting

In the fall of 2019, the Board approved the Annual Report and Financial Statements of the CDC for the 2018-2019 dairy year. In April 2020, the Board also approved the CDC's Corporate Plan for the period starting in 2020-2021 and ending in 2024-2025. The Corporate Plan contains all the major directions of the corporation as well as its forecasted budgets and borrowing plan. As a result of the $200 million increase to the CDC's borrowing limit, the CDC had to submit an amended version of the 2019-2020 Corporate Plan along with the 2020-2021 Corporate Plan. These two documents were approved by Treasury Board on June 15, 2020.

Chantal Laframboise, Director, Finance and Administration; **Danie Cousineau,** Corporate Secretary; **Christine Boutin,** Senior Director, Commercial Operations and Marketing; **Hossein Behzadi,** Director, Audit and Evaluation; **Benoit Basillais,** Director, Policy and Economics; **Chantal Paul,** Director, Corporate Services

The CDC updated its Corporate Risk Profile in January 2020. The profile defines each risk, describes the existing and additional measures for managing the risk and the group responsible for implementing these measures. It is considered when performing the environmental analysis during the strategic planning process. The Audit Committee approves the measures contained in the Corporate Risk Profile and these measures are monitored by the Internal Audit and Program Evaluation Advisory Committee on a regular basis.

Audit and Evaluation

The Audit and Evaluation division carried out a program evaluation of the Milk Access for Growth (MAG) Program to assess the relevance and effectiveness of the MAG in relation to the program objective of growing the overall Canadian demand for milk and milk products. The evaluation was completed at the end of 2019; the report was presented to the Internal Audit and Program Evaluation Advisory Committee as well as to the Audit Committee and is currently pending approval.

Annual Public Meeting

The CDC held its annual public meeting in January 2020 in Ottawa. This meeting is open to the public and is generally attended by about 50 representatives of the dairy industry. It gave the CDC the opportunity to report on its financial statements and strategic objectives for the past and current dairy years and to answer any questions from participants. In addition, the CDC was honoured to have the Honourable Marie-Claude Bibeau, Minister of Agriculture and Agri-Food Canada, as the guest speaker at this year's meeting. Honourable Bibeau spoke openly and offered great reassurances to participants that the Government of Canada supports dairy supply management and will continue to make efforts to protect it.

Activities

The Canadian Dairy Commission (CDC) monitors demand and adjusts the supply of milk, ensures a fair return to producers, encourages market development, provides auditing services, and supports the industry by providing expertise and logistical services, and administering various programs.

SUPPLY MANAGEMENT

Determining and Adjusting Quotas

The CDC monitors trends in total demand[7] and milk production (supply) monthly. This allows it to adjust the national production quota every month to reflect changes in the demand for milk products. The objective when establishing production quota is to minimize the possibility of shortages or surpluses in the domestic market. Any surplus that occurs is managed by adjusting the quota, by temporarily storing surpluses at the expense of producers or, as a last resort, by exporting dairy products within Canada's trade commitments.

In 2019-2020, total butterfat demand increased by 1.95% from the previous year, to reach 390.9 million kg of butterfat. During the same period, the total quota also increased by 1.95%. This low growth rate is mainly due to the COVID-19 crisis. Prior to COVID-19, total butterfat demand was showing a stronger growth rate of 3.6% on average compared to the previous year. The industry quickly put in place strong production control measures to respond to the market impacts of COVID-19. CDC and private butter inventories decreased slightly while still meeting demand.

Total Requirements, Quota and Production (million kg butterfat)

	Total Requirements	Total Quota	Total Production
2015-2016	345.61	342.91	338.78
2016-2017	365.37	362.69	358.21
2017-2018	371.94	369.17	380.03
2018-2019	383.42	380.71	379.05
2019-2020	390.90	388.12	383.75

7 The quantity of butterfat required to fulfill domestic demand and planned exports for dairy products.

A new methodology to calculate quota was introduced in October 2018 and has been well received by the industry. These changes assured that quota did not deviate from demand. Also, the continuous monitoring of quota has allowed some flexibility to provincial marketing boards while at the same time maintaining discipline at the national level.

In addition to a more responsive quota system, the CDC has developed forecasting tools to help marketing boards with quota issuance. The CDC recently revised its forecasting model and changed the demand base year for the calculation from 2015-2016 to 2014-2015. The previous base year was overestimating demand while the new one has been very accurately forecasting demand since 2018. For dairy year 2019-2020, the CDC forecasted a revised total requirements of 396.9 million kg butterfat, and the actual total requirements were 390.9 million kg butterfat. This represents a margin of error of 1.5%. In large part, demand has only been below forecast since April due to the COVID-19 pandemic. Prior to COVID-19 forecasts slightly overestimated demand by 1.7%.

Adjusting Supply

The Domestic Seasonality Programs allow the industry to cope with the seasonal fluctuations of supply and demand. The industry has mandated the CDC to operate these programs in co-operation with the private sector. Generally, the CDC buys and stores butter in the spring and summer and sells it to processors in the fall. These purchases and sales are transacted at support prices.

Due to the impact of the COVID-19 pandemic on demand for dairy products, the CDC put in place, at the request of the industry, a storage program for cheese (Plan C) which is similar to other Domestic Seasonality Programs. The program was launched with a CMSMC decision April 17, 2020 for cheese produced up to July 31, 2020 in the East and up to August 31, 2020 in the West. Eligible cheeses under the program include cheddar, aged cheddar, mozzarella, and pizza mozzarella. The Plan C cheese program was designed to support processors by purchasing cheese from processors who commit to repurchasing the product within a predetermined period. The cheese is bought and sold at the same price. Additionally, under this program the CDC signs a storage agreement with cheese makers who remain responsible for the storage of the product. The CDC provides a monthly payment to the processors to defray storage costs. The duration of the storage contract depends on the type of cheese.

Removing Surplus

The CMSMC directs the CDC in the operation of the Surplus Removal Program. The program ensures that milk surplus in the domestic market is removed in the appropriate region and in a timely fashion. Returns from this program are shared among all Canadian producers through the Comprehensive Agreement on Pooling of Milk Revenues. The CDC did not export dairy products in 2019-2020 under the Surplus Removal Program.

As planned, CDC inventories of skim milk powder (SMP) for animal feed for the domestic market were completely depleted in March 2019.

CDC Inventory

	Opening inventory	Purchases	Sales	Closing inventory
	tonnes			
Butter	20,586	26,607	32,378	14,815

Imports

Under the terms of the 1995 World Trade Organization (WTO) Agreement on Agriculture, Canada has established tariff rate quotas (TRQ) for numerous dairy products. TRQs are the quantities of products that can enter Canada with little or no duty. With the support of the industry, the CDC has acted as the receiver of butter imports under the WTO TRQ through federal permits since 1995 and has directed this product to the food sector through butter manufacturers. The TRQ for butter is 3,274 tonnes. Of this, approximately two thirds (2,000 tonnes) are specifically allocated to New Zealand.

During the 2019-2020 dairy year, the CDC imported its full TRQ commitment of butter, including more than 2,000 tonnes from New Zealand.

PRODUCER RETURNS

Pricing

As part of the supply management system, the price that producers get for their milk is regulated and varies depending on the end use of the milk. Price adjustments at the farm level for milk classes 1 to 4 are based on a combination of annual changes in the cost of production and the consumer price index, as well as various factors relative to markets outside Canada. The cost of production is measured annually by the CDC and the consumer price index is obtained from Statistics Canada.

Following a review of Canadian farm gate milk prices and various other costs used in administering the supply management system, the farm gate milk prices increased by 1.93% on February 1, 2020. This increase in producers' revenues partially offset production costs, which had risen by 2.8% since the previous year despite productivity gains. The increase in the cost of production was mainly related to livestock feed costs and other variable costs.

The CDC's butter storage fees were also increased because of the need for higher levels of butter stocks to satisfy demand. The Commission stores a certain quantity of butter in order to guarantee an adequate supply throughout the year, and to prevent shortages. These fees are paid by the marketplace and represent, in the case of butter for example, one cent per pound of butter (454 grams). This increase, combined with the rise in the price of raw milk, resulted in an average increase of 1.97% in the price charged to processors.

In order to reflect these changes, the support price for butter used by the CDC in its Domestic Seasonality Programs increased from $8.3901 per kg to $8.6034 per kg on February 1, 2020. It should be noted that the consumer price index for dairy products has risen by only 1.6% since 2014, whereas the index for food in general has risen by 11.2%.

Pooling of Markets and Producer Returns

In its role as a national industry facilitator, the CDC administers the three federal-provincial agreements that frame the sharing of revenues and markets among Canadian milk producers. For milk producers, milk revenue pooling arrangements are a way to manage the financial risks associated with changing domestic markets. The pooling of income from the sale of milk allows producers to receive an average price per hectolitre or per kilogram of components.

Comprehensive Agreement on Pooling of Milk Revenues (P10 Agreement)

The Comprehensive Agreement on Pooling of Milk Revenues provides a means for the market returns from the sale of milk to processors under the Special Milk Class Permit Program (SMCPP) and a few specific milk classes to be shared among the dairy producers of all ten provinces. Based on this agreement, the CDC administers the SMCPP on behalf of the industry.

The SMCPP was implemented in 1995 to allow further processors to remain competitive in the marketplace. Through this system, milk components are made available at competitive prices to manufacture dairy ingredients destined for use in further processed products. Further processors can access these dairy ingredients by means of a Special Class permit issued by the CDC.

SMCPP – Volume of milk sold (million kg butterfat) and average producer revenue ($/standard hl)*

Class		2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
5(a) (cheese)	Volume	7.96	8.56	8.58	9.32	9.94
	Price	$44.18	$47.49	$44.00	$45.25	$51.62
5(b) (other ingredients)	Volume	11.82	13.79	19.16	23.85	27.26
	Price	$40.66	$43.26	$41.42	$48.10	$46.02
5(c) (confectionery)	Volume	5.31	4.67	2.91	2.91	4.33
	Price	$27.68	$37.94	$40.13	$41.62	$38.38
Total	**Volume**	**25.09**	**27.02**	**30.65**	**36.08**	**41.53**
	Price	**$38.99**	**$44.56**	**$43.00**	**$45.56**	**$49.47**

*Prices are calculated at 3.6 kg of butterfat per hectolitre, using the latest compositional standards for all dairy years.

Class 5(a) permits are issued for cheese used as an ingredient in further processing for the domestic and export markets. Class 5(b) permits are issued for all other dairy products used as ingredients in further processing for the domestic and export markets. Class 5(c) permits cover dairy products used as ingredients in the confectionery sector destined for the domestic and export markets.

Further processors used the equivalent of 41.5 million kg of butterfat in the 2019-2020 dairy year, an increase of 15% over the previous year. The increase is mostly explained by additional sales of Canadian butter for further processing. The average revenue obtained by producers from these three classes amounted to $49.47/hl compared to $45.56/hl for the previous year. The number of active program participants on July 31, 2020, amounted to 1,924.

Among the other classes from which revenues are shared nationally were classes 6 and 7. These classes were eliminated as required by the Canada – United-States – Mexico Agreement (CUSMA). Because components formerly in these classes have been reclassified based on their end use in classes 1 to 4, revenues from these classes are now pooled nationally as well as regionally according to the regional agreements explained below.

REGIONAL POOLING AGREEMENTS

Agreement on the Eastern Canadian Milk Pooling (P5 Agreement)

The Agreement on the Eastern Canadian Milk Pooling, also known as the P5 Agreement, provides a means for revenues from all milk sales, transportation costs, markets, and the responsibility for skim-off[8] to be pooled among dairy producers in Ontario, Quebec, New Brunswick, Nova Scotia and Prince Edward Island. The CDC chairs the meetings of the Supervisory Body of the pool, administers the pooling agreement, completes pooling calculations, and provides technical expertise and secretariat services to the P5.

Western Milk Pooling Agreement

Since 1997, Manitoba, Saskatchewan, Alberta and British Columbia form the Western Milk Pool (WMP) which shares revenues and markets for all milk classes. The CDC chairs the WMP Coordinating Committee and administers the pooling agreement, performs the pooling calculations and provides technical expertise and secretariat services.

8 Excess butterfat from the fluid milk market.

Activities of Regional Pools

During the 2019-2020 dairy year, P5 technical working groups tackled the evaluation of programs within the pool such as the Harmonized Milk Allocation Policy, the 1c/4c program, and the Skim Milk Redirection Program. The P5 Technical Committee evaluated the programs' success to date and identified areas of improvement while considering adaptability for the future. The pool will continue the evaluations into the 2020-2021 dairy year.

During the 2019-2020 dairy year, the CDC continued to provide technical support to the WMP technical groups at their request.

Harmonization of policies and activities between P5 and WMP provinces continues to progress. P5 and WMP technical working groups addressed challenges related to the post CUSMA environment throughout the dairy year.

Milk deliveries (million kg of butterfat)

	P5	WMP
Fluid milk	64.93	37.01
Industrial milk	218.17	61.32
Total	**283.10**	**98.33**

EXPORTS

During the 2019-2020 dairy year, there were no exports of skim milk powder in Class 5(d). In addition to the cheese exported under the Dairy Export Program (DEP), the CDC issued Class 5(d) permits to Canadian exporters for 4,936 tonnes of cheese. All exports in Class 5(d) were within Canada's trade commitments.

AUDITING

The table on page 22 explains the various audit roles of the CDC.

Most external audits cover companies participating in the Special Milk Class Permit Program (SMCPP). Risk assessment is used to identify high-risk companies among program participants. In conjunction with SMCPP audits, the CDC audits companies participating in the Import for Re-export Program (IREP) which is administered by Global Affairs Canada. During the 2019-2020 dairy year, a total of 28 SMCPP audits were conducted compared to 45 audits the previous year. Many audits were cancelled due to the COVID-19 pandemic.

Audits for Milk Class 3(d) (Mozzarella for fresh pizzas) were performed and covered selected independent pizzerias and distributors. In 2019-2020, 35 pizzerias and distributors were audited. Targets were reduced compared to prior years, as this was considered a low-risk area.

Export limits and products exported

	Subsidy limit (million kg)	Quantity of products exported (million kg)	Subsidy limit (million $)	Subsidy value on exported products (million $)
Butter	0.905	0	11.025	0
Cheese	6.041	4,936	16.228	12.835
Skim milk powder	18.147	0	31.149	0
Other dairy products	14.189	0.660	22.505	0.38
Incorporated products	n/a	0	20.276	0

Audits of Class 7 are underway in collaboration with provincial auditors. A total of 26 joint audits were conducted in 2019-2020, which is lower than our projected target of 45. This is mainly due to the impacts of CUSMA and the resources required to finalize its implementation. During the joint audits, the CDC contributed valuable expertise and supported harmonization of audit practices. Overall audit results were positive in this regard.

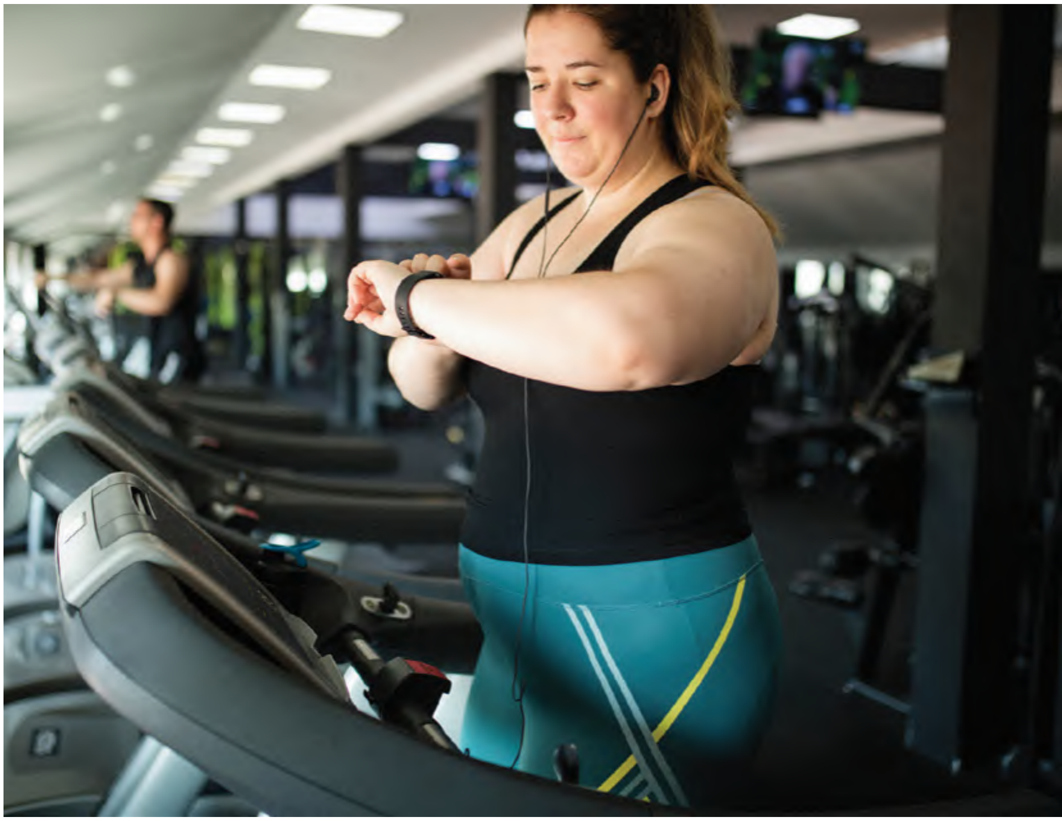
The CDC also performs the milk plant utilization audits on a cost-recovery basis in Newfoundland and Labrador, Prince Edward Island, Nova Scotia, New Brunswick, Manitoba, Saskatchewan, and, as of July 2, 2020, Alberta. The CDC is pleased to welcome Alberta auditors as part of its Audit Division.

As of July 31, 2020, routine audit recoveries in the SMCPP totaled $68,081. These funds were returned to producers. These recoveries are significantly lower than historical averages due to improved understanding of program requirements by long-term participants, as well as to the cancellation of several SMCPP audits given the COVID-19 situation.

National Milk Utilization Audit Standards and Harmonization of Practices

In parallel with its auditing work, the CDC provides audit expertise and promotes the harmonization of procedures through the National Milk Audit Advisory Committee (NMAAC). This committee brings together CDC auditors, provincial auditors, as well as representatives from milk marketing boards and the dairy processing industry twice a year. In 2019-2020, additional NMAAC meetings were held to update the National Milk Utilization Audit Standards (NMUAS). The new version incorporated CMSMC decisions from 2016 to May 31, 2020 into the existing manual and was approved by CMSMC on June 19, 2020. Furthermore, NMAAC has started to chart the changes required to NMUAS due to the implementation of CUSMA. The process will cover CMSMC decisions from June 2020 as well as new NMAAC initiatives. The CDC continued to play a coordinating and training role relative to the implementation of CMSMC decisions having audit implications. This includes ensuring Milk Utilization Verification systems (MUV and Syslait) are properly implemented and certifying the accuracy of their calculations. The CDC also monitors key industry changes and trends and shares information with auditors of other jurisdictions to continually improve audit outcomes for all provinces.

Type of audit	Auditee	Purpose of audit
Revenue Sharing	Provincial boards	Verify completeness of pooled revenues from all 10 provinces
Milk Utilization	Processors	Verify accuracy and completeness of milk components reported in utilization classes and related programs (i.e. School Milk Program, DIP, etc.) in 7 provinces (NL, PE, NB, NS, MB, SK, AB)
IREP	IREP participants	Verify compliance with program requirements on behalf of Global Affairs Canada
Milk Class 3(d)	Distributors and restaurants using Mozzarella on fresh pizza	Verify compliance with class requirements
Special Milk Class Permit Program	Distributors and further processors	Verify compliance with program requirements
Class 7	Class 7 participants	Verify compliance with class requirements



INDUSTRY SUPPORT

Canadian Milk Supply Management Committee

The Canadian Milk Supply Management Committee (CMSMC) is a national body for policy development and discussions in the sectors of dairy production and processing. It includes milk marketing boards and government representatives from all provinces and non-voting representatives from national consumer, processor and producer organizations. As chair of the CMSMC, the CDC provides ongoing leadership, advice, and analysis to the Canadian dairy industry, in close cooperation with national and provincial stakeholders.

Secretariat, IT and Translation Services

During the 2019-2020 dairy year, the CDC coordinated 160 meetings, webinars and conference calls and translated over 700 documents in support of the regional pools, the CMSMC, and several working groups and national committees. Due to the measures put in place to fight COVID-19, the industry held its meetings on virtual platforms starting in mid-March 2020. This meant more numerous but shorter meetings.

Programs

The Canadian Dairy Commission administers several programs related to market supply and growth on behalf of the Canadian Milk Supply Management Committee (CMSMC).

Class 3(d)

Class 3(d) was created to encourage restaurants to use Mozzarella on fresh pizzas. In 2019-2020, 974 restaurants joined the program for a total of 12,133 active program participants. The total amount of Mozzarella used in the program for this dairy year amounted to 51 million kg compared to 54 million kg[9] in 2018-2019. The decrease in usage can be attributed to lower sales of pizzas thus requiring less cheese from cheese suppliers during the COVID-19 pandemic.

Dairy Marketing Program

The CDC continues to encourage growth and innovation in the manufacture and use of dairy products and components. Canada produces over 1,050 cheeses, most of which are made with cow's milk. Innovation programs administered by the CDC have contributed to the development of some of these products. The Dairy Marketing Program, through the Matching Investment Fund (described below), helps manufacturers and food science centres access the technical support and expertise they need to develop innovative dairy and food products and to bring them to market. Through the MILKingredients.ca web site, dairy processors and further processors can apply for programs, and find up-to-date information on milk prices and dairy ingredients.

In 2019-2020, the CDC participated in the Restaurants Canada trade show and other food science and industry events to promote the Dairy Innovation Program, the Matching Investment Fund, the Special Milk Class Permit Program as well as other services the CDC offers to dairy processors and food manufacturers.

9 In the 2018-2019 Annual Report, it was reported that 52 million kg of mozzarella was used in the program during that dairy year. The actual amount used was 54 million kg as stated above. Quantities are subject to fluctuation based on processor reporting. Processors frequently adjust their reporting up to 90 days after they have submitted their original data.

Matching Investment Fund

The Matching Investment Fund (MIF) is designed to help eligible companies and food technology centres with product development initiatives that help stimulate demand for Canadian dairy products and ingredients. Launched in 2009, the MIF has financed 33 innovation projects. Cheese, skim milk powder, and fluid milk are the main ingredients involved in these projects for the development or reformulation of products such as infant food formula, dairy desserts, beverages, cheese-based and nutraceutical[10] products, and dairy-based confectionery products.

In 2019-2020, the MIF received 10 applications. During the same period, five applications were approved. Approved projects include activities such as consultation services, recipe formulation, product testing, and technology transfer.

Dairy Innovation Program

The Dairy Innovation Program (DIP) encourages the manufacture of new and innovative products on the domestic market. It allows for the addition of specific volumes of milk to provincial quotas to ensure that the milk supply needed to produce innovative products is available to successful applicants.

This year, 14 applications were received under the DIP. As of July 31, 2020, 11 applications were approved by the selection committee. These projects represent a potential total utilization of 68.3 million litres over three years.

During the 2019-2020 dairy year, dairy processing companies across Canada used approximately one million litres of milk to manufacture innovative cheeses, butters, and dairy beverages in the provinces of Ontario, Québec, and British Columbia.

Dairy Export Program

The Dairy Export Program (DEP) aims to support the export of up to 3,000 tonnes of cheese per dairy year as well as the export of other dairy products. Applicants must be federally licensed plants or exporters and all exports are within Canada's trade commitments. In 2019-2020, 2,235 tonnes of cheese and 659,918 litres of ultra-high temperature (UHT) milk were exported under the DEP. The DEP will come to an end December 31, 2020 as part of Canada's commitment under the WTO Nairobi Decision.

Milk Access for Growth Program

The Milk Access for Growth (MAG) Program guarantees a sufficient supply of milk to encourage new investments in the dairy sector to grow the overall Canadian demand for milk and milk products. These investments include expansion and/or establishment of plants by Canadian dairy processors, further processors of food or any other products, or Canadian or foreign investors seeking to establish a business in Canada. The program may be used for new as well as existing products (dairy or other products containing dairy ingredients), with the emphasis being placed on growth. Agreements for projects previously approved have been finalized and signed. Milk delivery for the current MAG projects commenced in December 2019. Plant commissioning activities took place for approved MAG projects in winter and spring of 2020. Commercial production for the projects is anticipated to begin early in the 2020-2021 dairy year.

Always striving to offer programs that are relevant to the current market conditions, the CDC decided to suspend new applications in March 2019 while the CDC conducted a review of the MAG program to better serve the needs of the dairy industry and ensure its relevance in future years. As mentioned previously, the Audit and Evaluation Division carried out a program evaluation of MAG to assess its relevance and effectiveness

10 Nutraceutical refers to foods thought to have a beneficial effect on human health. The classic example is yogurt with probiotics. Some specific milk proteins could also have benefits, but more research is needed.

in relation to the program objectives. The final report was presented to the Internal Audit and Program Evaluation Advisory Committee as well as the Audit Committee and is pending approval.

Dairy Direct Payment Program

As part of the 2019 Federal Budget, the Government of Canada announced a $3.9 billion compensation package for supply-managed farmers, including dairy farmers, related to the impact of the CPTPP and CETA. In August 2019, the Minister of Agriculture and Agri-Food Canada (AAFC) announced that the dairy farmers' share would account for $1.75 billion over eight years.

The CDC was mandated by AAFC to administer the first year of the program, which totaled $345 million.

The CDC offered payments to 10,346 dairy producers under the DDPP. The CDC worked closely with AAFC and provincial milk boards to ensure efficient and timely delivery of these payments. Eligible producers had to register for the program between November 20, 2019, and March 1, 2020, to receive their payment before the end of the program on March 31, 2020. At the end of the program, 96% of producers in Canada had registered and received their payment and 98% of the funds had been disbursed.

Workforce Development Initiative

The CDC supports the establishment of a highly skilled, diverse workforce for the dairy producing and processing sectors. Following an inclusive consultation process with dairy industry and academia partners, the CDC launched the Workforce Development Initiative (WDI) in April 2018. The WDI encourages productivity, competitiveness and innovation by supporting the education and recruitment of a dynamic workforce. It is composed of four funding programs:

1. Scholarship Program: scholarships for graduate students in fields related to the dairy industry

2. Career Promotion Program: promotion of careers in the dairy industry

3. Education Program: creation of government-certified, full-time education programs in order to train qualified staff to work in dairy plants

4. Continuing Education Program: opportunities for continuing education of current dairy plant and farm staff

A total of $5 million is available for a 3-year period (subject to availability of funds).

With funds remaining in the initial WDI budget, the CDC Board of directors decided in the Spring of 2019 to launch a second round of the Scholarship Program due to its popularity and success. During the 2019-2020 reporting period, $325,001 was disbursed for a total of 4 Ph.D.'s and six master's degrees. The University of Alberta received $115,834, the University of Calgary received $66,667 and the University of British Columbia received $142,500 in scholarship funding for projects approved by the CDC. To date, the Scholarship Program under the WDI has disbursed $1.6 million and contributed to a total of 12 Ph.D.'s and 14 master's degrees.

A second round of applications to the Education, Continuing Education and Career Promotion Programs was opened in August 2019. There were 6 applications submitted under the Continuing Education Program and two applications submitted under the Education Program. There were no applications received under the Career Promotion Program in 2019.

Of the applications submitted under the Education Program, two were accepted. They include a Masters in Dairy Technology by the University of Guelph and a partnership between the Ontario Dairy Council, Collège La Cité and Conestoga College in Ontario to develop educational materials and transition workshops in both official languages for high school students.

There were five applications accepted under the Continuing Education Program:

- AGRIcarrières in Quebec, in collaboration with the UPA, les Producteurs de lait du Québec and the Mastitis Network, is creating a training program to integrate new workers into the dairy farming industry.
- AGRIcarrières, in collaboration with les Producteurs de lait du Québec, will develop training material for the use of robotic milking systems.
- Dalhousie University, in partnership with Dairy Farmers of New Brunswick, Dairy Farmers of Nova Scotia and Dairy Farmers of PEI, is designing a certificate program for the management of a high-performance herd.
- The CEGEP de Chicoutimi and the Centre d'expertise fromagère du Québec in partnership with the Conseil des industriels du Québec, are creating a course in cheese-making techniques.

A total of just over $1 million in funding was approved for the projects under these programs in 2019. Since the launch of the program, 8 projects have been approved and over $1.5 million has been awarded to create new learning and career opportunities in the Canadian dairy industry.

Performance and Goals

This section lists the goals set by the Canadian Dairy Commission (CDC) for 2019-2020 and describes the objectives, performance indicators and results related to each.

ACHIEVEMENTS FOR 2019-2020

The CDC has achieved most of its objectives. However, the COVID-19 pandemic, changing industry priorities and market forces have hindered the achievement of some of them.

Innovation, investment, and growth in the Canadian dairy sector

5-year objective	Performance measure for 2019-2020	Target for 2019-2020	Results	% complete
Investments and innovation have contributed to the growth and the sustain-ability of the Canadian dairy industry.	Number of litres of milk used in the Milk Access for Growth Program (MAG)	22 million litres	2.5 million litres MAG projects began commissioning activities in December 2019, later than forecasted.	11
	Percentage of butterfat used in MAG and DIP vs quota	0.5% per year	0.46%.	92
	Number of innovative dairy products introduced through the Dairy Innovation Program	2	11	100

Role of the CDC

5-year objective	Performance measure for 2019-2020	Target for 2019-2020	Results	% complete
The CDC is known for its leadership and its support of the industry in promoting a common approach.	Percentage of CDC-led recommendations to industry committees that have been accepted	75%	Accepted recommendations include amendments to data dissemination and classification, adjustments to Class 3 SNF prices and adoption of the 2019-2020 audit manual.	80
	Number of invitations to speak/ facilitate/train at non-CDC meetings (excluding reports to provincial boards' annual general meetings)	12	11	92
	Number of registrations to online training modules	8	54	100

Administration of the milk supply management system

5-year objective	Performance measure for 2019-2020	Target for 2019-2020	Results	% complete
A well administered, responsive, and well understood supply management system.	Time from receipt of pooling data to quota allocation and money transfers	8 days maximum	Calculation and fund and data transfers on target.	100
	Number of audits	31 MUA	29 MUA	76
		40 SMCPP	28 SMCPP	
		45 Class 7	26 Class 7	
		5 IREP	0 IREP	
		10 Revenue Sharing	9 Revenue Sharing	
		35 Class 3d	35 Class 3d	
		2 Internal Audits	0 Internal Audits	
		2 Program Evaluation	0 Program Evaluation	
	CDC demand forecasts vs. actual demand	Within 2% of actual demand	Prior to COVID-19: -1.53% After COVID-19: -2.30%. Revision required. After July 2020 revision: -0.76%	100
	Difference between the COP and the expected producer revenues	A maximum of +/-3.5%	-4.83% COP increased despite productivity gains, while SNF prices pulled revenues downward.	70

Functioning of the CDC

5-year objective	Performance measure for 2019-2020	Target for 2019-2020	Results	% complete
The CDC is organized and has the resources to continue to support the dairy industry into the future.	Level of staff satisfaction as measured by an annual survey	80% or more	97%	100
	Number of tools or policies developed and adapted to better support the industry	4	4 policies developed: Revised classification. Revised pricing method. Revised pricing adjustment method. Revised component tracking policy.	100
	Turnover rate	Maximum 10%	6.8%	100
	Assessment of employees' performance	90% of employees have satisfactory performance or higher in their end-of-year evaluation (fall 2019)	100% of completed evaluations	100

GOALS FOR THE PERIOD 2020-2021 TO 2024-2025

The CDC's performance objectives for 2020-2021 are based on the strategic themes and 5-year goals identified in its Corporate Plan.

Theme: Innovation, investment, and growth in the Canadian dairy sector
5-year goal: Investments and innovation have contributed to the growth and the sustainability of the Canadian dairy industry.

Performance indicators	5-year Target
Number of litres of milk used in the Milk Access for Growth program (MAG)	160 million litres
Percentage of butterfat used in MAG and DIP vs. quota	4% cumulative
Number of programs created, reviewed, or modified to better meet the future needs of the industry	As needed

Strategy: Maximize markets for dairy products and ingredients.	
Year	**Objective**
2020-2021	Acquire better expertise on current markets and regulations and share this information with industry.
Strategy: Ensure that the programs and services offered by the CDC remain relevant and contribute to the sustainability of the Canadian dairy industry.	
Year	**Objective**
2020-2021	Adapt CDC's programs and resources to make the industry more sustainable.

Theme: CDC's support towards the dairy supply management system

5-year goal: Support the Canadian dairy industry in its adaptation to the new environment brought about by new international trade agreements.

Performance indicators	5-year Target
Percentage of CDC-led recommendations to industry committees that have been accepted	85%
Number of invitations to speak/facilitate/train at non-CDC meetings (excluding reports to provincial boards' annual general meetings)	20 per year
Number of registrations to the updated online training modules	30 per year

Strategy: Produce reliable data and analyses for dairy industry stakeholders, including governmental agencies.	
Year	**Objective**
2020-2021	Industry and government have access to value-added data for decision-making.
Strategy: Create a safe environment to exchange viewpoints on how to adapt supply management to the new environment.	
Year	**Objective**
2020-2021	Help the industry update the pooling agreements and harmonize policies, systems and practices related to the administration of the supply management in the dairy industry, including audits.
Strategy: Improve industry knowledge of the Canadian dairy supply management system, including its success factors.	
Year	**Objective**
2020-2021	Increase the understanding of the relationships between the elements of the supply management system and of the roles of the various stakeholders.

Theme: Administration of the milk supply management system
5-year goal: A well-administered and responsive supply management system.

Performance indicators	5-year Target
Time from receipt of pooling data to quota allocation and money transfers	8 days maximum
Number of audits	20 audits of Class 3(d) 40 audits of SMCPP 3 audits of IREP Other audits as needed
CDC demand forecasts vs. actual demand	Within 2% of actual demand
The criteria for exceptional circumstances were reviewed in consultation with the industry	Criteria reviewed
The support price for butter was reviewed and updated if needed	Support price reviewed and updated if needed

Strategy: Promote a market-responsive management of milk supply.	
Year	**Objective**
2020-2021	The quota management system reacts to market trends in the context of international agreements.
Strategy: Ensure that efficient producers receive fair returns.	
Year	**Objective**
2020-2021	• Measures are taken to ensure that efficient producers receive fair returns. • Revenue pooling calculations are timely and accurate.
Strategy: Ensure that Canadian milk production meets demand.	
Year	**Objective**
2020-2021	• There is timely and sufficient supply of dairy products in the Canadian market. • There is timely and accurate allocation of quota to meet demand

Theme: Functioning of the CDC

5-year goal: The CDC is organized and has the resources to continue to support the dairy industry into the future.

Performance indicators	5-year Target
Level of staff satisfaction as measured by an annual survey	90% or more
Number of tools or policies developed and adapted to better support the industry	4 per year
Turnover rate	Maximum 10%
Assessment of employees' performance	90% of employees have satisfactory performance or higher in their end-of-year evaluation (fall 2020)

Strategy: Provide an inclusive environment to attract and retain a full complement of the best people with the skills to support the performance of the CDC and serve the industry.	
Year	**Objective**
2020-2021	Increase the generic skills of employees.
Strategy: Adapt the IT systems to the industry's evolving needs.	
Year	**Objective**
2020-2021	Improve IT services.
Strategy: Implement new or updated government policies.	
Year	**Objective**
2020-2021	Assess the requirements of new government policies.
Strategy: Raise the profile of environmental issues within the CDC.	
Year	**Objective**
2020-2021	Reduce CDC's environmental footprint.

Financial Report

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis of the operating results and financial position of the Canadian Dairy Commission (CDC) for the year ending July 31, 2020, should be read in conjunction with the financial statements of the CDC enclosed and the annual report.

Key Results of Operations

Domestic activities

The CDC purchases and sells butter in order to regulate the supply of dairy products in the domestic market throughout the year. The CDC depleted its remaining inventories of skim milk powder (SMP) through domestic sales in 2018-2019.

In the 2019-2020 dairy year, total revenues from domestic sales decreased by $63.3 million, or 18%, compared to the previous year. This is mainly explained by a decrease in butter sales as well as the absence of skim milk powder sales. The gross loss on domestic sales results from the Domestic Seasonality Programs activities which are partly offset by the imported butter activities. The loss from the Domestic Seasonality Programs represents the financing, transport and carrying charges associated with these programs, which were previously offset by profits from sales of SMP. Note that these expenses continue to be entirely recovered from the marketplace and producers as part of the funding from milk pools. Therefore, the true impact of the Domestic Seasonality Programs on total comprehensive loss is actually limited to the difference between sales revenue and cost of goods sold which represents a profit margin of $1.2 million.

The CDC purchases butter in bulk under Plan A through the Domestic Seasonality Programs. This butter is loss resold to processors when domestic seasonal demand increases. The CDC sold 2,687 tonnes of Plan A butter compared to 1,085 tonnes in the previous year, which translated into an increase in revenues of $12.4 million.

The CDC also purchases Plan B butter through the Domestic Seasonality Programs from processors who must repurchase it within a predetermined period. This year, the CDC sold 29,690 tonnes of Plan B butter compared to 37,398 tonnes last year, representing a decrease in revenues of $55.7 million. The decreased volume of sales is mainly due to lower Plan B inventory levels at the beginning of the year compared to last year, resulting in a lower volume of repurchases from processors.

Domestic activities

(in thousands)	For the year ended July 31 2020	2019	$ change
Domestic sales revenue	$ 295,157	$ 358,442	$ (63,285)
Cost of goods sold - domestic	$ 292,104	$ 350,397	$ (58,293)
Transport and carrying charges	$ 4,469	$ 4,245	$ 224
Finance costs	$ 898	$ 1,287	$ (389)
Gross profit (loss) on domestic sales	**$ (2,314)**	**$ 2,513**	**$ (4,827)**

The CDC continues to import 3,274 tonnes of butter as part of Canada's commitments under the World Trade Organization (WTO) Agreement on Agriculture. This year, revenues from the sale of imported butter amounted to $22.0 million, which represents a decrease of $0.1 million compared to last year. These products are purchased by the CDC at prevailing world prices and they are mostly directed to the further processing industry through butter manufacturers.

Export activities

There were no export sales this year, compared to a small quantity of butter sold the previous year.

Transport, carrying, and finance costs

Transport and carrying costs consist mainly of transport expenses, handling and storage charges, and insurance costs. Transport and carrying charges for domestic activities in 2019-2020 are comparable to 2018-2019.

Total finance costs for domestic activities have decreased by $0.4 million compared to the previous year. This decrease is due to lower levels of butter inventories throughout the year, combined with a decrease in borrowing rates.

Other income

Funding from milk pools represents the revenues obtained from producers and the marketplace to finance a portion of the CDC's administrative expenses, the cost of the annual production study, the carrying charges associated with CDC Plan A and Plan B butter stocks, the Plan C (cheese) program expenses, and any recoverable industry committee expenses. The funding increased compared to the previous year mainly to cover higher carrying charges.

Parliamentary appropriations are used to partially fund the CDC's administrative expenses. The remainder of the CDC's administrative expenses are funded by dairy producers, commercial operations, and the marketplace. Funding from the Government of Canada is recognized in the Statement of Operations and Comprehensive Loss based on eligible government-funded administrative expenses incurred.

Professional services include cost-recovery income relating to milk utilization audits as well as compensation for administration services provided for AAFC's Dairy Direct Payment Program. The income from audit services is recognized when the audit reports are delivered, and the income from administration services is recognized when recoverable administrative costs are incurred.

Export Activities

For the year ended July 31

(in thousands)	2020	2019	$ change
Export sales revenue	$ -	$ 839	$ (839)
Cost of goods sold - exports	$ -	$ 685	$ (685)
Transport and carrying charges	$ -	$ 7	$ (7)
Finance costs	$ -	$ -	$ -
Gross profit on export sales	**$ -**	**$ 147**	**$ (147)**

Other Income

(in thousands)	2020	2019	$ change
	For the year ended July 31		
Funding from milk pools	$ 10,191	$ 9,231	$ 960
Funding from the Government of Canada	$ 3,941	$ 3,778	$ 163
Professional services	$ 418	$ 177	$ 241
Total other income	**$ 14,550**	**$ 13,186**	**$ 1,364**

Operating and Administrative Expenses

Operating Expenses

"Industry initiatives" includes expenses relating to various CDC programs that provide benefits to the industry such as research, the Matching Investment Fund, and the Workforce Development Initiative.

"Cost of production study" includes expenses relating to the annual survey on cost of production. The CDC uses the survey results when it sets support prices. The cost of the survey increased slightly to reflect inflation.

"Plan C program expenses" includes storage, insurance and interest costs incurred for cheese purchased under this program.

"Other charges (recoveries)" is mainly comprised of credits from the CDC's contribution to the cost of the production study, charges incurred by the CDC on behalf of the milk pools, and bank charges from the milk pool account. It also includes amounts representing unrealized gains and charges (recoveries) include unrealized gains or losses on outstanding foreign exchange contracts as at the Statement of Financial Position date, which vary in accordance with the fluctuations in exchange rates, as well as the carrying amount of outstanding foreign exchange contracts at the end of a given period. The changes in Other charges (recoveries) for the periods reported are mainly due to these variations.

Administrative Expenses

The 2019-2020 administrative expenses totalled $9.6 million compared to $9.5 million in the previous year. The difference in salary costs is mainly attributable to fewer positions being vacant during the year and new salaries included in collective agreements. Salaries and benefits of $7.7 million

Operating and Administrative Expenses

(in thousands)	2020	2019	$ change
	For the year ended July 31		
Operating expenses			
Industry initiatives	$ 7,465	$ 8,171	$ (706)
Cost of Production study	$ 865	$ 850	$ 15
Plan C program costs	$ 58	$ -	$ 58
Other charges (recoveries)	$ (60)	$ 65	$ (125)
Total operating expenses	$ 8,328	$ 9,086	$ (758)
Administrative expenses			
Salaries and employee benefits	$ 7,710	$ 7,154	$ 556
Other administrative expenses	$ 1,921	$ 2,321	$ (400)
Total administrative expenses	$ 9,631	$ 9,475	$ 156
Total operating and administrative expenses	**$ 17,959**	**$ 18,561**	**$ (602)**

make up the bulk of the administrative expenses. The remaining significant administrative expenses relate to the rental of the building, travel, and administrative support. The decrease in other administrative expenses is mainly the result of less travel and meeting expenses due to COVID-19.

Distribution to provincial boards and agencies

The distribution to provincial boards and agencies represents a refund of surplus generated from the Domestic Seasonality and Surplus Removal Programs. As milk producers are responsible to finance these programs, any surpluses are reimbursed to provincial milk marketing boards and agencies, who in turn redirect these funds to milk producers. The 2019-2020 refund is $1.25 million, which represents a decrease of $4.5 million that resulted from no longer selling skim milk powder (SMP). In the past, these surpluses came mostly from the sale of SMP, which ended in March 2019 after stocks were depleted.

Total comprehensive loss and retained earnings

Total comprehensive loss in 2019-2020 is $7.0 million compared to $8.5 million in 2018-2019. Losses for both years were budgeted as the CDC continues to use its retained earnings to fund initiatives that benefit the industry such as research, the Matching Investment Fund, and the Workforce Development Initiative. Retained earnings are governed by policies that clearly identify the activities that can be financed by these funds and the CDC Board is responsible for applying these policies and approving any new initiative funded by retained earnings. As the CDC plans to continue to fund industry initiatives using the capital available in its retained earnings, comprehensive losses are expected over the next few years. This will translate into a controlled reduction of overall retained earnings. The CDC will not approve funding for industry initiatives that would completely deplete retained earnings.

Inventories

The value of inventories at the end of the year was $132.3 million, compared to an inventory value of $178.2 million at the end of the previous year.

Total CDC butter stocks at the end of the year were 16,075 tonnes, which represents a decrease of 5,608 tonnes compared to last year. As a result of measures taken to reduce production, butter stocks are slowly returning to more normal levels.

Plan C repurchase agreement

Due to the COVID-19 pandemic, the CDC launched a storage program for cheese, in partnership with cheese manufacturers. This program was created by the Canadian Milk Supply Management Committee (CMSMC) on April 17, 2020 as a temporary measure to help the dairy industry deal with surplus milk.

The program consists of repurchase agreements to initially purchase cheese from a processor up to an agreed quantity at a pre-established price, and temporarily storing the product for a set period, after which the processor is contractually obligated to repurchase the product at the same price.

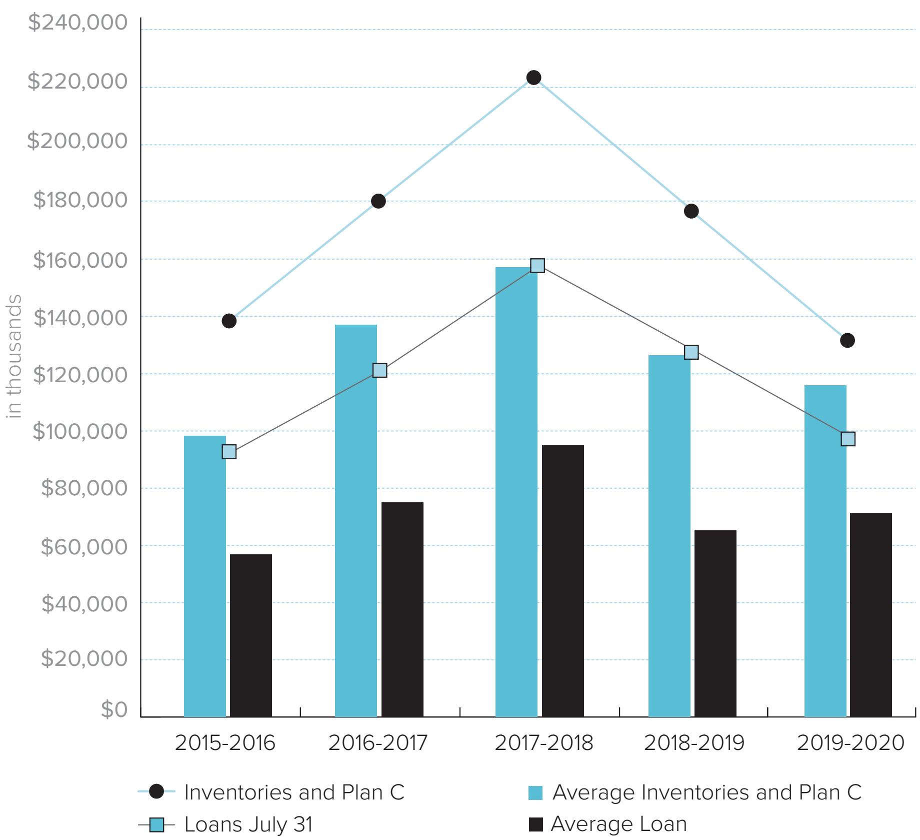
IFRS requires the CDC to account for these purchases as a financial asset as opposed to inventory, because transfer of control is not deemed to have occurred from an accounting standpoint. This financial asset is reported in “Plan C repurchase agreements” on the Statement of Financial Position.

As at July 31, 2020, 1,049 tonnes of cheese have been purchased under this program, all with repurchasing dates in July 2022.

Loans from the Government of Canada

As reported in previous years, there is usually a direct correlation between variations in the balance of inventory and the balance of outstanding loans because these assets are financed by the loans from the Government of Canada. With the introduction of the Plan C cheese program in 2020, purchases and sales of Plan C cheese also contribute to variations in outstanding balance of loans because this cheese is also financed by the loans from the Government of Canada. The balance of loans from the Government of Canada decreased

Inventories and Loans



from $127.6 million at the end of the previous year to $95.0 million at the end of the current year as a result of lower loan requirements for butter inventory activities which more than offset the new loan requirements for the purchase of Plan C cheese. graphic below illustrates the correlation between the variation in the amounts of inventory and the amounts of loans over the previous four years. For the current year, the inventory component of the graph includes the amount of Plan C cheese.

For 2019-2020, the Minister of Finance initially approved short-term borrowings from the Consolidated Revenue Fund (CRF) of $300 million based on estimated borrowing requirements and a contingency amount to address purchases under any unexpected changes in the marketplace.

As a result of the COVID-19 pandemic, the industry requested that the CDC augment its storage programs that help the industry balance supply and demand variations, including the creation of a new storage program for cheese. In order to facilitate the CDC being able to fully deliver on this measure, on May 15, 2020, Parliament passed legislation to increase the statutory borrowing limit of the CDC from $300 million to $500 million. The CDC requested an amendment to its 2019-2020 to 2023-2024 Corporate Plan to increase its borrowing limit from $300M to $500M. This was approved by Treasury Board and the Minister of Finance on June 15, 2020.

In response to a sharp decline in demand caused by COVID-19, producers took measures to adapt production. Furthermore, after a period of volatility, demand recovered somewhat more rapidly than expected. New consumption patterns reduced the quantity of butter and cheese that manufacturers offered to the CDC for storage compared to projections. This reduced significantly the amounts that the CDC borrowed from the CRF for dairy year 2019-2020.

The changes to the *CDC Act* to increase the borrowing capacity from $300 million to $500 million will enable the CDC to help the industry deal with any future fluctuations in demand as result of a second wave of COVID-19 or any other unforeseen circumstances.

Risk management

As is the case for any business enterprises, the CDC is subject to risks in its ongoing operations. The CDC has identified the key risk factors to which it is exposed and has established policies and procedures to manage and mitigate these risks.

The CDC has prepared a Corporate Risk Profile which is reviewed and updated at least once per year by management. It is updated during the year as needed with the latest review completed in January 2020. It identifies the key risks associated with CDC business and activities. It also evaluates the probability and potential impact of risk occurrences and defines mitigation measures to avoid or reduce risk. The organization's annual planning process is aligned with the Profile to ensure that higher-risk program areas and activities receive special consideration. The Board and the Senior Management Team (SMT) share the responsibility for risk management. Each plays an integral role in the risk management process at the CDC. The Board ensures that management identifies, monitors, and manages the CDC's corporate risks. It is responsible for providing a clear direction on risk tolerance and approving the Corporate Risk Profile. The Board is kept apprised of any changes to the risk profile through quarterly briefings. At least once every quarter, the CDC Audit Committee monitors these risks as well as the progress in the implementation of the various mitigation measures. The SMT is responsible for assessing the CDC's key risk areas and ensuring that appropriate controls and other mitigation strategies are carried out to effectively manage these risks. This includes supporting risk awareness and communication throughout the organization.

Market risk is difficult to manage due to its unpredictability. The operations of the CDC are affected by many external factors such as world market conditions, developments in trade negotiations on agriculture, domestic market trends, and fluctuations in supply and demand. The CDC addresses these risks by instituting sound management practices, hiring and maintaining a competent and skillful workforce, and staying abreast of any market or political development that may affect its operations. The CDC manages the volatility of world markets by strategically buying imported butter by tender or competitive offers from reliable importers.

Credit risk is the risk of financial loss for one party due to another party failing to meet its financial obligations. The CDC manages its credit risk from customers by selling product on a "payment first" basis, securing bank guarantees and obtaining letters of credit. Other strategies include carrying out business with creditworthy customers only. The CDC can also be exposed to credit risk when it holds foreign exchange contracts, which it manages by only entering into foreign exchange contracts with major Canadian financial institutions.

Future accounting standard changes

The *International Accounting Standards Board* has several projects underway, some of which may affect International Financial Reporting Standards (IFRS) applicable to the CDC. Management will continue to monitor all proposed and ongoing projects and consider whether any changes are expected to impact the CDC's reporting of financial information.

Looking to the future

The CDC is following closely the implementation of the Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Canada-United States-Mexico Agreement (CUSMA) as they all have an impact on the imports of dairy products into Canada. These trade agreements change the environment in which the CDC forecasts demand for Canadian milk to help provincial milk marketing boards set producer quota. This presents a challenge for the CDC and the industry when the time comes to align production with demand. Precise production and demand forecasts are very important, as well as stock management. The CDC is currently working with the industry and other government organizations to have timely access to reliable data and adapt its forecasting models to this new reality.

The CDC supported the industry as it made the changes required by CUSMA. Other terms of the agreement will come in effect on January 1, 2021 and the CDC will continue to support the industry in that regard.

As of January 1, 2021, Canada will no longer be permitted any export subsidy for dairy products due to the WTO Nairobi decision. In the past, the CDC would export small quantities of butter if production of butterfat exceeded demand. In the future, the industry will need to find other markets for any butterfat surplus.

As is the case in most dairy-producing countries, the consequences of the COVID-19 pandemic have had major impacts on the dairy sector in Canada. Restaurants, cafés, schools and daycare centres were suddenly closed, and consumers rushed to the grocery store to stock up on essentials.

CDC employees, like many other Canadians, also felt the consequences of the pandemic when, from one day to the next, they were all sent home to telework. Makeshift workspaces were quickly set up and it soon became clear that normal life, including a return to work in an office setting, was not going to be possible in the near future.

Gradually, the CDC equipped its employees to work from home. This enables us to continue to administer programs, provide high quality service to the industry, manage risk, and meet all our obligations.

The pandemic is not yet over, and its impacts on the dairy industry, among other areas, continue to be felt. The CDC will continue to monitor the situation and help the industry deal with the effects of the pandemic.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of the Canadian Dairy Commission and all information in this Annual Report are the responsibility of management. Those statements have been prepared in accordance with International Financial Reporting Standards, using management's best estimates and judgments where appropriate. Financial information presented elsewhere in the Annual Report is consistent with the statements provided.

In discharging its responsibility for financial reporting, management maintains and relies on financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. These controls and practices ensure the orderly conduct of business, the accuracy of accounting records, the timely preparation of reliable financial information and the adherence to CDC policies and statutory requirements. This process includes the communication and ongoing practice of the CDC's Code of Ethics.

The Audit Committee of the Canadian Dairy Commission, made up of the commissioners, oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting. The CDC's internal and external auditors have free access to the Audit Committee to discuss the results of their work and to express their concerns and opinions.

The financial statements of the CDC have been audited by the Auditor General of Canada, the independent auditor for the Government of Canada.

Serge Riendeau, CEO

Chantal Laframboise, Director
Finance and Administration

Ottawa, Canada
September 25, 2020

INDEPENDENT AUDITOR'S REPORT

To the Minister of Agriculture and Agri-Food

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Canadian Dairy Commission (the CDC), which comprise the statement of financial position as at 31 July 2020, and the statement of operations and comprehensive loss, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the CDC as of 31 July 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the CDC in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the CDC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the CDC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the CDC's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CDC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the CDC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the CDC to cease to continue as a going concern.
- Evaluate the overall presentation,

structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the financial statements, we have audited transactions of the Canadian Dairy Commission coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Canadian Dairy Commission Act* and regulations, the bylaws of the Canadian Dairy Commission, and the directive issued pursuant to section 89 of the *Financial Administration Act*.

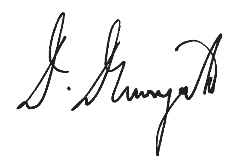
In our opinion, the transactions of the Canadian Dairy Commission that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied, except for the change in the method of accounting for leases as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Canadian Dairy Commission's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Canadian Dairy Commission to comply with the specified authorities.

Auditor's Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.



Dusan Duvnjak, CPA, CMA
Principal for the
Auditor General of Canada

Ottawa, Canada
25 September 2020

Canadian Dairy Commission
Statement of Financial Position

(in thousands of Canadian dollars)

	As at July 31, 2020	As at July 31, 2019
Assets		
Current		
Cash	$ 1,393	$ 2,610
Trade and other receivables		
Trade receivables	423	436
Advance to provincial milk boards and agencies	5,916	5,976
Milk pools	1,979	1,820
Derivative asset - foreign exchange contracts	22	-
Inventory (Note 4)	132,313	178,157
	142,046	188,999
Non-Current		
Plan C repurchase agreements (Note 5)	9,441	-
Equipment	68	96
Intangible asset	108	137
Right-of-use asset (Note 6)	2,345	-
	$ 154,008	**$ 189,232**
Liabilities		
Current		
Bank overdraft (Note 7)	$ 5,916	$ 5,976
Trade and other payables		
Trade payables and accruals	25,238	19,962
Distribution to provincial milk boards and agencies	1,250	5,750
Other payables	820	1,100
Deferred revenue (Note 8)	4,248	2,715
Derivative liability - foreign exchange contracts	-	3
Loans from the Government of Canada (Note 9)	95,022	127,600
	132,494	163,106
Non-Current		
Lease liability (Note 6)	2,361	-
Equity		
Retained earnings	19,153	26,126
	$ 154,008	**$ 189,232**

Commitments (Note 15)

The accompanying notes are an integral part of these financial statements.

These financial statements were approved and authorized for issue on September 25, 2020.

Serge Riendeau
Chief Executive Officer

Robert Ingratta
Chairperson

Chantal Laframboise
Director, Finance and Administration

Canadian Dairy Commission
Statement of Operations and Comprehensive Loss

(in thousands of Canadian dollars)

	For the year ended	
	July 31, 2020	**July 31, 2019**
Sales and cost of sales		
Domestic sales revenue (Note 11)	$ 295,157	$ 358,442
Cost of goods sold - domestic	292,104	350,397
Transport and carrying charges	4,469	4,245
Finance costs	898	1,287
Gross profit (loss) on domestic sales	(2,314)	2,513
Export sales revenue (Note 11)	-	839
Cost of goods sold - exports	-	685
Transport and carrying charges	-	7
Finance costs	-	-
Gross profit on export sales	-	147
Total gross profit (loss)	(2,314)	2,660
Other income		
Funding from milk pools (Note 11)	10,191	9,231
Funding from the Government of Canada	3,941	3,778
Professional services (Note 11)	418	177
	14,550	13,186
Total gross profit and other income	**12,236**	**15,846**
Operating expenses		
Industry initiatives	7,465	8,171
Cost of Production study	865	850
Plan C program costs (Note 5)	58	-
Other charges (recoveries)	(60)	65
	8,328	9,086
Administrative expenses		
Salaries and employee benefits (Note 13)	7,710	7,154
Other administrative expenses	1,921	2,321
	9,631	9,475
Total operating and administrative expenses	**17,959**	**18,561**
Loss before distribution to provincial milk boards and agencies	**(5,723)**	**(2,715)**
Distribution to provincial milk boards and agencies	1,250	5,750
Total comprehensive loss	**$ (6,973)**	**$ (8,465)**

The accompanying notes are an integral part of these financial statements.

Canadian Dairy Commission
Statement of Changes in Equity

(in thousands of Canadian dollars)

	For the year ended July 31, 2020	For the year ended July 31, 2019
Retained earnings, beginning of the year	$ 26,126	$ 34,591
Total comprehensive loss for the year	(6,973)	(8,465)
Retained earnings, end of the year	**$ 19,153**	**$ 26,126**

The accompanying notes are an integral part of these financial statements.

Canadian Dairy Commission
Statement of Cash Flows

(in thousands of Canadian dollars)

	For the year ended July 31, 2020	For the year ended July 31, 2019
Cash flows from (used in) operating activities		
Cash received from customers and others	$ 298,232	$ 346,539
Cash paid to suppliers and others	(263,965)	(326,706)
Cash receipts from provincial milk boards and agencies (pooling)	10,092	11,002
Cash paid to provincial milk boards and agencies	(5,750)	(10,900)
Cash receipts from the Government of Canada	3,941	3,778
Cash paid for Plan C repurchase agreements	(9,441)	-
Interest paid on loans and the lease liability	(1,341)	(1,170)
Net cash flows from operating activities	**31,768**	**22,543**
Cash flows from (used in) financing activities		
New loans from the Government of Canada	204,319	253,718
Loan repayments to the Government of Canada	(236,897)	(278,970)
Principal payments on the lease liability	(347)	-
Net cash flows used in financing activities	**(32,925)**	**(25,252)**
Net increase in net bank overdraft	**(1,157)**	**(2,709)**
Net bank overdraft at the beginning of the year	(3,366)	(657)
Net bank overdraft at the end of the year	$ **(4,523)**	$ **(3,366)**
Components:		
Cash	$ 1,393	$ 2,610
Bank overdraft	(5,916)	(5,976)
Net bank overdraft	**$ (4,523)**	**$ (3,366)**

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Authority and objectives

The Canadian Dairy Commission (CDC) was established in 1966 through the *Canadian Dairy Commission Act*. It is a federal Crown corporation named in Part I, Schedule III and Schedule IV to the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*. It is an agent of Her Majesty the Queen in right of Canada and reports to Parliament through the Minister of Agriculture and Agri-Food.

The objectives of the CDC are to provide efficient producers of milk with the opportunity to obtain a fair return for their labour and investment, and to provide consumers with a continuous and adequate supply of dairy products. To achieve its objectives, the CDC works closely with the Canadian Milk Supply Management Committee (CMSMC), which it chairs, as well as with provincial governments and provincial milk marketing boards and agencies. This collaboration is framed by federal-provincial agreements.

The CDC is partly funded by parliamentary appropriations. This is supplemented by funding from milk producers and the market, as well as by the CDC's own commercial operations.

Directive on Travel, Hospitality, Conference and Event Expenditures

In July 2015, the CDC was issued a directive (P.C. 2015-1104) pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of this directive in the CDC's Corporate Plan. As at July 31, 2020, the CDC continues to meet the requirements of this directive.

2. Basis of preparation

Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements were approved and authorized for issue by the CDC Board on September 25, 2020.

Basis of presentation

The financial statements are prepared on a historical cost basis, as set out in the accounting policies below, except as permitted by IFRS and otherwise indicated within these notes.

Reporting period

The CDC reports on a dairy year basis which starts August 1 and ends July 31.

Key accounting judgments, estimates and assumptions

The preparation of financial statements in accordance with IFRS requires management to exercise judgment and make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the year. Areas where management has exercised judgment and made significant use of estimates and assumptions are discussed below. The CDC has also considered the impact of the COVID-19 pandemic on the valuation of its assets and has determined that assets are appropriately valued and that no impairments are required.

Judgments in determining the timing of satisfaction of performance obligations and incremental costs in contracts with customers

The CDC's contracts each contain a single performance obligation, the majority of which are satisfied at a point in time within a year. The CDC had two contracts with a performance obligation satisfied over time, which includes the administration of the pooling agreements and the administration of the Dairy Direct Payment Program. For the contract pertaining to the pooling agreements, management has concluded that the satisfaction of this performance obligation is achieved on a monthly basis as pooling calculations are conducted. As for the contract pertaining to the administration of the Dairy Direct Payment Program, management has concluded that the satisfaction of this performance obligation was achieved over time as the CDC incurred recoverable administration costs. Given that the CDC's contracts' performance obligations are satisfied within a year, the CDC recognizes the incremental contract costs as an expense when incurred.

Key sources of estimation uncertainty

The CDC has no key sources of estimation uncertainty relating to revenue for the reporting period.

Plan B Butter

Under section 9(1) of the *Canadian Dairy Commission Act*, the CDC operates domestic seasonality programs which include the purchase of Plan B butter. The butter is purchased from processors who are contractually obligated to repurchase the product at the prevailing support price at the end of an agreed upon period of time. Although the CDC customarily honours processors' requests to repurchase the product, the CDC is not contractually obligated to sell the Plan B butter back to the processors. Additionally, the CDC bears the significant risks of ownership when it holds the product, including theft and damage.

Given the CDC has a present ability to direct the use and obtain substantially all of the remaining benefits of the asset, and bears the significant risks of ownership of the asset, management has concluded that control over the product is transferred to the CDC. Therefore, the CDC recognizes the Plan B butter purchased as inventory.

Plan C Cheese

Under section 9(1) of the *Canadian Dairy Commission Act*, the CDC operates programs which include the Plan C cheese program, for which a description and additional context is provided in Note 5 Plan C cheese program to better understand the judgment that is required.

Due to its financial arrangement's nature, IFRS requires the CDC to account for the Plan C repurchase agreements as financial assets. *IFRS 9 Financial Instruments* requires a financial asset to be measured at fair value at initial recognition if it differs from the transaction price. The CDC calculates the fair value of the financial asset based on a discount rate for which management has used judgment to establish.

Building lease

The CDC has a lease contract as a lessee on a building used for office accommodation and storage space. In concluding that the contract is or contains a lease, management made judgments in its assessment of whether the lease conveys the right to control the building, as demonstrated when the lessee has the right to obtain substantially all of the economic benefits and the right to direct the use of the asset. Management also used judgments in determining that the renewal option will be reasonably exercised which increases the lease term.

Allowance for inventory write-down

Management determines the allowance for inventory write-down through the use of assumptions. The net realizable value of inventory on hand at year-end is estimated using the price of milk on the international market as well as the price of existing contracts at or around year-end. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the Statement of Operations and Comprehensive Loss of the period in which they become known.

Functional and presentation currency

These financial statements are reported in Canadian dollars, which is the functional and presentation currency of the CDC.

3. Significant accounting policies

Cash

Cash includes funds on deposit at financial institutions.

Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value. The classification and subsequent measurement model of financial instrument categories are described below.

Classifications and subsequent measurements:

Cash and cash equivalents	Financial asset measured at amortized cost
Trade and other receivables	Financial asset measured at amortized cost
Plan C repurchase agreements	Financial asset measured at amortized cost
Bank overdraft	Financial liability measured at amortized cost
Trade and other payables	Financial liability measured at amortized cost
Loans from the Government of Canada	Financial liability measured at amortized cost
Derivative financial assets and liabilities	Financial assets or financial liabilities measured at fair value through profit or loss (FVTPL)

Financial assets and financial liabilities measured at amortized cost

Financial assets and financial liabilities measured at amortized cost are measured using the effective interest method.

Financial assets or financial liabilities measured at FVTPL

Financial assets or financial liabilities classified as FVTPL are measured at fair value at the Statement of Financial Position date with changes in fair value recorded in profit or loss on the Statement of Operations and Comprehensive Loss.

Transaction costs

All transaction costs in respect of financial instruments classified as and subsequently measured at amortized cost are capitalized in the period in which they are incurred including at initial recognition. All transaction costs in respect of financial instruments classified as financial assets or financial liabilities measured at FVTPL are expensed in the period in which they are incurred.

Impairment

As the CDC's trade and other receivables' payment terms do not include significant financing components, the simplified approach for trade receivables must be applied when determining an impairment provision for trade and other receivables. Under the simplified approach, loss allowance is measured at an amount equal to lifetime expected credit losses, if any.

As the credit risk of Plan C repurchase agreements has not increased significantly since initial recognition, the loss allowance is measured at an amount equal to the 12-month expected credit losses, if any.

Derivative financial instruments

The CDC uses derivative financial instruments such as foreign exchange forward contracts to counter the adverse changes in foreign exchange related to purchases and sales denominated in foreign currencies, including anticipated transactions, as well as to manage its cash balances and requirements. The CDC does not use freestanding derivative financial instruments for trading or speculative purposes. The CDC does not designate its foreign exchange forward contracts as hedges of underlying assets, liabilities, firm commitments or anticipated transactions and accordingly, does not apply hedge accounting.

Derivatives are initially recognized at fair value at the date the derivative contracts are acquired and are subsequently remeasured to their fair value at the end of each reporting period. Changes in fair value are recognized as gains or losses in "Other charges (recoveries)" on the Statement of Operations and Comprehensive Loss. A derivative with a positive fair value is recognized as a financial asset while a derivative with a negative fair value is recognized as a financial liability.

Inventory

Inventory is reported at the lower of cost, which is the purchase cost, or the estimated net realizable value. Cost is determined on a first-in, first-out basis except for Plan B butter inventories where cost is determined based on specific identification. Write-downs to net realizable value are reversed when there is a subsequent increase in the value of inventory up to a maximum of the purchase cost. The reversal is recognized as a reduction to cost of sales and an increase to the net value of inventory in the year in which it occurs.

Equipment

Equipment is reported at cost less accumulated depreciation. Cost includes all measurable expenditures directly attributable to the acquisition and installation of the equipment.

Depreciation is reported in “Other administrative expenses” on the Statement of Operations and Comprehensive Loss and begins when the equipment is available for use by the CDC. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset less estimated residual value as follows:

Generator	10 years
Computer equipment	3-5 years

Equipment is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such impairments or changes exist, the carrying value is adjusted accordingly.

Intangible asset

Software

Internally developed application software is reported at cost less accumulated amortization. Cost includes all measurable expenditures directly attributable to the development of the software including employees’ salaries, consultant fees and other identifiable costs specific to the project.

Depreciation is reported in “Other administrative expenses” on the Statement of Operations and Comprehensive Loss and is calculated on a straight-line basis over its estimated useful life of ten years.

Software is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such impairments or changes exist, the carrying value is adjusted accordingly.

Leases – as a lessee

At inception of a contract, an assessment is performed to determine whether a contract is, or contains, a lease. If it does, the CDC would recognize a right-of-use asset and lease liability on the Statement of Financial Position at the commencement date of the contract. A right-of-use asset represents the lessee’s right to use the underlying asset for the lease term and a lease liability represents the lessee’s obligation to make the lease payments in exchange for the right to use the underlying asset.

The CDC does not recognize a right-of-use asset or lease liability for a lease with a term of 12 months or less or a lease for which the underlying asset is of low value, in which cases the lease payments are recognized as an expense on a straight-line basis over the term of the lease.

Building Lease

The lease contract on the building used for office accommodation and storage space is reported through a right-of-use asset and ensuing lease liability, which initial recognition occurred on August 1, 2019 in accordance with transition provisions under the new *IFRS 16 - Leases* as set out in section *Application of new accounting standards* of Note 3.

The carrying amount of the right-of-use asset on the office lease is reported at cost less accumulated amortization. Cost comprises the amount of the initial measurement of the lease liability. There were no lease payments made in advance or accrued lease payments relating to the lease immediately before the date of initial application, lease incentives received or initial direct costs, that otherwise would have been considered in the initial measurement of the right-of-use asset. The right-of-use asset is reviewed annually for indications of impairment. If impairments exist, the carrying value is adjusted accordingly.

The carrying amount of the lease liability is reported at the present value of the future lease payments, discounted using the CDC's incremental borrowing rate, as at the date of initial recognition, increased to reflect the interest on the lease liability and reduced to reflect the lease payments made or payable as at the date of the financial statements.

Depreciation on the right-of-use asset and the interest on the lease liability are both recognized in "Other administrative expenses" on the Statement of Operations and Comprehensive Loss. Depreciation is calculated on a straight-line basis over the term of the lease. The interest rate on the lease liability is the same as the discount rate used at initial recognition of the lease liability.

Distribution to provincial milk boards and agencies and recovery from provincial milk boards and agencies

The CDC administers the Surplus Removal Program, the Domestic Seasonality Program and the newly created Plan C cheese program throughout the year. Any operating surplus or deficits generated by these programs are respectively returned to or recovered from the provincial milk marketing boards and agencies on an annual basis at year-end. In both cases, they are reported on the Statement of Operations and Comprehensive Loss in the year that they are determined. In the event of an operating surplus at year-end, the return is reported under "Distribution to provincial milk boards and agencies". For an operating deficit, the recovery is reported under "Recovery from provincial milk boards and agencies".

Revenue from contracts with customers

Sales revenues

Domestic and export sales of dairy products are recognized as revenue at a point in time when control of the asset is transferred to a customer. Control is typically transferred when the product is loaded into the customer's transportation equipment at the CDC's warehouse facilities – the customer being responsible for the transportation of the product. The transaction prices are based on the Canadian support price or other prices established by the CDC.

Payments received in advance for the sale of dairy products not transferred to the purchaser as at the end of the reporting period are reported in "Deferred revenue" on the Statement of Financial Position. Deferred revenue is recognized as revenue when control is transferred as described above.

Funding from milk pools

As acting agent in carrying out administrative functions of the Comprehensive Agreement on Pooling of Milk Revenues (a federal-provincial agreement), the CDC collects and redistributes producer market returns as the intermediary of the provincial milk marketing boards and agencies. For these services, the CDC receives from dairy producers an annual fixed fee which offsets the costs associated with the administration of the agreement. Furthermore, the CDC is reimbursed for estimated carrying charges for normal levels of butter inventory and for other direct costs, including carrying charges for surplus butter inventories and Plan C cheese program costs. Funding from milk pools is recognized as revenue over time, which typically occurs on a monthly basis when pooling calculations are completed and producer market returns are collected and redistributed among the provincial milk marketing boards and agencies.

Professional Services

Income from professional services includes revenues from audit services and revenues from administrative services rendered as part of the Dairy Direct Payment Program.

Revenues from audit services are recognized at a point in time when the audit reports are delivered. The transaction price for audit services is based on individual service contracts.

The CDC agreed to a Memorandum of Understanding with Agriculture and Agri-Food Canada (AAFC) to administer the one-year Dairy Direct Payment Program for the government year ended March 2020. As administrator, the CDC collected information on eligible dairy producers, registered eligible applicants, calculated individual payments based on a framework established by AAFC, and issued payments to eligible applicants using funding from the Government of Canada appropriated to AAFC. As part of the arrangement, in exchange for rendering these services, the CDC was entitled to receive from AAFC administration funding to offset the costs associated with the administration of the program. As an agent in this relationship, the CDC recognized administration services income by way of revenue over time as recoverable administration costs were incurred up to the end of the program in March 2020.

Performance Obligation

The CDC has elected to apply the practical expedient to not disclose the information about its remaining performance obligations at the end of the reporting period given they are part of contracts that have an original expected duration of one year or less.

Funding from the Government of Canada

The CDC's sources of funding for its administrative expenses are comprised of funding from dairy producers and the marketplace, gross margins from commercial operations, and funding received from the Government of Canada. Funding from the Government of Canada is appropriated by Parliament to cover certain administrative expenses. The funding is recognized as revenue in the period the expenses are incurred.

Cost of sales

All butter and skim milk powder sold were purchased by the CDC at either the Canadian support price or at other prices established by the CDC, depending on the intended resale markets, except for a portion of butter imported by the CDC at international market prices. These costs are recognized as expense under cost of sales when the sale of goods is recognized as revenue.

Other expenses

All other expenses are recognized in the period in which they are incurred. Estimates for accruals are made at the end of each period.

Foreign currency translation

Transactions in currencies other than Canadian dollars are recognized at the prevailing exchange rate at the date of the transaction. At the end of each reporting period, trade receivables and trade payables denominated in foreign currencies are adjusted to reflect the prevailing exchange rate on that date.

Exchange differences resulting from the settlement of transactions denominated in foreign currency, as well as exchange differences resulting from the adjustment of trade receivables and trade payables denominated in foreign currency at the end of the reporting period, are recognized in "Export sales revenue" for receivables and "Cost of goods sold – domestic" for payables on the Statement of Operations and Comprehensive Loss.

Exchange differences resulting from the adjustment of foreign exchange forward contracts at the period are recognized in "Other charges (recoveries)" on the Statement of Operations and Comprehensive Loss.

Employee benefits

Pension benefits

Eligible CDC employees are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the CDC to cover current service cost. Pursuant to legislation currently in place, the CDC has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the CDC.

(In thousands of Canadian dollars, unless otherwise indicated)

Application of new accounting standards

The adoption of the following new accounting standard, issued by the International Accounting Standards Board (IASB), is required for annual accounting periods beginning on or after January 1, 2019. Given the CDC's year-end is July 31, the initial date of application for the new standards was August 1, 2019. The transition impacted the financial statements as follows:

IFRS 16 – Leases

This new standard, which replaces *IAS 17 – Leases* and all related interpretations, provides a single lessee accounting model, requiring assets and liabilities to be recognized for leases.

In conformity with the new standard's transition provisions, the CDC has elected to apply the practical expedient on the definition of a lease meaning that the standard was not applied to contracts that were not previously identified as containing a lease applying *IAS 17*. Additionally, the CDC has elected to apply this standard to its leases retrospectively with the cumulative effect of initially applying the standard recognized to the opening statement of financial position on August 1, 2019, if any. With this election, the comparative information was not restated for these financial statements.

At the date of transition, the CDC did not have any lease classified as finance leases applying IAS 17. Regarding leases previously classified as operating leases applying IAS 17, the CDC has elected to apply the practical expedient for which no adjustment was made on transition for leases held for which the underlying asset is of low value or for which the lease term ends within the 12-month period following August 1, 2019.

The CDC's only lease previously classified as operating lease applying IAS 17 that is not short-term or for which the underlying asset is not of low value, pertains to a building leased and used for office accommodation and storage space. A lease liability and right-of use asset were recognized for the building lease on August 1, 2019. As required by the retrospective approach selected, the lease liability was measured at the present value of the remaining lease payments, discounted using the CDC's incremental borrowing rate as at August 1, 2019; the rate was 1.37%. The CDC has elected to measure the right-of-use asset at an amount equal to the lease liability of $2,697, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognized in the statement of financial position immediately before the date of initial application. There were no prepaid or accrued lease payments relating to that lease recognized in the statement of financial position before the date of initial application. The amount recognized at the date of transition for the lease liability and the right-of-use asset were equal. There was no impact on retained earnings.

The following table is a reconciliation between the commitments on the building lease as disclosed in Note 13 of the notes to the July 31, 2019 financial statements, and the building lease liability recognized on August 1, 2019:

Minimum lease payments as disclosed at July 31, 2019	$ 986
Effect of discounting the minimum lease payments	(72)
Renewal period lease payments - renewal option will be reasonably exercised	1,849
Effect of discounting renewal period lease payments	(66)
Building lease liability recognized on August 1, 2019	$ 2,697

4. Inventory

The CDC's inventory as at July 31, 2020 includes butter purchased under the Domestic Seasonality Programs, and butter imported by the CDC under the World Trade Organization (WTO) Agreement on Agriculture.

(In thousands of Canadian dollars, unless otherwise indicated)

Inventory:

	July 31, 2020		July 31, 2019	
	in $	in tonnes	in $	in tonnes
Plan B Butter	$ 111,665	12,936	$ 149,729	17,800
Other butter	21,750	3,139	29,826	3,883
	133,415		179,555	
Less: allowance for inventory write-down	(1,102)		(1,398)	
Total net realizable value	$ 132,313		$ 178,157	

Inventory expensed in the period ended July 31, 2020 was $ 292.10 million (July 31, 2019: $351.08 million) and is reported on the Statement of Operations and Comprehensive Loss in cost of goods sold (domestic and exports).

5. Plan C cheese program

Under section 9(1) of the *Canadian Dairy Commission Act*, the CDC operates programs which include the Plan C cheese program, introduced to provide temporary support to the dairy industry during the COVID-19 pandemic. The program consists of repurchase agreements to initially purchase cheese from a processor up to an agreed quantity at a pre-established purchase price, and temporarily storing the product for a set period of time, after which the processor is contractually obligated to repurchase the product. As part of the agreement, the CDC is contractually obligated to resell the cheese back to the processor.

Although legally the cheese is purchased and owned by the CDC, an activity that is consistent with permissible use of government loans under the *Canadian Dairy Commission Act*, IFRS requires the CDC to account for the Plan C repurchase agreements as financial arrangements. Therefore, the CDC must report a financial asset as opposed to inventory for each purchase of Plan C cheese.

This financial asset is reported in "Plan C repurchase agreements" on the Statement of Financial Position. All cheese pertaining to current Plan C repurchase agreements is to be repurchased by July 2022.

Program expenses are recognized in "Plan C program costs" on the Statement of Operations and Comprehensive Loss.

6. Right-of-use asset and lease liability

The CDC's only right-of-use asset and lease liability pertain to a building under a lease contract with the Government of Canada. The building is used for its office accommodation and storage space. The lease liability was initially recognized based on a lease term period that would extend past the current lease's end date of March 31, 2022, given it is reasonably certain that the CDC will exercise an option stipulated in the lease agreement to extend the lease through March 31, 2027. When the option is exercised, the lease payments will be subject to review which, in turn, could result in a remeasurement of the lease liability.

The following represents a reconciliation of the opening and closing balance of the right-of-use building:

Balance as at August 1, 2019	$ 2,697
Depreciation charge for the year	(352)
Carrying amount as at July 31, 2020	$ 2,345

(In thousands of Canadian dollars, unless otherwise indicated)

The following represents a reconciliation of the opening and closing balance of the building lease liability:

Balance as at August 1, 2019	$ 2,697
Interest expense	34
Lease payments	(370)
Balance as at July 31, 2020	$ 2,361
Current	$ 350
Non-current	2,011
Balance as at July 31, 2020	$ 2,361

The total cash outflow for the building lease liability for the period ending July 31, 2020 was $0.37 million, which includes principal and interest payments. The total expense relating to short-term leases or leases for which the underlying asset is of low value is not material.

7. Bank overdraft

The CDC has established a line of credit with a member of the Canadian Payments Association. This line of credit was authorized by the Minister of Finance up to a maximum of $50 million with its intended use of advancing funds to the provincial milk marketing boards and agencies. The line of credit is provided in the form of a bank overdraft. As at July 31, 2020 the authorized credit limit from the bank is $25 million (July 31, 2019: $10 million). This loan is due on demand and bears interest calculated at the prime rate of 2.45% per annum as at July 31, 2020 (July 31, 2019: 3.95%).

8. Deferred revenue

Deferred revenue is comprised of payments received in advance for the sale of product not transferred to the purchaser as at the end of the reporting period. The balance of deferred revenue was higher as at July 31, 2020, when compared to July 31, 2019, due to the timing of payments received for the sale of product.

Revenue recognized in the reporting period that was included in deferred revenue at the beginning of the reporting period is $2.72 million (July 31, 2019: $16.80 million)

9. Loans from the Government of Canada (Consolidated Revenue Fund)

Loans from the Government of Canada's Consolidated Revenue Fund are available to finance operations, up to a maximum of $450 million (July 31, 2019: $225 million). The maximum increased in May 2020 following legislation passed by Parliament to increase the statutory borrowing limit allowing the CDC to augment its program capacity, which includes the new Plan C program for cheese.

Individually, the loans mature one year after the funds are advanced. Principal and interest are paid regularly during the year when funds are available. Changes in Loans from the Government of Canada are due to financing activities, limited to changes arising from cash flows, which is reflected in the Statement of Cash Flows.

Interest on the loans is calculated at the normal rates established for Crown corporations by the government and based on the latest available yields on comparable term Treasury bills plus one-eighth of one percent at simple interest. Interest rates and interest expense were as follows:

	July 31, 2020	July 31, 2019
Interest rates		
Low	0.29%	1.21%
High	1.87%	2.06%
Interest expense	$ 898	$ 1,287

10. Capital management

The CDC's capital consists of loans from the Government of Canada (see Note 9) and retained earnings. As at July 31, 2020 these accounts totalled $95.02 million (July 31, 2019: $127.60 million) and $19.15 million (July 31, 2019: $26.13 million) respectively. The CDC is not subject to any externally imposed capital requirements.

The CDC's capital management framework ensures sufficient liquidity to settle financial obligations and adequate funding for programs that benefit the dairy industry. The CDC does not utilize any quantitative measurements to monitor its capital, but the CDC adjusts its capital management framework on an ongoing basis as amounts fluctuate during the year. There were no adverse changes made to the capital management framework or its definition thereof.

(In thousands of Canadian dollars, unless otherwise indicated)

11. Disaggregation of revenue from contracts with customers

The CDC derives most of its revenue from the transfer of goods and services to customers in the following segments:

	July 31, 2020	July 31, 2019
Domestic sales		
Plan A butter	$ 21,489	$ 9,067
Plan B butter	251,659	307,319
Imported butter	22,009	21,873
Skim milk powder	-	20,183
Domestic sales revenue	295,157	358,442
Export sales revenue - butter	-	839
Milk pools		
Funding for administrative expenses	4,520	4,520
Funding for Plan A and Plan B butter and Plan C cheese carrying charges	4,844	3,798
Other recoverable expenses	827	913
Funding from milk pools	10,191	9,231
Professional services		
Administrative services	274	-
Audit services	144	177
Professional services revenue	418	177
Total revenue from contracts with customers	$ 305,766	$ 368,689

12. Foreign exchange differences

Foreign exchange differences result from the settlement of transactions denominated in foreign currency, as well the adjustment of trade receivables and trade payables denominated in foreign currency and foreign exchange forward contracts at the end of the reporting period.

The amount of exchange differences recognized in total comprehensive loss on the Statement of Operations and Comprehensive Loss were as follows:

Exchange gains (losses):	July 31, 2020	July 31, 2019
Export sales revenue	$ -	$ -
Cost of goods sold - domestic	820	453
Other charges (recoveries)	25	(3)

13. Salaries and employee benefits

Salaries and employee benefits includes:

	July 31, 2020	July 31, 2019
Salaries expense	$ 6,435	$ 5,930
Pension contributions	807	775
Medical insurance expense	267	262
Other expenses	201	187
Total	$ 7,710	$ 7,154

Pension plan

Substantially all CDC employees are covered by the public service pension plan (the "Plan"). Given the Plan is sponsored by the Government of Canada, the President of the Treasury Board of Canada sets the required employer contributions, which are based on a multiple of the employee's required contribution. The general contribution rate effective for the period ended July 31, 2020 was on average 1.00 times the employee's rate (1.00 times for the year ended July 31, 2019).

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2% of pensionable service multiplied by the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

14. Financial instruments

Fair value hierarchy and fair value techniques of financial instruments

Financial instruments reported at fair value on the Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs to valuation techniques used to measure fair value.

The fair value hierarchy, which for the CDC only applies to derivative financial instruments, has the following levels:

Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs are unobservable inputs for the asset or liability (i.e. not based on observable market data).

The fair value measurement of financial derivative assets, specifically the Derivative asset – foreign exchange contracts, was classified as level 2 of the fair value hierarchy as at July 31, 2020 and 2019. The fair value measurement of foreign currency forward contracts is based on the prevailing exchange rate at the end of the reporting period.

All other financial instruments that the CDC holds are reported at amortized cost. The fair value of these financial instruments approximates their carrying amount due to their short-term maturity or nature.

In the normal course of operation, the CDC is exposed to the following risks, which are managed and mitigated with corresponding policies and procedures.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The CDC is exposed to this risk through normal international commercial operations on sales and purchases. The CDC mitigates this exposure by only contracting in US and Canadian dollars. Also, the CDC uses foreign exchange forward contracts to lock future exchange rates on certain foreign currency exposures. This is done to stabilize the impact of exchange on future cash flows resulting from the sale or purchase of goods on existing contracts requiring payment in US dollars.

Based on the US dollar exposure on financial assets and liabilities as at as at July 31, 2020, and assuming that all other variables remain constant, a hypothetical 10 % appreciation in the Canadian dollar against the US dollar would not have a significant impact on the total comprehensive loss as at July 31, 2020 (July 31, 2019: impact would not have been material). Conversely, a 10% weakening in the Canadian dollar against the US dollar would have had the equal but opposite effect for the same period.

Interest rate risk

Interest rate risk is the risk that a financial asset containing a fixed interest rate component decreases in fair value with a rise in interest rates or that a financial liability with a floating interest rate component results in increased cash outflow requirements as a result of an increase in interest rates. The line of credit, for which interest varies as a function of prime, and loans from the Government of Canada, for which interest varies as a function of the yield on comparable Treasury bills, expose the CDC to a cash flow risk. The CDC's interest rate risk is not significant given its low interest-bearing loans. Interest rates have decreased considerably in the second half of 2020 as a reaction to the COVID-19 pandemic and its impact on the Canadian economy. Though it is difficult to predict when interest rates might recover, adverse rate increases beyond the level they were at before the decreases are not expected over the next twelve months.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk. The CDC is not significantly exposed to this type of risk.

Liquidity risk

Liquidity risk is the risk that the CDC will not be able to meet its financial obligations as they fall due. As at the Statement of Financial Position date, all of the CDC's financial instruments are current and the CDC has a current ratio equal to 1.07 (July 31, 2019: 1.18). In managing liquidity risk, the CDC has access to additional borrowings for commercial operations from the Government of Canada in the amount of $354.98 million (July 31, 2019: $97.40 million), as well as $19.08 million (July 31, 2019: $4.02 million) on its line of credit for the pooling of market returns, both as at July 31, 2020.

Credit risk

Credit risk is the risk of financial loss for one party due to another party failing to meet its financial obligations.

The CDC manages the credit risk from trade receivables by selling product on a "payment first" basis, securing bank guarantees and obtaining letters of credit. The CDC considers the credit risk associated with other receivables not material given those amounts are withheld from amounts owed back to provincial milk boards and agencies.

As at July 31, 2020 and July 31, 2019 the CDC does not have an allowance for doubtful accounts and all trade and other receivables are current.

The CDC manages the credit risk from Plan C repurchase agreements by only entering into agreements secured by the right to the Plan C cheese inventory, and agreements that provide recourse to the CDC if the processor fails to meet its repurchasing obligation. As at July 31, 2020 the CDC does not have a loss allowance for Plan C repurchase agreements given no credit loss is expected within the next 12 months.

The CDC is exposed to credit risk when it holds foreign exchange forward contracts. This exposure is limited to the notional amount of Derivative asset – foreign exchange contracts. The CDC manages this risk by only entering into foreign exchange forward contracts with major Canadian financial institutions. To date, no such counterparty has failed to meet its financial obligation to the CDC.

15. Commitments

Industry Initiatives

Industry initiatives are initiatives that provide benefits to the industry, such as the Matching Investment Fund and the Workforce Development Initiative.

(In thousands of Canadian dollars, unless otherwise indicated)

The expected timing of expenditures in relation to industry initiatives is as follows:

	Less than one year		More than one year and less than five years	
Summary	July 31, 2020	July 31, 2019	July 31, 2020	July 31, 2019
Matching Investment Fund	$ 160	$ 8,467	$ 2,003	$ -
Workforce Development Initiative	1,186	369	215	149
Total commitments for industry initiatives	$ 1,346	$ 8,836	$ 2,218	$ 149

Matching Investment Fund

The CDC funds and administers the Matching Investment Fund which provides non-repayable contributions to Canadian-registered companies or food technology centres for product development, on an investment matching basis. As at July 31, 2020, the CDC has outstanding contractual commitments of up to $2.16 million.

Workforce Development Initiative

The Workforce Development Initiative encourages productivity, competitiveness, and innovation in the Canadian dairy industry by supporting the education and recruitment of a qualified workforce. The CDC Board adopted this initiative in December 2017 and has agreed to grant $5.00 million over three years to qualifying learning institutions and dairy associations (producers or processors) across Canada. This initiative includes four programs: career promotion, development of full-time education programs, development of continuing education, and graduate scholarships. As at July 31, 2020, the CDC has outstanding contractual commitments of $1.40 million.

Butter Purchase Commitments

As at July 31, 2020, the CDC has commitments to purchase predetermined quantities of butter under Plan A or B programs. These commitments amounted to approximately $0.83 million (July 31, 2019: $1.41 million) and will be fulfilled by August 2020.

WTO Tariff Rate Quotas for Butter

The Government of Canada establishes tariff rate quotas (TRQ) for a number of dairy products, limiting the quantity of product that can enter the country with little or no duty. For butter products, under the terms of the 1994 WTO Agreement, Canada is committed to providing minimum annual market access opportunities totalling 3,274 tonnes, setting the minimum TRQ on butter products at the same level. Since 1995, subject to renewal each quota year (August to July), the CDC is mandated by the Minister of International Trade to ensure that Canada's butter TRQ is fully used, and that imported butter is redistributed to the Canadian food sector through butter manufacturers.

As at July 31, 2020, the TRQ on butter is entirely used for quota year 2019-2020. The CDC is committed under the same conditions for quota year 2020-2021 and the TRQ remains at 3,274 tonnes. The financial impact of this commitment for the next period is affected by the price variability between countries and type of eligible butter products, as well as the foreign exchange rates.

(In thousands of Canadian dollars, unless otherwise indicated)

The total cost to purchase imported butter was as follows:

	July 31, 2020	July 31, 2019
Cost to purchase imported butter	$ 22,189	$ 21,551

16. Related party transactions

Government of Canada entities

The CDC, as per the *Canadian Dairy Commission Act*, is an agent of Her Majesty the Queen in right of Canada. This effectively gives the Government of Canada significant influence over the CDC and its activities.

The CDC is related in terms of common ownership to all other Government of Canada departments, agencies and Crown corporations. The CDC enters into transactions with these entities in the normal course of operations and at normal trade terms. These related party transactions are reported at their exchange amounts.

Under IAS 24 – *Related Party Disclosures,* the CDC is exempt from certain disclosure requirements relating to transactions and outstanding balances with:

- a government that has control, joint control or significant influence over the reporting entity; and
- another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Accordingly, the CDC discloses limited information regarding transactions entered with the Government of Canada and its departments, and with all federal Crown corporations not considered to be individually or collectively significant.

The CDC's transactions with government-related entities that were individually significant relate to Loans from the Government of Canada (Note 9) and Funding from the Government of Canada.

All other transactions with government-related entities are individually and collectively insignificant for both 2020 and 2019.

Lease payments includes the principal on the lease liability and its related interest. For additional information regarding the lease liability, refer to Note 6.

Key management personnel

The CDC's key management personnel are the members of the Commission's Board and the directors.

No loans or similar transactions with key management personnel are outstanding as at July 31, 2020 or July 31, 2019. There were no transactions of this nature during either period.

Post-employment benefit liability for key management personnel reported under "Other payables" on the Statement of Financial Position amounts to $0.12 million as at July 31, 2020 (July 31, 2019: $0.11 million).

Compensation of key management personnel for the reporting period is as follows:

	July 31, 2020	July 31, 2019
Compensation of key management personnel	$ 1,229	$ 1,226

17. Reclassification

The CDC has changed the presentation of "Other liabilities" in the Statement of Financial Position. The change is limited to the label used for this line item, which has been changed to "Other payables" to better reflect the nature of this amount.

The reporting of depreciation on equipment and intangible assets in the Statement of Operations and Comprehensive Loss was previously done in "Other charges (recoveries)".

In an effort to improve the reporting of financial information in the financial statements, these expenses have been moved to “Other administrative expenses” to be consistent with where the depreciation on the right-of-use asset is reported following the application of *IFRS 16 - Leases*. The comparative information has been adjusted to reflect this reporting change. Had the change not been done, “Other charges (recoveries)” would have been $0.12 million and “Other administrative expenses” would have been $2.26 million for the period ended July 31, 2019.

The CDC has changed the presentation of “Audit Services” in the Statement of Operations and Comprehensive Loss. The change is limited to the label used for this line item, which has been changed to “Professional Services” in order to accommodate an additional professional service income under the same line item of the statement, specifically the new administration service income earned to administer the Direct Dairy Payment Program on behalf of Agriculture and Agri-Food Canada. Therefore, “Professional Services” under the current presentation includes income earned for audit services, as well as administrative services. A quantitative detail of “Professional Services” is provided in Note 11.

Appendices

APPENDIX 1 – HARMONIZED MILK CLASSIFICATION SYSTEM

All milk utilization must be declared as per their final end-use. The Harmonized Milk Classification System (HMCS) defines under which class milk components used in the manufacture of a finished dairy product must be declared to comply with this policy.

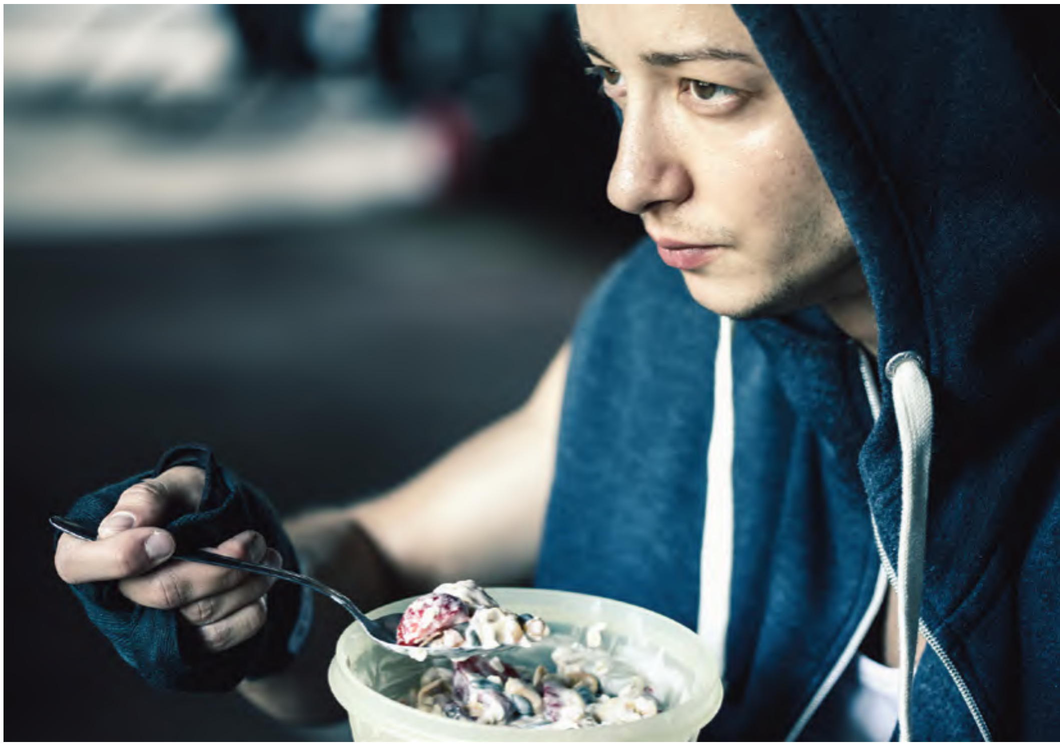
End-use definition: All milk used to process dairy products defined in Class 4(a) that are subsequently used as an ingredient to process another dairy product in Classes 1-3 or 4(b) are reclassified to their end use (i.e., from Class 4(a) to Classes 1-3 and 4(b)).

Class		Subclass	Products
1	Milk and beverages	1(a)	All milk and milk beverages
		1(b)	All types of cream with a minimum butterfat content of 5% for retail and food service
		1(c)	New 1(a) and 1(b) products approved by provincial authorities for an introductory period
		1(d)	1(a) and 1(b) products marketed outside the ten signatory provinces of the National Milk Marketing Plan, but within Canadian boundaries (e.g.: Yukon, NWT, Nunavut, cruise ships)

Class		Subclass	Products
2	Yogurt and ice cream	2(a)	All types of yogurt including yogurt beverages, Kefir, and Lassi, excluding frozen yogurt
		2(b)	Milkshakes, sports/nutrition drinks, fresh dairy desserts, sour cream, all types of ice cream, ice cream mix, other frozen dairy products, all types of fudge, pudding, and Indian sweets

Class		Subclass	Products
3	Cheese	3(a)	Cheese derived from fluid milks, cheese curds, skim milk cheese, ricotta, and all other cheeses not referred to elsewhere
		3(b)	All cheddar, cheddar-type cheeses sold fresh, stirred curd, cream cheese, and cream cheese bases or cheese mixes, and any coagulated milk product not referred to in Class 3(a) or 3(c)
		3(c)	Asiago, Brick, Colby, Farmer's, Feta, Gouda, Havarti, Jack, Monterey Jack, all types of Mozzarella, Muenster, Paneer, Parmesan, Swiss, part skim pizza cheese, pizza cheese
		3(d)	Standardized Mozzarella cheeses to be used strictly on fresh pizzas by establishments registered with the CDC under terms and conditions approved by the CMSMC

Class		Subclass	Products
4	Butter, concentrates, and powders	4(a)	Butter and butteroil, concentrated milk as an ingredient in the food industry, concentrated milk protein, all types of powders, milk and milk components used to make infant formula, rennet casein (dry or curd) used in processed cheese
		4(b)	Concentrated milk for retail and all other products not elsewhere stated, and losses
		4(c)	New industrial products approved by provincial authorities for an introductory period
		4(d)	Inventories and returns
		4(m)	Milk components for animal feed
Class		**Subclass**	**Products for further processing**
5	Dairy products used in further processing	5(a)	Cheese used as ingredient in further processing in Canada
		5(b)	All other dairy products used as ingredients in further processing in Canada
		5(c)	Dairy products used as ingredients in the Canadian confectionery sector
		5(d)	Planned exports and other exports approved by the CMSMC, the total of which shall not exceed Canada's WTO commitments (**only until December 31, 2020**)



APPENDIX 2 – GLOSSARY

Canadian Milk Supply Management Committee

The CMSMC is the key national body for policy development and discussions respecting the sectors of dairy production and processing. It 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 five 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 Total Quota.

Dairy Year

The major elements of the supply management system for the Canadian dairy sector operate on a dairy rather than a calendar or fiscal year basis. Established to co-ordinate the natural patterns of milk production with market requirements, the dairy year goes from August 1 to July 31.

Further Processors

Further processors use milk or other dairy products to manufacture other food products.

Milk Class

All milk in Canada is classified according to its use (for example, fluid, cheese, butter, etc.). The price paid to the producer for the milk depends on the class. This classification system is not related to milk quality.

Processors

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

Supply Management

Supply management is a system by which the production of milk is controlled by production quotas at the farm level. The size of the quota depends on the demand for milk and 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 in setting the value of raw milk sold by farmers.

Total Quota

Total Quota is the national production target for milk in Canada and is expressed in kilograms of butterfat. Total Quota equals the Total Requirements calculation minus imports. In other words, production targets are directly based on the demand for Canadian butterfat.

Total Requirements

Total Requirements is a measure of demand for milk in Canada, measured in kilograms of butterfat. Every month, the Canadian Dairy Commission calculates Total Requirements (a proxy for demand) and total quota (target production based on demand). It also compares real production to allocated quota so that production does not deviate from demand beyond regular seasonal fluctuations. These calculations allow milk pools to send the correct production signals to dairy producers.