



Canadian Dairy
Commission

Commission
canadienne du lait

SUMMARY OF THE AMENDED CORPORATE PLAN FOR 2019-2020 TO 2023-2024

OPERATING AND CAPITAL BUDGETS
FOR THE DAIRY YEAR ENDING JULY 31, 2020

Amended Corporate Plan dated June 15, 2020

No 3107171

TABLE OF CONTENTS

TABLE OF CONTENTS	2
1. EXECUTIVE SUMMARY	3
2.0 OVERVIEW	4
2.1 Corporate Mandate	4
2.2 Public Policy Role	4
2.3 Mission	5
2.4 Principal Programs	5
2.5 Financial Situation	6
3.0 OPERATING ENVIRONMENT	6
3.1 Internal Environment	6
3.2 External Environment	7
3.3 CDC Performance and External Reviews	8
3.4 Alignment with Government Priorities and Direction	10
4.0 OBJECTIVES, ACTIVITIES, RISKS, EXPECTED RESULTS AND PERFORMANCE INDICATORS...	10
4.1 Assessment of Results for 2018-2019	10
4.2 Objectives, Activities, and Performance Measures for the Planning Period	13
5.0 FINANCIAL REPORT	17
5.1 Overall Financial Management	17
5.2 Major Assumptions Used in Preparing Budgets	17
5.3 Financial Statements and Notes	19
APPENDIX A PLANNED RESULTS	28
APPENDIX B COVID-19 RESPONSE	32

1. EXECUTIVE SUMMARY

As of April 1, 2019, the Canadian Dairy Commission (CDC) is in sound financial position and is on track to fulfil almost all the objectives it had set for itself in the 2018-2019 dairy year. Some objectives have been delayed because of industry constraints and are therefore included in the activities for 2019-2020.

As it continues to provide support to the Canadian dairy industry in the context of supply management, the CDC will concentrate its activities on three major key result areas: innovation, investment and growth; its role in the industry; and sound management of the supply management system. Innovation and investment will be of particular importance during the planning period as new trade agreements increase the access to the Canadian market for foreign dairy products. The CDC will use its current programs to help the industry and will gather and share market information that may help the industry respond to this new environment. However, despite the challenges presented by this new environment, the Canadian dairy industry is growing and is expected to continue to grow in the future.

The CDC's five-year objectives included in this Summary are growing the Canadian market for dairy products, playing a role of leader and supporting the industry in promoting a common approach, and offering a well administered, responsive and well-understood supply management system. Generally, activities are similar to those of previous years. Strategies to reach these objectives will include maximizing markets for dairy products and ingredients, providing reliable data and analysis to stakeholders, encouraging their participation in decision-making and favouring a common approach to issues, ensuring efficient producers receive fair returns, and ensuring that Canadian milk production meets demand.

The COVID-19 pandemic is having a major impact on the Canadian dairy industry. As a result of these challenges, dairy producers needed to dispose of surplus raw milk at the end of March and the first half of April. In view of halting the dumping of raw milk, provincial milk marketing boards have implemented various measures to reduce milk production at the farm. In addition to these measures, the industry has requested the CDC augment its storage programs that help the industry balance supply and demand variations, including the implementation of a program for the purchase and storage of cheese. In order to facilitate the CDC being able to fully deliver on this government measure in light of COVID-19, on May 15, 2020, the Government passed legislation to increase the statutory borrowing limit of the CDC from \$300 to \$500 million. An amended Corporate Plan that included the increased borrowing authority from the Minister of Finance up to the new statutory limit was approved by the Treasury Board on June 15, 2020. Further details of the CDC's response to the COVID-19 pandemic can be found in Annex B of this Corporate Plan Summary.

2.0 OVERVIEW

2.1 CORPORATE MANDATE

The CDC is a Crown corporation which was established in 1966 to coordinate federal and provincial dairy policies and create a control mechanism for milk production which would help stabilize farm revenues and avoid costly surpluses. The *Canadian Dairy Commission Act* states the mandate of the CDC:

8. (...) to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality.

2.2 PUBLIC POLICY ROLE

The CDC has 70 employees and is governed by a board of three directors appointed by the Governor in Council. For more than 50 years, the CDC has supported Canada's dairy industry by overseeing two key elements of supply management in this sector, namely the price of milk at the farm gate, and national milk quotas.

To manage prices at the farm gate, each year the CDC conducts a study on the costs of producing milk. Provincial marketing boards use the findings of this study in a mathematical formula to adjust the price of milk on February 1 of each year. This formula also takes inflation into account. In specific exceptional circumstances and at the industry's request, the CDC consults with stakeholders before deciding on the price of milk at the farm level.

For milk quotas, the CDC monitors and forecasts demand for dairy products monthly in Canada and notifies provincial marketing boards of the producer quota adjustments required to align milk production with demand and avoid a shortage or surplus. This way, milk production meets demand in a timely manner.

The CDC also provides other services to the dairy industry. It ensures storage of butter inventories to offset production and consumption seasonality, it performs compliance audits to enforce dairy system rules, administers some industry decision-making committees, and provides them with secretariat services and technical expertise, in addition to administering programs on behalf of the industry.

2.3 MISSION

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

2.4 PRINCIPAL PROGRAMS

The CDC operates certain programs¹ for the benefit of the entire supply chain. The table below summarizes these programs.

Table 1. Programs administered by the Canadian Dairy Commission

Program Name	Objective	Target Audience
Workforce Development Initiative	To enable productivity, competitiveness, and innovation in the Canadian dairy industry by way of supporting the attraction and education of a qualified workforce.	Graduate students Learning institutions Industry associations
Dairy Export Program	To develop export markets for Canadian dairy products.	Exporters
Dairy Innovation Program	To give processors access to extra milk so that they can develop new dairy products.	Dairy processors
Dairy Marketing Program (including the Matching Investment Fund)	To encourage the use of dairy ingredients in food products.	Food processors
Domestic Seasonality Programs	To ensure a steady supply of dairy products all year long despite the seasonality of consumption. The CDC buys and stores butter ² during periods of lower consumption (January to September) and typically sells it back into the market when consumption rises (October to December).	Consumers
Milk Access for Growth Program	To ensure a supply of milk for investors who want to increase demand for Canadian milk and invest in their plants.	Dairy and food processors
Mozzarella for fresh pizzas	To provide fresh pizza restaurants access to mozzarella cheese at competitive prices for their sector of activity.	Pizza restaurants

¹ CDC programs are further described in its Annual Report <http://www.cdc-ccl.gc.ca/CDC/index-eng.php?link=125>

² The Seasonality Program for skim milk powder was suspended on February 1, 2017, due to an agreement in principle between producers and processors.

Program Name	Objective	Target Audience
Special Milk Class Permit Program (SMCPP)	To give further processors access to dairy products at competitive prices for use in further processing.	Further processors
Surplus Removal Program ³	To remove surplus dairy products from the Canadian market in a timely manner. Surpluses are either exported, within Canada's commitments to the WTO, or sold on less lucrative markets such as animal feed.	Dairy industry

2.5 FINANCIAL SITUATION

The CDC has four sources of revenues: appropriations, its commercial operations, funding from milk producers for programs administered on their behalf, and funds from the marketplace for the storage of butter.

To operate the Domestic Seasonality Program and the Surplus Removal Program, the CDC borrows from the Consolidated Revenue Fund and borrowing costs are covered by dairy producers and the marketplace. These loans must be approved by the Minister of Finance and are repaid according to their terms and conditions.

To perform the pooling of revenues on behalf of the dairy industry, the CDC maintains a line of credit with a member of the Canadian Payments Association. As established in the *Canadian Dairy Commission Act*, the CDC recovers all expenses related to the administration of the pools from the marketing boards of the provinces who are members of these pools.

Overall, CDC's funding is relatively predictable, and the organization can adapt to small fluctuations.

3.0 OPERATING ENVIRONMENT

3.1 INTERNAL ENVIRONMENT

Human Resources

³ Not forecasted to be used in this planning period.

Although the CDC is a Crown corporation, the Treasury Board of Canada is the employer of CDC's 70 employees who are covered by the same collective agreements and pension plan as employees in the various government departments. However, the CDC is not subject to the *Public Service Employment Act*.

Material Resources

The CDC does not own real estate, vehicles, or specialized equipment and it does not plan to buy real property during the planning period. The material resources of the CDC include computers, software, databases, and office furniture. These are deemed to be adequate.

The CDC leases office space from Agriculture and Agri-Food Canada and has signed a lease agreement for the period of April 1, 2017, to March 31, 2022, with the possibility to renew for another 5-year period at the rental market value rates established by Treasury Board Policy on Management of Real Property.

3.2 EXTERNAL ENVIRONMENT

As a program administrator and facilitator of the dairy industry, the CDC does not operate in an environment of competition, but rather one of collaboration with industry stakeholders. Its commercial operations are now mostly limited to the Domestic Seasonality Program which is similar to a butter storage program that ensures a steady supply of dairy products for consumers. Canadian butter makers are partners in this program.

Trade Agreements

WTO Members reached an agreement in Nairobi, Kenya, on export subsidies in the agriculture sector on December 19, 2015. According to the Nairobi Decision, Canada is to eliminate all export subsidies for dairy products by the end of 2020. In the meantime, Canada must limit its export subsidy volumes to the actual average of quantities exported in the 2003-2005 base period. Furthermore, there shall be no export subsidies used for either new markets or new products, or products destined for least developed countries. For the CDC, this means that exports of skim milk powder are capped at 18,147 tonnes per dairy year. However, the CDC no longer buys skim milk powder since dairy processors are now responsible for surplus solids non fat. The impact of the Nairobi Decision on the CDC is thus greatly reduced. The Nairobi decision also caps subsidized butter exports to 905 tonnes per year and creates caps for cheese, incorporated products, and certain other dairy products.

The Comprehensive Economic Trade Agreement (CETA) increased the EU access to the Canadian cheese market by 17,700 tonnes and gave Canada a potential duty-free access to the EU dairy markets. The CDC considers these additional imports from the EU when setting domestic milk production quota.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) includes access to the Canadian dairy market for other signatories' products such as butter, cream, and cheese. This will have an effect on the milk quota required in Canada and the CDC takes these imports into account when calculating quota.

The Canada-United States-Mexico Agreement (CUSMA) would also grant access to the Canadian market for foreign dairy products. Taken together, the market access from these three agreements may reach 8% of the Canadian milk production. This changes the environment in which the CDC forecasts demand for Canadian dairy products to help provincial milk marketing boards set producer quota. There will be uncertainty in the market as it could be difficult to forecast what kinds of dairy products will be imported, when, and in what province. This could present a challenge for the CDC and the industry when comes time to match production with demand. To offset some of the effect of this uncertainty, larger butter stocks may be required to prevent shortages.

CUSMA would also require that the Canadian dairy industry eliminate milk class 7, which has been used for the last two years to encourage the use of some of the components of milk⁴. CUSMA would also require an export charge to be applied when quantities of skim milk powder, milk protein concentrates and infant formula that Canada exports to any country exceed certain volumes. Depending on the decisions that the industry will make as it dismantles class 7 and complies with the modalities of CUSMA, there may be demands on the part of the industry for the CDC to administer new programs or change existing programs during the planning period.

Financial Trends

After many years of low rates, interest rates have started to increase slowly. Given that the CDC borrows money from the Consolidated Revenue Fund and from a line of credit, increases in interest rates will increase the interest expense associated with the CDC's programs. However, the CDC's borrowings are used for programs that the CDC administers on behalf of the dairy industry. This means that interest fees are paid by either dairy producers or the marketplace, depending on the program. Therefore, increases in interest rates will have no impact on the financial situation of the CDC.

3.3 CDC PERFORMANCE AND EXTERNAL REVIEWS

The CDC's legislative mandate is 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*

⁴ The milk produced to supply the butterfat market in Canada contains some components (protein, lactose) for which market is limited.

of dairy products with a continuous and adequate supply of dairy products of high quality. To fulfill this mandate, since the beginning of the dairy year, the CDC has accomplished the following:

On September 1, 2018, the CDC increased the support price for butter due to exceptional circumstances. At that time, producer representatives approached the CDC to review the support price, which has an incidence on farm milk prices, because their revenues were not in line with their increasing cost of production. The CDC board consulted with all the stakeholders before making this decision.

In September 2018, the industry moved towards true protein billing of milk, as opposed to the old crude protein measurement. True protein is more reflective of the nutritional and manufacturing value of milk. The CDC, with the support of Canadian Laboratory Services, assisted the industry to ensure a smooth and harmonized transition across Canada. The CDC also helped with the transition by providing funding for technical studies.

In October 2018, industry agreed to implement a new quota system, developed and promoted by the CDC, that is more responsive to market trends.

Following the signing of the CUSMA, the Government created working groups comprised of dairy producers and processors, as well as government representatives. The Dairy Mitigation Working Group considered mitigation strategies to fully and fairly support dairy producers and processors adjust to the short-term impacts of trade agreements. Their work has concluded, and their recommendations on compensation were shared with the Minister of Agriculture and Agri-Food. The Strategic Dairy Working Group is responsible for developing a long-term vision for the dairy sector. Their work is on-going. The CDC is a member of both groups.

External Review

The Office of the Auditor General (OAG) must carry out a special examination of the CDC at least every 10 years. The last one was done in 2011⁵. In its Special Examination, the OAG had noted good practices in several areas and found no significant deficiencies in CDC's systems and practices. The OAG made recommendations on board skill assessment, procedures for conflict of interest declarations and performance indicators. The CDC has implemented all recommendations.

The OAG is expected to present their audit plan to the Audit Committee in June. It has indicated that it would undertake its next Special Examination in the fall of 2019.

⁵ This report can be found here: <http://www.cdc-ccl.gc.ca/CDC/userfiles/file/SpecialExam%20English.pdf>

3.4 ALIGNMENT WITH GOVERNMENT PRIORITIES AND DIRECTION

In addition to contributing to the prosperity and viability of the Canadian dairy industry, which ensures continued jobs for the middle class, activities of the CDC are aligned with the following priorities that are specific to agriculture and were highlighted in the Canadian Agriculture Partnership:

Growing trade and expanding markets

The CDC is currently helping the Canadian dairy industry prepare for the ratification and implementation of CUSMA and plans to collaborate with the industry to develop markets, mainly for surplus skim milk solids.

Innovative and sustainable growth in the sector

The Dairy Innovation Program and the Matching Investment Fund support innovation that brings growth to the sector.

Supporting diversity and a dynamic, evolving sector

CDC's Workforce Development Initiative encourages productivity, competitiveness, and innovation by supporting the education and recruitment of a dynamic, diverse and qualified workforce. The WDI 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 educational programs to train qualified staff to work in dairy plants.
4. Continuing Education Program: opportunities for continuing education of current dairy plant and farm staff.

4.0 OBJECTIVES, ACTIVITIES, RISKS, EXPECTED RESULTS AND PERFORMANCE INDICATORS

4.1 ASSESSMENT OF RESULTS FOR 2018-2019

The CDC's performance objectives for 2018-2019 are based on the strategic themes and 5-year goals identified in its Corporate Plan.

THEME	INVESTMENT, INNOVATION AND GROWTH IN THE CANADIAN DAIRY SECTOR
--------------	---

5-year objective	Performance measure for 2018-2019	Target for 2018-2019	Results	% complete
Investments and innovation have led to continuous market growth in the dairy industry.	Number of litres of milk used in the MAG Program	21 million litres	0	Projects expected to begin next month.
	Market growth rate	0.5-% cumulative	MTR increased by: <ul style="list-style-type: none"> • 1.9% (most recent year-on-year) • 3% (5-year CAGR) 	100%
	Number of innovative dairy products introduced through DIP	2 (cumulative)	1	50%

THEME	THE ROLE OF THE CDC IN THE INDUSTRY			
5-year objective	Performance measure for 2018-2019	Target for 2018-2019	Results	% complete
The CDC is valued as an effective facilitator and key contributor in the dairy industry	% CDC-led recommendations to industry committees that are accepted	75%	1) New TR/TQ model and continuous quota policy 2) TEC-7 committee created	100%
	Number of invitations to speak/facilitate/train at non-CDC (excluding reports to provincial boards' AGMs)	12	The CDC received 25 invitations to speak/facilitate/train at non-CDC events.	100 %
	Number of registrations to CDC	10	5	50%

	online training modules			
--	-------------------------	--	--	--

THEME	ADMINISTRATION OF THE MILK SUPPLY MANAGEMENT SYSTEM			
5-year objective	Performance measure for 2018-2019	Target for 2018-2019	Results	% complete
A well-administered, responsive and well-understood supply management system	Time from receipt of pooling data to quota allocation and money transfers	9 days maximum		Target met each month so far this year
	Number of audits Targets and objectives were reviewed and adjusted in Nov. 2018 in response to the outcomes of the CUSMA.	45 audits of Class 3(d) 40 audits of Special Milk Class Permit Program participants 40 audits of class 7	As of January 1, 2019: 3(d) = 21 SC = 10 C7 = 17	As of January 1, 2019: 3(d) = 47% SC = 25% C7 = 43%
	Total producer revenues increase driven by growth	1%	1) 2.34% (latest year-on-year revenues) 2) 3.28% (5-year CAGR revenues)	100%
	Quota as a percentage of demand	Quota is between 99% and 101% of demand.	99.42% (latest 12 months of MTQ as percent of 12 months MTR)	100%

THEME	A WELL-MANAGED CDC			
5-year objective	Performance measure for 2018-2019	Target for 2018-2019	Results	% complete

The CDC is organized and resourced to support the dairy industry into the future.	Level of staff satisfaction as measured by an annual survey	80% or more	Waiting for PSES results – will be difficult to have a unique rating	n/a
	Number of tools or policies developed and adapted to better support the industry	4	Monthly quota (October 2018) New target butter stocks (July 2018) 2 true protein studies	75

4.2 OBJECTIVES, ACTIVITIES, AND PERFORMANCE MEASURES FOR THE PLANNING PERIOD

The CDC is experiencing a good year in 2018-2019. Collaboration between the CDC and the industry is excellent, workforce numbers have stabilized and the administration of the various aspects of the supply management system are performed according to targets. More details on the CDC’s performance in 2017-2018 are available in its Annual Report.

Objectives and activities of the CDC for the planning period are grouped under four strategic themes. This section of the Plan Summary presents, for each theme, the five-year goals of the CDC, the strategies and objectives, and the performance indicators associated with these goals.

The CDC’s main role is to provide support to the Canadian dairy industry. It does not have the powers in its Act to direct the future of the industry. Typically, the environment in which the industry operates changes every three to five years. This change has been even more rapid in recent years. For those reasons, the CDC does not establish objectives on a horizon longer than five years.

Strategic theme: Innovation, growth and investment in the Canadian dairy sector

Under this strategic theme and in line with its mission of providing leadership to enhance the vitality of the Canadian dairy industry, the CDC will provide support and funding for market development and will continue to encourage investments in the dairy sector. The CDC already has several programs in place that facilitate innovation and market growth⁶. These

⁶ Such as the Dairy Innovation Program and the Milk Access for Growth Program.

programs will continue. The CDC will also gather and share market information that may be useful for the industry’s own market development initiatives.

Five-year goal:

- Investments and innovation have contributed to the growth and the sustainability of the Canadian dairy industry.

NEW STRATEGIES	NEW OBJECTIVES FOR 2019-2020
Maximize markets for dairy products and ingredients.	<ul style="list-style-type: none"> • Acquire better expertise on current markets and regulations and share this information with industry.
Support and fund innovation through existing programs.	<ul style="list-style-type: none"> • Companies increase their use of the CDC programs.

Performance indicators:

- Number of litres of milk used in the Milk Access for Growth Program (MAG)
- Percentage of butterfat used in the MAG and Dairy Innovation Program (DIP) vs. quota
- Number of innovative dairy products introduced through the Dairy Innovation Program (DIP)

Strategic theme: The Role of the CDC

The success of the milk supply management system rests in part on the cohesion that exists among the various players. Actors of the dairy industry include provincial governments, milk marketing boards, industry associations representing producers and processors, as well as individual processors. There are sometimes conflicting interests between different players about the level of regulation or controls that should be in place, or about milk prices. Therefore, the presence of an effective facilitator is helpful to maintain cohesion and the CDC, being national in scope and not profit oriented, has been playing this role.

Under this theme, the CDC has spent the last year adapting its programs and services to the new environment of the dairy industry to continue to be an effective facilitator and key contributor in the sector. The CDC has implemented most of the action plan created after a survey on the satisfaction of CMSMC members relative to CDC services to this important decision-making body. It has also reviewed how milk production quota is managed to create a more market-responsive system.

Performance indicators will be used to measure the extent to which the industry considers the CDC as a valuable and reliable source of information as well as how CDC is performing relative

to fostering a common approach among stakeholders as they look to solutions to the challenges that the industry faces.

Five-year goal:

- The CDC is known for its leadership and its support of the industry in promoting a common approach.

NEW STRATEGIES	NEW OBJECTIVES FOR 2019-2020
Provide reliable data and analyses for dairy industry stakeholders, including governmental agencies.	<ul style="list-style-type: none"> • The CDC is considered a reliable source of information.
Facilitate industry committees while encouraging stakeholder participation and a common approach.	<ul style="list-style-type: none"> • Improve the operation of the industry committees chaired by the CDC. • Promote a common and national approach to issues and solutions.

Performance indicators:

- Industry satisfaction survey results (in the fall of 2020)
- Percentage of CDC-led recommendations to industry committees that have been accepted
- Number of invitations to speak/facilitate/train at non-CDC meetings (excluding reports to provincial boards' annual general meetings)
- Number of registrations to online training modules offered by the CDC to explain the dairy supply management system

Strategic theme: Administration of the milk supply management system

As the administrator of milk prices at the farm gate, production quotas, and revenue and market pooling, the CDC is responsible for the respect of federal-provincial agreements as well as for a series of calculations, money transfers, and audits. These various activities are important to ensure that the supply management system runs smoothly.

Under this strategic theme, the CDC's strategy involves both the day-to-day operations of the milk supply management system, and efforts to improve its administration. The day-to-day administration of the system includes the accurate targeting of the quantity of milk produced in Canada, the operation of programs that balance the differences in seasonality of production and consumption, and the administration of federal-provincial and international agreements⁷.

⁷ This entails ensuring Canada is compliant with WTO export subsidy commitments. In addition, the CDC imports the butter tariff rate quota as approved on an annual basis by Global Affairs Canada.

Five-year goal:

- A well administered, responsive and well-understood supply management system

EXISTING STRATEGIES	OBJECTIVES FOR 2018-2019
Promote a more market-responsive management of milk supply.	<ul style="list-style-type: none"> • The new quota management system responds to market trends (NEW).
Ensure the respect of federal-provincial and international agreements.	<ul style="list-style-type: none"> • Start the modernization of the P10 and NMMP to reflect changes to the industry (EXISTING)
Ensure that efficient producers receive fair returns	<ul style="list-style-type: none"> • Measures are taken to ensure that efficient producers receive fair returns (REVISED). • Revenue pooling calculations are timely and accurate (EXISTING).
Ensure Canadian production meets demand	<ul style="list-style-type: none"> • There is timely and sufficient supply of dairy products in the Canadian market (EXISTING). • There is timely and accurate allocation of quota to meet demand (EXISTING).

Performance indicators:

- Time from receipt of pooling data to quota allocation and money transfers
- Number of audits performed by the CDC on milk utilization and program compliance
- CDC demand forecasts *vs.* actual demand
- Difference between cost of production and the expected producer revenues

Strategic theme: Functioning of the CDC

Under this theme, the focus of the CDC is to ensure that it has the structure, tools, and resources to support the dairy industry into the future. Employee onboarding, retention, collaboration, and productivity will be front and centre.

Five-year goal:

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

EXISTING STRATEGIES	OBJECTIVES FOR 2019-2020
Being fully staffed with the right people with the right skills to serve the industry.	<ul style="list-style-type: none"> • Employee retention is improved (EXISTING). • Generic skills of employees are increased (NEW).

Adapt the IT systems to the industry's evolving needs.	<ul style="list-style-type: none"> IT services are improved (EXISTING).
Implement new or updated government policies and applicable legislative requirements.	<ul style="list-style-type: none"> Requirements of the new government policies are assessed⁸ (EXISTING)

NEW STRATEGY	NEW OBJECTIVE FOR 2019-2020
Raise the profile of environmental issues within the CDC.	<ul style="list-style-type: none"> Environmental issues become part of internal decision-making.

Performance indicators:

- Level of staff satisfaction as measured by an annual survey
- Number of tools or policies developed and adapted to better support the industry
- Turnover rate
- Assessment of employees' performance

5.0 FINANCIAL REPORT

5.1 OVERALL FINANCIAL MANAGEMENT

The Canadian Dairy Commission is a Crown corporation with sound financial and risk management practices. During the year, the Audit Committee reviews and approves the quarterly financial reports which are then posted on the CDC public Web site and sent to the Comptroller General. The Board also reviews and approves the year-end financial statements, which are audited by the Office of the Auditor General and included in the Annual Report, which is tabled in Parliament.

5.2 MAJOR ASSUMPTIONS USED IN PREPARING BUDGETS

CDC's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), which use the accrual basis of accounting.

The CDC's budgeted financial tables are based on certain assumptions and projections while forecasts are based partially on actual results up to January 31, 2019. Certain financial results are particularly sensitive to any significant fluctuations in assumptions made with regards to domestic demand and milk production, which affect CDC purchases and sales of butter as well as inventories. The timing of implementation of industry initiatives funded by the CDC also

⁸ Mainly the Policy on Government Security

has an impact on projected financial results. Fluctuations in interest rates can also have an impact on projected financial results.

Financial statements presented herein assume that demand from 2018-2019 to 2020-2021 will increase by 4%, mainly based on Canadian's growing appreciation for dairy products rich in fat such as cream, butter and fine cheeses. To be conservative, it is assumed growth will be 3% per year during 2021-2022 to 2023-2024 as it is expected that this growth in high fat product consumption will slow down. Canadian milk production will be below demand for the entire planning period due to increased access to the Canadian market conceded to other countries through CETA, CPTPP, and the potential ratification of CUSMA.

Domestic sales of butter (which include imported butter) will be approximately 38 million kg for 2018-2019, 32 million kg for 2019-2020, and are expected to decrease to 30 million kg for the remainder of the years because production is now more in line with demand and the CDC expects to buy less butter than in previous years.

The interest rates used for outstanding loans from the Consolidated Revenue Fund are estimated to be 1.80 % for 2018-2019, 2.40% for 2019-2020, and 2.75% for 2020-2021 through 2023-2024. Interest rates on loans from the member of Canadian Payments Association will remain at prime which is estimated to be 4.0% for 2018-2019, 4.8% for 2020-2019, and 4.95% for 2020-2021 through to 2023-2024. These assumptions are based on projections published by financial institutions in Canada. These interest charges are reimbursed to the CDC by either producers or the marketplace and have no material impact on the bottom line of the corporation.

5.3 FINANCIAL STATEMENTS AND NOTES

CANADIAN DAIRY COMMISSION STATEMENT OF FINANCIAL POSITION as at JULY 31, 2018-2024

(in thousands)								
	Actual Audited	Budget	Actual Audited	Budget				
	2017-2018	2018-2019	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
ASSETS								
Current								
Cash	\$ 6,925	\$ 950	\$ 2,610	\$ 1,000	\$ 1,429	\$ 1,341	\$ 1,185	\$ 1,194
Trade and other Receivables								
Trade	467	210	436	190	185	185	180	180
Advance to provincial milk boards and agencies	7,582	4,000	5,976	6,000	6,000	6,000	6,000	6,000
Milk pools	1,985	1,500	1,820	1,800	1,800	1,800	1,800	1,800
Inventory	221,970	147,430	178,157	331,980	250,700	208,072	210,187	212,247
	<u>238,929</u>	<u>154,090</u>	<u>188,999</u>	<u>340,970</u>	<u>260,114</u>	<u>217,398</u>	<u>219,352</u>	<u>221,421</u>
Non Current								
Equipment	120	94	96	68	69	34	42	28
Intangible asset	170	137	137	108	79	49	20	0
Right-of-use of asset	-	-	-	2,345	1,993	1,642	1,290	938
	<u>290</u>	<u>231</u>	<u>233</u>	<u>2,521</u>	<u>2,141</u>	<u>1,725</u>	<u>1,351</u>	<u>966</u>
Total Assets	\$ 239,219	\$ 154,321	\$ 189,232	\$ 343,491	\$ 262,255	\$ 219,123	\$ 220,703	\$ 222,387
LIABILITIES								
Current								
Bank overdraft	\$ 7,582	\$ 4,000	\$ 5,976	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000
Trade and other payables								
Trade	15,558	8,046	19,962	5,162	6,517	6,582	6,648	6,715
Distribution to provincial milk boards and agencies payable	10,900	3,837	5,750	1,314	635	461	453	410
Other liabilities	17,736	2,009	1,100	1,146	1,276	1,108	1,110	1,153
Deferred revenue	-	-	2,715	1,000	1,429	1,341	1,185	1,194
Derivative liability - foreign exchange contracts	-	-	3	-	-	-	-	-
Loans from the Government of Canada	152,852	118,592	127,600	308,281	231,085	189,577	192,320	194,959
	<u>204,628</u>	<u>136,484</u>	<u>163,106</u>	<u>322,903</u>	<u>246,942</u>	<u>205,068</u>	<u>207,716</u>	<u>210,432</u>
Non Current								
Lease Liability	-	-	-	2,361	2,020	1,675	1,325	970
EQUITY								
Retained Earnings	34,591	17,837	26,126	18,227	13,293	12,380	11,662	10,985
Total Liabilities and Equity	\$ 239,219	\$ 154,321	\$ 189,232	\$ 343,491	\$ 262,255	\$ 219,123	\$ 220,703	\$ 222,387

CANADIAN DAIRY COMMISSION
STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS
for the Dairy Years ended July 31, 2018 - 2024

	(in thousands)							
	Actual Audited 2017-2018	Budget 2018-2019	Actual Audited 2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Sales and Cost of Sales								
Domestic sales revenue	\$ 305,942	\$ 304,031	\$ 358,442	\$ 269,566	\$ 372,776	\$ 350,579	\$ 308,688	\$ 311,560
Cost of goods sold - domestic	291,887	297,805	350,397	267,022	370,861	348,819	306,929	309,862
Transport and carrying charges	6,138	3,614	4,245	5,625	9,352	6,285	4,292	4,378
Finance costs	985	1,605	1,287	1,171	781	810	1,103	1,183
Gross profit (loss) on domestic sales	6,932	1,007	2,513	(4,252)	(8,218)	(5,335)	(3,636)	(3,863)
Export sales revenue	278	4,500	839	-	-	-	-	-
Cost of goods exported	229	4,419	685	-	-	-	-	-
Transport and carrying charges	3	73	7	-	-	-	-	-
Finance costs	-	-	-	-	-	-	-	-
Gross profit on export sales	46	8	147	-	-	-	-	-
Total gross profit (loss)	6,978	1,015	2,660	(4,252)	(8,218)	(5,335)	(3,636)	(3,863)
Other revenues								
Funding from milk pools	9,069	8,252	9,231	11,489	15,360	12,905	10,975	11,272
Funding from the Government of Canada	3,881	3,855	3,778	3,965	3,988	3,990	3,995	3,995
Other services	168	174	177	474	490	495	495	495
	13,118	12,281	13,186	15,928	19,848	17,390	15,465	15,762
Total	20,096	13,296	15,846	11,676	11,630	12,055	11,829	11,899
Operating Expenses								
Industry initiatives	735	12,796	8,171	8,052	4,821	1,296	796	796
Cost of Production study	838	851	850	865	877	889	906	924
Other charges / (recoveries)	176	152	122	112	120	141	136	114
	1,749	13,799	9,143	9,029	5,818	2,326	1,838	1,834
Administrative Expenses								
Salaries and employee benefits	6,608	7,358	7,154	7,374	7,919	7,994	8,074	8,154
Other administrative expenses	2,216	1,968	2,264	1,858	2,192	2,187	2,182	2,178
	8,824	9,326	9,418	9,232	10,111	10,181	10,256	10,332
Total	10,573	23,125	18,561	18,261	15,929	12,507	12,094	12,166
Profit (loss) before distribution to provincial milk boards and agencies	9,523	(9,829)	(2,715)	(6,585)	(4,299)	(452)	(265)	(267)
Distribution to provincial milk boards and agencies	10,900	3,837	5,750	1,314	635	461	455	410
Results of operations and comprehensive loss	\$ (1,377)	\$ (13,666)	\$ (8,465)	\$ (7,899)	\$ (4,934)	\$ (913)	\$ (716)	\$ (677)

CANADIAN DAIRY COMMISSION
STATEMENT OF CHANGES IN EQUITY
for the Dairy Years ended July 31, 2018 - 2024

	(in thousands)							
	Actual Audited	Budget	Actual Audited	Budget				
	2017-2018	2018-2019	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Retained earnings, beginning of the year	\$ 35,968	\$ 31,503	\$ 34,591	\$ 26,126	\$ 18,227	\$ 13,293	\$ 12,380	\$ 11,662
Results of operations and comprehensive loss	(1,377)	(13,666)	(8,465)	(7,899)	(4,934)	(913)	(718)	(677)
Retained earnings, the end of the year	\$ 34,591	\$ 17,837	\$ 26,126	\$ 18,227	\$ 13,293	\$ 12,380	\$ 11,662	\$ 10,985

CANADIAN DAIRY COMMISSION
STATEMENT OF CASH FLOWS
for the Dairy Years ended July 31, 2018 - 2024

	(in thousands)							
	Actual Audited	Budget	Actual Audited	Budget				
	2017-2018	2018-2019	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Cash flows (used in) from operating activities								
Cash receipts from sales of goods and services	\$ 320,253	\$ 308,705	\$ 346,539	\$ 268,571	\$ 373,700	\$ 350,986	\$ 309,032	\$ 312,064
Cash paid to suppliers and others	(351,211)	(246,085)	(326,706)	(458,836)	(312,807)	(324,658)	(325,080)	(327,943)
Cash receipts from provincial milk boards and agencies (pooling)	7,231	8,252	11,002	11,485	15,360	12,905	10,975	11,272
Cash paid to provincial milk boards and agencies (operating surplus)	(8,400)	(10,565)	(10,900)	(5,750)	(1,314)	(635)	(461)	(453)
Cash receipts from the Government of Canada	3,881	3,855	3,778	3,965	3,998	3,990	3,995	3,995
Interest paid on loans and the lease liability	(765)	(1,639)	(1,170)	(1,413)	(970)	(821)	(1,009)	(1,209)
Cash flows from (used in) operating activities	<u>(29,011)</u>	<u>62,523</u>	<u>22,543</u>	<u>(181,978)</u>	<u>77,967</u>	<u>41,767</u>	<u>(2,548)</u>	<u>(2,274)</u>
Cash flows from (used in) financing activities								
New loans from the Government of Canada	297,330	200,000	253,718	200,000	200,000	200,000	200,000	200,000
Loan repayments to the Government of Canada	(263,192)	(262,671)	(278,970)	(19,319)	(277,196)	(241,508)	(197,257)	(197,361)
Principal payments on lease liability	-	-	-	(337)	(342)	(347)	(351)	(356)
Cash flows from (used in) financing activities	<u>34,138</u>	<u>(62,671)</u>	<u>(25,252)</u>	<u>180,344</u>	<u>(77,538)</u>	<u>(41,855)</u>	<u>2,392</u>	<u>2,283</u>
Net increase in cash (bank overdraft)	5,127	(148)	(2,709)	(1,634)	429	(88)	(156)	9
Net bank overdraft at beginning of the year	(5,784)	(2,902)	(657)	(3,366)	(5,000)	(4,571)	(4,659)	(4,815)
Net bank overdraft at end of the year	<u>\$ (657)</u>	<u>\$ (3,050)</u>	<u>\$ (3,366)</u>	<u>\$ (5,000)</u>	<u>\$ (4,571)</u>	<u>\$ (4,659)</u>	<u>\$ (4,815)</u>	<u>\$ (4,806)</u>
Components:								
Cash	\$ 6,925	\$ 950	2,610	\$ 1,000	\$ 1,429	\$ 1,341	\$ 1,185	\$ 1,194
Bank overdraft	(7,582)	(4,000)	(5,976)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)
	<u>\$ (657)</u>	<u>\$ (3,050)</u>	<u>\$ (3,366)</u>	<u>\$ (5,000)</u>	<u>\$ (4,571)</u>	<u>\$ (4,659)</u>	<u>\$ (4,815)</u>	<u>\$ (4,806)</u>

Statement of Financial Position

Most of the elements from the Statement of Financial Position remain relatively constant from year to year except for inventories and the government loan, which finances inventories. Inventory will vary depending on supply and demand and the government loan follows inventory.

The Statement of Financial Position shows a slight increase in the loan over the years as inventories remain quite stable. This is explained by the fact that inventories are also financed by retained earnings and these retained earnings are expected to decline over the planning period.

There is also a decrease in retained earnings starting in 2018-2019 dairy year. This will be explained in the section on the Statement of Changes in Equity.

An important variance that can be seen in the Statement of Financial Position is the difference between the forecasted loan and inventory value in 2018-2019 and what is expected at year-end. After a year of exceptionally high butter inventories, it was expected that these would return to more normal levels this year. However, butter stocks have remained higher. It is too early to determine if this will continue in the future but that is what is assumed in the financial statements.

Statement of Operations and Comprehensive Loss

The 2018-2019 profit on domestic sales is forecasted to be \$3.3 million, which is higher than the budgeted amount of \$1.0 million. This is mainly due to higher margins than anticipated on the remainder of the skim milk powder sold in the animal feed market.

The loss on domestic sales starting in 2019-2020 represents the financing, transport and carrying charges associated with the Domestic Seasonality Program that is no longer compensated by a margin in the Surplus Removal Program. This loss therefore becomes visible in the table whereas in the past, it was "hidden" by profits. These charges continue to be entirely recovered from the marketplace and producers as part of the funding from milk pools. There is no actual loss for the CDC.

Export sales revenues for 2018-2019 are lower than budgeted as a result of less butter having to be exported. Higher margins than expected also caused profits to be higher than expected. The CDC does not expect to export dairy products during the remaining of the planning period.

There are no more export activities starting in 2019-2020. This is because subsidized exports of dairy products will no longer be possible beyond January 1, 2021, due to the Nairobi Decision on export subsidies and exports that the CDC has historically performed were deemed subsidized. Although it is not anticipated, there is always a possibility that the CDC could export a small quantity of surplus butter before the end of 2020, if necessary.

Funding from milk pools are expected to increase in the future mainly due to forecasted increases in interest rates which will cause higher carrying charges for butter stocks.

Figures for the funding from the government of Canada reflect the actual appropriation plus forecasted eligible pay list expenditures such as parental leave for dairy year 2018-2019. Appropriations are assumed to remain close to that level for subsequent years.

In 2018-2019, expenses for industry initiatives are much lower than expected, mostly because some industry projects under the Matching Investment Fund were delayed.

The distribution to provincial milk boards and agencies represents surpluses generated from the Domestic Seasonality and Surplus Removal Programs. In the past, these surpluses came mostly from the sale of skim milk powder, which stopped in 2018-2019 after stocks were depleted. This distribution is therefore expected to decrease significantly starting in 2019-2020.

The results of the Statement of Operations and Comprehensive Loss are negative for all years because of a planned reduction in the balance of the imported butter account.

Statement of Changes in Equity

This statement is included to present a complete set of financial statements in the Plan as required by the IFRS. This statement presents changes in equity year over year after all the financial inflows and outflows.

The CDC's retained earnings, of which the Equity Statement is entirely comprised, are made up partly of the surplus of the imported butter fund, partly of any surplus in funding from the marketplace, and partly of other minor surpluses. Overall, retained earnings are forecasted to be \$27.97 million in 2018-2019 and \$13.57 million in 2019-2020. By 2023-2024, the CDC projects that the surplus will be at \$8.73 million. This reduction is planned.

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.

CANADIAN DAIRY COMMISSION
ADMINISTRATIVE EXPENSES AND FUNDING
for the Dairy Years ended July 31, 2018 - 2024

(in thousands)

	Budget	Forecast	Budget				
	2018-2019	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Personnel	\$ 7,358	\$ 6,960	\$ 7,337	\$ 7,411	\$ 7,486	\$ 7,561	\$ 7,636
Professional and special services	985	1,201	1,090	1,090	1,090	1,090	1,090
Rentals	465	453	96	96	96	96	96
Transportation & communications	388	435	432	432	432	432	432
Depreciation on right use of asset	0	0	339	339	339	339	339
Information services	11	8	8	8	8	8	8
Acquisition of equipment	78	78	63	63	63	63	63
Materials and supplies	21	15	16	16	16	16	16
Repair and maintenance	13	9	11	11	11	11	11
Miscellaneous expenditures	7	6	10	18	27	35	43
Total administrative expenses	\$ 9,326	\$ 9,165	\$ 9,401	\$ 9,484	\$ 9,568	\$ 9,651	\$ 9,734
Share of Funding							
Appropriation breakdown:							
CDC appropriation Vote 1	\$ 3,755	\$ 3,853	\$ 3,773	\$ 3,773	\$ 3,773	\$ 3,773	\$ 3,773
Eligible payroll expenditures	100	160	75	75	75	75	75
Total Government appropriation	\$ 3,855	\$ 4,013	\$ 3,848	\$ 3,848	\$ 3,848	\$ 3,848	\$ 3,848
Producer contribution	\$ 2,760	\$ 2,760	\$ 2,760	\$ 2,805	\$ 2,895	\$ 2,940	\$ 2,985
Marketplace contribution	1,760	1,760	1,760	1,785	1,845	1,875	1,905
Other	951	632	1,033	1,046	980	988	996
Total	\$ 5,471	\$ 5,152	\$ 5,553	\$ 5,636	\$ 5,720	\$ 5,803	\$ 5,886

Government figures are based on fiscal year reference levels prorated to a dairy year. Expenses include estimated amounts for maternity leave and severance payments. These amounts are eligible for recovery from Vote 30 and have been included as part of Government appropriations.

Administrative Expenses and Funding

The administrative budget provides details of the CDC's forecasted expenses and sources of revenues.

Major expenditures in the administrative budget are salaries and employee benefits. As mentioned in section 3.1, the Treasury Board of Canada is the employer of CDC's employees who are covered by the same collective agreements and pension plan as employees in the various government departments. As all collective agreements are expired, the CDC assumed salary increases of 1.25% per year starting with 2018-2019. The remaining significant expenses relate to rent, travel, and professional fees.

Professional services and special services are mainly comprised of services relating Audit, HR legal, interpretation and market studies. Also included in this category are various MOU's with other government departments for IT services.

In accordance with the *CDC Act*, the CDC receives Parliamentary appropriations to fund part of its administrative expenses. The CDC reports the use of its appropriations on a Government fiscal year basis in the Public Accounts of Canada. The CDC also receives funding from dairy farmers, the market place, and commercial operations.

Note that the CDC did not meet the threshold to include the capital budget in the Corporate Plan.

Borrowing Plan

Legislative Borrowing Authorities

Under subsection 16(1) of the *Canadian Dairy Commission Act* (CDC Act), the Minister of Finance may, out of the Consolidated Revenue Fund (CRF), make loans to the CDC as are approved by the Governor in Council for the purpose of exercising any of the powers of the Commission described in section 9(1) (a) and (b) of the Act:

- a) purchase any dairy product and sell, or otherwise dispose of, any dairy product purchased by it;
- b) package, process, store, ship, insure, import or export any dairy product purchased by the Commission.

Under the *CDC Act*, with the approval of the Minister of Finance, the CDC may also establish and use a line of credit with any member of the Canadian Payment Association (CPA) for the purpose of exercising any of its powers set out in paragraph 9(1)(f) to (i). The line of credit is necessary to provide bridge financing and ensure efficient operation of the pooling of market

return system administered on behalf of the provinces. In 2018-2019, the Minister of Finance approved a line of credit of up to \$50 million with a member of the Canadian Payments Association. All borrowing costs and payment responsibilities under this line of credit are assumed by producers.

According to section 16(2) of the *CDC Act*, total aggregate amount outstanding at any time of loans made from the CRF and the line of credit shall not exceed \$300 million.

In accordance with subsection 127(3) of the *Financial Administration Act*, the CDC requires the approval of the Minister of Finance to enter into any particular transaction to borrow money, including the time and the terms and conditions of the transaction. The following outlines the borrowing plan for 2019-2020.

For 2018-2019, the Minister of Finance approved short-term borrowings from the CRF of \$225 million and this was based on estimated borrowing requirements and a contingency amount to address peak periods of purchases as well as any unexpected changes that could occur in the marketplace. For 2019-2020, the CDC requests the authority to borrow \$300 million to be comprised of \$250 million from the Consolidated Revenue Fund and a \$50 million line of credit, with total outstanding borrowings at any time not exceeding \$300 million. This \$25 million increase takes into account continually high butter stocks. Due to the value of butter per kilogram, relatively small variations in stocks have a large bearing on the loan balance. For example, a variation of 3,000 tonnes represents a value of \$25 million.

Overview of the Borrowing Plan

The assumptions and estimates used in this borrowing plan are forward-looking. There is a certain level of uncertainty related to the assumptions used in the borrowing plan as many factors influence the quantity of butter that the CDC buys. These include milk production during the summer, which in turn depends partly on weather, decisions made by processors, demand for ice cream during the summer, and other factors influencing processor decisions related to stocks.

CANADIAN DAIRY COMMISSION
BORROWING PLAN
for the Dairy Years ended July 31, 2018 - 2024

Table 1: Outstanding borrowings at July 31 (\$millions)

	Actual 2017-2018	Budget 2018-2019	Forecast 2018-2019	Budget				
				2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Short-term borrowings	\$ 160.4	\$ 122.6	\$ 156.7	\$ 174.4	\$ 183.0	\$ 181.1	\$ 188.0	\$ 186.5
Long-term Borrowings	-	-	-	-	-	-	-	-
Total borrowings	\$ 160.4	\$ 122.6	\$ 156.7	\$ 174.4	\$ 183.0	\$ 181.1	\$ 188.0	\$ 186.5

Table 2: Short-term borrowings as of July 31 (\$ millions)

	Actual 2017-2018	Budget 2018-2019	Forecast 2018-2019	Budget				
				2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Canadian dollars	\$ 160.4	\$ 122.6	\$ 156.7	\$ 174.4	\$ 183.0	\$ 181.1	\$ 188.0	\$ 186.5
Us dollars (expressed in canadian dollars)	-	-	-	-	-	-	-	-
Total borrowings	\$ 160.4	\$ 122.6	\$ 156.7	174.4	183.0	181.1	188.0	186.5

Table 3: Peak borrowings during the year (\$ millions)

Method and currency used	Actual 2017-2018	Budget 2018-2019	Forecast 2018-2019	Budget				
				2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Line of credit: Canadian dollars	\$ 8.7	\$ 4.0	\$ 7.5	\$ 7.5	\$ 7.5	\$ 7.5	\$ 7.5	\$ 7.5
Line of credit: US dollars (expressed in canadian dollars)	-	-	-	-	-	-	-	-
Borrowings: Canadian dollars	170.0	180.0	176.3	178.6	182.4	184.9	187.6	190.6
Borrowings: US dollars (expressed in Canadian dollars)	-	-	-	-	-	-	-	-
Total borrowings	\$ 178.7	\$ 184.0	\$ 183.8	186.1	189.9	192.4	195.1	198.1

Risk Management

These loans bear little or no risk for the Government of Canada because the carrying charges, including the interest on the loan, are paid collectively by the marketplace and by milk producers.

In order to protect itself against the risk of financial losses resulting from damages to its products during storage or transportation, the CDC holds adequate insurance coverage at all times.

Historically, CDC inventory values have always exceeded outstanding loan levels. Approximately 80% of the total inventory value is purchased on the contractual condition that manufacturers repurchase this butter before the end of the calendar year or within 12 months from the date of manufacture at the prevailing support prices. Therefore, revenues for these products are virtually guaranteed.

**APPENDIX A
PLANNED RESULTS**

Outcome	Performance indicator	Baseline	2019-2020 Target	2023-2024 Target	Data Strategy
Investments and innovation have contributed to the growth and sustainability of the Canadian dairy industry.	Number of litres used in the Program (MAG)	0 (2017-2018)	22 million litres	160 million litres	Annual pull of data from MAG program
	Percentage of butterfat used in MAG and DIP vs quota	Data not available	0.5 % per year	4% (cumulative)	Annual growth in milk requirements related to CDC programs
	Number of innovative dairy products introduced through the Dairy Innovation Program (DIP)	2 (2016-2017)	2	10 (cumulative)	Annual pull from DIP files
The CDC is known for its leadership and its support of the industry in promoting a common approach.	Industry satisfaction survey results (in 2020) – n/a in 2019-2020	Ratings improve by 20%	N/A	Ratings improve by 25%	Survey results
	% of CDC-led recommendations to industry committees that are accepted	Data not available	75%	85%	Compilation by Policy and Economics
	Number of <u>invitations</u> to speak/facilitate/train at non-CDC meetings (excluding reports to provincial boards' AGMs)	Data not available	12	20	Compilation by CEO office
	Number of registrations to	Data not available	8	15	Compilation by Communications

Outcome	Performance indicator	Baseline	2019-2020 Target	2023-2024 Target	Data Strategy
	online training modules				
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 (2016-2017)	8 days maximum	8 days maximum	Data from Finance and Administration
	Number of audits	100 audits of Class 3d 40 audits of Special Milk Class Permit Program participants (2016-2017)	40 audits of SMCPP, 5 audits of IREP, 35 audits of Class 3(d), 45 audits of Class 7, 2 internal audits, 31 MUA, 10 audits of revenue sharing, and 2 program evaluations	20 audits of Class 3d 40 audits of SMCPP 42 audits of class 7	Audit & Evaluation data
	CDC demand forecasts vs. actual demand	Data not available	Within 2% of actual demand	Within 2% of actual demand	Pooling data
	Difference between COP and the expected producer revenues	Data not available	A maximum of +/-3.5%	A maximum of +/-3.5%	Data from Policy and Economics
The CDC is organized and resourced to continue to support the dairy industry into the future.	Level of staff satisfaction as measured by an annual survey	92% (2016-2017)	80 % or more	90% or more	Data from annual employee satisfaction survey
	Number of tools or policies developed and adapted to better support the industry	2 (2016-2017)	4	4	Data from Information Technology team and Senior Management Team

Outcome	Performance indicator	Baseline	2019-2020 Target	2023-2024 Target	Data Strategy
	Turnover rate	20% in 2016-2017	Maximum 10%	Maximum 10%	Data from Human Resources
	Assessment of employees' performance	Data not available	90% of employees have satisfactory performance or higher in their end-of-year evaluation (fall 2019)	90% of employees have satisfactory performance or higher in their end-of-year evaluation	Data from Human Resources

Chief Executive Office Commitment:

I, Serge Riendeau, as Chief Executive Officer of the Canadian Dairy Commission, am accountable to the Board of Directors of the Canadian Dairy Commission for the implementation of the results described in this Corporate Plan and outlined in this Appendix. I confirm that this commitment is supported by the balanced use of all available and relevant performance measurement and evaluation information.

Serge Riendeau
Chief Executive Officer
Canadian Dairy Commission

Original signed
April 16, 2019

**APPENDIX B
COVID-19 RESPONSE**

The COVID-19 pandemic is having a significant impact on the Canadian dairy industry. While there was an increased demand for fluid milk during the first two weeks of physical distancing, this demand has now flattened and returned to closer-to-normal levels, but the outlook remains volatile. The mass closure of restaurants and schools have forced a sudden shift from the foodservice industry to the retail market reducing demand, especially for cheese and cream.

As a result of these challenges, overall demand for milk has dropped which in turn forced dairy producers to turn to a last resort of disposing surplus raw milk at the end of March 2020 and into the first half of April 2020.

In order to deal with the drop in demand, provincial milk marketing boards have implemented drastic measures to reduce milk production, including a reduction of monthly credit days and quota cuts. The dairy industry has also increased its donations to food banks.

In April 2020, producers, processors and the CDC discussed additional ways the CDC could support the management of the surplus milk and avoid disposal at the farm. There was agreement for the CDC to:

- maximize its butter purchases under its existing programs; and
- introduce a new program called Plan C for cheese.

The CDC's purchasing and storage programs will help ensure food is not wasted, provide relief to dairy producers by reducing the amount of surplus milk, and provide relief to dairy processors, allowing them to defray their costs of carrying stock until the market rebounds. Cheese stocks under Plan C will also help the industry satisfy restaurants' demand once they are allowed to reopen.

To respond to the impacts of COVID-19, the CDC, after consultation with the industry, indicated that it would require an increase to its borrowing authority by \$200M to fully implement the required measures. As the CDC's approved borrowing authority was at its statutory limit, the Government introduced legislation to increase the borrowing limit set in the CDC Act to \$500 million. On Friday May 15, 2020, this legislative change received Royal Assent.

This amended Corporate Plan Summary takes into account the increased borrowing authority from the Minister of Finance in order to fully implement this government's measures in response to COVID-19.

Amended Short term borrowing authorities for 2019-2020

- Short-term borrowings of \$500 million to be comprised of borrowings from the Consolidated Revenue Fund (CRF) and a \$50 million line of credit, with total outstanding borrowings at any time not exceeding \$500 million.

Effect on Operating Budgets

The CDC will deliver the program for Plan C for cheese within its existing administrative budgets.

The increased lending from the CRF bears little or no increased risk for the Government of Canada because purchases of cheese under the new Plan C are made such that processors are under contract to repurchase the cheese at the same price as the CDC purchased the cheese for. In addition, the carrying charges, including the interest on the loan, are paid collectively by the marketplace and by milk producers.