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June 19, 2017

The Honourable Bill Morneau
Minister of Finance
90 Elgin
Ottawa, ON K1A 0G5

Dear Minister Morneau,

The Saskatchewan Wheat Development Commission (Sask Wheat) would like to submit the following comments to Finance Canada for the consultation process regarding cash purchase ticket deferrals. Part of Sask Wheat's mission is to advocate for policy that will contribute to profitable and sustainable wheat production for Saskatchewan producers. Cash ticket deferrals are an important financial tool for Saskatchewan producers and the removal of this program would have a direct impact on the profitability and sustainability of their operations. In this submission, we will outline why cash ticket deferrals are an important income management tool for farmers and why they need to be maintained to support the competitiveness of our producers and the efficiency of our grain handling system.

Sask Wheat Position: That the Federal Government maintains cash purchase ticket deferrals as it is a valuable income stability and risk management tool for farmers.

Sask Wheat Key Messages

Cash ticket deferrals are an important income stability and risk management tool

Cash ticket deferrals are an important tool to provide support to producers through periods of income fluctuation in a sector that is prone to price and production uncertainties. Farmers cannot be guaranteed of their level of production each year, which makes it impossible for producers to accurately forecast income levels. Furthermore, farmers are price takers in the supply chain and do not have an influence over what the market price will be for their commodities. Cash ticket deferrals are an important tool for income stabilization for producers due to the unpredictable nature of the industry.

Cash ticket deferrals have become an important part of the financial plans and cash flow management strategies of producers. Removing cash ticket deferrals would disrupt the long term financial plans of operations and also leave them with excessive tax burdens. Farm businesses structured as sole proprietorships and farms using cash accounting methods will be most impacted by the removal of cash

ticket deferrals. The 2016 Census of Agriculture reported that 54% of Saskatchewan farms were structured as sole proprietorships and 18% as partnerships.¹ However, incorporated farms will also be affected by the removal of cash ticket deferrals, as this is an important tool to help farms balance dramatic swings in income that non-farm businesses would likely not experience. Furthermore, removing this tool would not only affect producers, but also the rural economy. Changes in the cash flow management strategies of producers would have a direct impact on grain handlers, crop input retailers, machinery dealers, and other rural businesses that sell products and services to farmers.

Cash ticket deferrals support Canada's grain transportation system

Sask Wheat views cash ticket deferrals as an important asset to Canada's "just-in-time" grain handling system. Canada's grain handling system has constrained commercial storage and rail capacity compared to the amount of grain produced annually. The impact of this was severely felt by producers during the 2013-2014 and 2014-2015 crop years where producers lost between \$5-6.7 billion dollars due to constrained transportation capacity and excess basis levels.² Our Canadian system relies on consistent producer deliveries to keep the system running efficiently. If cash ticket deferrals are removed, producers may choose to stop moving grain and store it for delivery in the next crop year to avoid additional taxes. This would have unnecessary detrimental effects on the grain handling system and Canada's foreign relationships with buyers of Canadian grain. If Canadian farmers are reluctant to deliver grain when marketing opportunities arise, Canada may lose sales due to a lack of available inventory.³ This would impact Canada's competitiveness in the global market place.

Furthermore, producers do not always have the luxury of delivering grain when they want to. Grain deliveries are often dictated by when the elevator has rail cars available. Therefore, producers often have limited windows to move their grain and have to take the opportunity while they can. Storing grain on-farm and missing out on grain delivery opportunities to manage tax levels is not an efficient solution for farmers or the industry as a whole.

Conclusion

The Canadian Government has highlighted agriculture has a major area of growth for the national economy going forward. The Federal Government has set a goal to grow Canada's agri-food exports to \$75 billion annually. To achieve this goal, Canadian producers will need to maintain income stability and have strong risk management platforms. Cash ticket deferrals are a tool to support these objectives and meet the goals brought forward by the Federal Government.

Sask Wheat disagrees with the Federal Government's opinion that after the removal of the Canadian Wheat Board's (CWB), single desk marketing power there is no longer a clear rationale for maintaining cash ticket deferrals. The removal of the CWB did not remove the income uncertainty and instability that Canadian producers face every year. Therefore, there is still a need for cash ticket deferrals to

¹ Statistics Canada, CANSIM 004-0230

² Gray, R. 2015. The Economic Impacts of Elevated Export Basis Levels on Western Canadian Grain Producers. Report submitted to the Saskatchewan Wheat Development Commission.

³ MNP. 2017. <http://www.mnp.ca/SiteAssets/media/PDFs/Fact%20Sheets/0240M-17-corp-tax-treatment-of-deferred-grain-cash-tickets.pdf>.

maintain income stability and international competitiveness for producers. This is illustrated by the consistent use of cash ticket deferrals since their implementation in 1973 and after the removal of the CWB in 2012.⁴ Furthermore, the defined objective for cash purchase ticket deferrals of income from the 1974 federal budget was to “facilitate the orderly delivery of grain to elevators, which helps meet Canada’s grain export commitments”.⁵ Therefore, this illustrates that cash ticket deferrals are required to keep the Canadian grain handling and transportation system running efficiently, and are still required in a post-CWB marketplace.

Sask Wheat appreciates the opportunity to voice our opinion on this very important tool for Saskatchewan wheat producers. We invite you to contact us, if you have any questions on this submission.

Sincerely,

A handwritten signature in blue ink, appearing to read "Bill Gehl", with a horizontal line underneath it.

Bill Gehl

Chair, Saskatchewan Wheat Development Commission

⁴ Statistics Canada, CANSIM 002-0001

⁵ Department of Finance Canada. Report on Federal Tax Expenditure- Concepts, Estimates and Evaluations 2017. <https://www.fin.gc.ca/taxexp-depfisc/2017/taxexp1704-eng.asp>.