

**Saskatchewan Producer Coalition
Joint Submission to
the *Canada Grain Act* Review**

**Submitted by the
Agricultural Producers Association of Saskatchewan
Saskatchewan Barley Development Commission
Saskatchewan Wheat Development Commission**

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Introduction

The Producer Coalition is comprised of the Agricultural Producers Association of Saskatchewan (APAS), the Saskatchewan Barley Development Commission (SaskBarley) and the Saskatchewan Wheat Development Commission (Sask Wheat). The Producer Coalition welcomes the opportunity to provide comments to Agriculture and Agri-Food Canada's review of the *Canada Grain Act* (CGA) and operations of the Canadian Grain Commission (CGC).

The CGA plays an important role in Saskatchewan's grain industry and directly impacts the profitability of Saskatchewan producers. The Producer Coalition represents a large majority of Saskatchewan grain producers and believes it is vital that the voice of Saskatchewan producers is heard and represented during this review process. Saskatchewan represents nearly 40 percent of Canada's total crop production¹, 47 percent of Canada's total field crop area², 54 percent of the value of Canadian grain exports³, and almost 50 percent of all licensed primary and process elevator storage capacity⁴,

In addition to this joint submission, each Producer Coalition member has also submitted an individual submission providing more detailed discussion and highlighting additional areas of concern. Individual submissions are available on each organization's website.⁵

As well, in preparation for the CGA review, Sask Wheat contracted two reports, one to review potential changes to the CGA and their implications for Saskatchewan grain producers' activities and economics,⁶ and the other on data requirements for transparent market operations and the role of the CGC.⁷

Summary of Recommendations

The Producer Coalition believes it is fundamental that the CGC's mandate continues to be to work "in the interests of the grain producers," and that review outcomes and subsequent program reforms should also reflect this mandate. Furthermore, the governance structure of the CGC needs to ensure that producers' interests are protected from the parties that are meant to

¹ Statistics Canada and Agriculture and Agri-Food Canada, 2021. G002-Area, Yield, Production of Canadian Principal Field Crops. <https://aimis-simia.agr.gc.ca/rp/index-eng.cfm?action=pR&pdctc=&r=243>

² Statistics Canada, 2017. Farm and Farm Operator Data- Saskatchewan remains the breadbasket of Canada. <https://www150.statcan.gc.ca/n1/pub/95-640-x/2016001/article/14807-eng.htm>

³ Saskatchewan Ministry of Agriculture, 2021. Personal Correspondence

⁴ Canadian Grain Commission, 2021. Grain Elevators in Canada- Crop Year 2020-2021.

<https://www.grainscanada.gc.ca/en/grain-research/statistics/grain-elevators/reports/pdf/2021-02-01.pdf>

⁵ APAS (www.apas.ca); SaskBarley (www.saskbarleycommission.com); Sask Wheat (www.saskwheat.ca)

⁶ Weisensel, 2020. Saskatchewan Wheat Development Commission Review of Potential Changes to the Canada Grain Act.

<https://static1.squarespace.com/static/5c40f31a620b85cf0d073e7b/t/6026c2de25b2481827961a52/1613152990644/SWDC+-+Review+of+Potential+Changes+to+the+Canada+Grain+Act+-+Final+Oct+2020+%281%29.pdf>

⁷ Mercantile Consulting Venture Inc., 2021. Data Requirements for a Transparent Market.

<https://static1.squarespace.com/static/5c40f31a620b85cf0d073e7b/t/6083507860c57f79833612f5/1619218554220/Data%2BRequirements%2Bfor%2Ba%2BTtransparent%2BMarket%2B%28Final+Version%29.pdf>

be regulated by the CGA. The Producer Coalition is supportive of the current three Commissioner governance model of the CGC with producer representation at the Commissioner level.

In order to protect Canada's quality assurance system and the Canadian brand, the Producer Coalition supports mandatory outward inspection remaining as a function performed by the CGC. While the Producer Coalition is supportive of mandatory outward inspection remaining as a function performed by the CGC, there are improvements that should be made to the current system to improve timeliness of service

The Producer Coalition calls on the CGC to implement an export sales reporting program to improve market transparency and support the competitiveness of producers. Canadian producers need timely access to sales and export data, and the CGC is best suited to collect and disseminate this data as a neutral party which is already privy to much of the information needed.

Producer payment protection provided through the CGC's Safeguards for Grain Farmers Program is also a key function of the CGC that needs to be maintained. The Producer Coalition recommends that the CGC conduct a separate review of potential changes with a focus on improving transparency and developing a more robust and sustainable licensing and security system.

Discussion

CGC Mandate and Governance

The CGA states that the sole Object of the CGC is to "in the interests of the grain producers, establish and maintain standards of quality for Canadian grain and regulate grain handling in Canada, to ensure a dependable commodity for domestic and export markets." This mandate reflects the original purpose of the CGA and the CGC, which is to protect the interests of producers in Canada's grain industry. This remains as relevant and essential today as it was when originally legislated. Now, as then, grain producers largely produce and market grain in a system that has many sellers and few buyers, compounded by transportation constraints and information asymmetry and, thus, have little market power compared to other sectors in the grain value chain.⁸

⁸ Western Canadian grain producers are at the bottom of the value chain and, because of the global nature of grain markets and the structure of the grain value chain in Canada, are price takers, whether delivering grain for export or for domestic use. Local prairie prices for grain reflect international prices determined by global influences, discounted by the export basis. "Export basis can be defined as FOB port position prices minus the primary elevator prices at any given prairie delivery location, and is therefore reflective of transportation costs plus any premiums being captured by terminal grain elevator companies or the railway companies, at any given time" (Boersch, Temple, Wilton, 2021. Wheat Market Outlook and Price Report: March 29, 2021). Any reduction in the global market value of Canadian grain will be reflected in the bids offered by grain companies, lowering the returns to farmers. Likewise, this market structure also allows grain companies to pass additional costs through to farmers as reflected in the export basis. Cost savings in grain handling and transportation, while they should put directionally positive pressure on the export basis in favour of producers, may not actually be reflected in increased

For producers, there is a continuing need for regulatory oversight in areas such as weights and grading, payment protection, dispute resolution and access to transportation. The CGA review is an important opportunity to update and strengthen programs in these areas. Legislative changes to remove or diminish the explicit reference to producer interests would undermine this opportunity for legislative renewal.

The CGC mandate focusing on the interests of producers should serve as a guiding principle for this review process and for future reforms. Producers have distinct interests in all areas of CGC programs and services, including inspections and quality assurance for export markets. They also ultimately bear the cost of user-fees and licensing in the prices that they receive for their grain.

Following the mandate of the CGC as legislated in the CGA, the governance structure of the CGC needs to ensure that producers' interests are protected from the parties that are meant to be regulated by the CGA. Therefore, the Producer Coalition is supportive of the current three Commissioner governance model of the CGC with producer representation at the Commissioner level. Although the CGC is mandated to act in the interests of grain producers, it is a reality that grain companies have far more interactions with the CGC at a decision-making level. This makes producer representation at the Commissioner level even more critical. In addition, this producer representation should come from the prairie provinces, as western Canada accounts for 78 percent of Canada's total crop production⁹, 86 percent of Canada's total field crop area¹⁰, and 99 percent of all licensed primary and process elevator storage capacity.¹¹

Outward Inspection

In order to protect Canada's quality assurance system and the Canadian brand, the Producer Coalition supports mandatory outward inspection remaining as a function performed by the CGC. Outward inspection is an integral component of Canada's quality assurance system and the Canadian brand.

Although the use of third-party inspection has been increasing throughout the grain handling chain including at export vessel loading, this is not an indication that buyers have lost confidence in the CGC. Rather, it is a reflection that grain companies have been pushing for this option on export contracts to lower their risk. While their increasing use of third-party inspection has led the grain companies to advocate for the CGC to move to accrediting third-parties to do the regulated outward inspection, moving to a system of accredited third-party inspection would create significant risks to the Canadian brand. The main risk is that customers would perceive it as a deterioration of Canada's quality assurance system which would hurt Canada's competitive

local prices, depending on conditions of competition in the grain handling sector, as there is a lack of transparency in the calculation of the export basis.

⁹ Statistics Canada and AAFC, 2021. G002-Area, Yield, Production of Canadian Principal Field Crops. <https://aimis-simia.agr.gc.ca/rp/index-eng.cfm?action=pR&pdctc=&r=243>

¹⁰ Statistics Canada, 2017. Farm and Farm Operator Data- Saskatchewan remains the breadbasket of Canada. <https://www150.statcan.gc.ca/n1/pub/95-640-x/2016001/article/14807-eng.htm>

¹¹ Canadian Grain Commission, 2021. Grain Elevators in Canada- Crop Year 2020-2021. <https://www.grainscanada.gc.ca/en/grain-research/statistics/grain-elevators/reports/pdf/2021-02-01.pdf>

position. Any such deterioration or perceived deterioration to Canada's quality assurance system and the Canadian brand would ultimately hurt prairie grain producers the most. It is crucial for policy decision-makers to understand that producers ultimately carry the greatest financial risk when there are perceived quality concerns in the international marketplace.

Even if moving to accredited third-party outward inspection would reduce costs and lower risk for the grain companies, there is no guarantee that producers would see any financial benefit. Lower costs for grain companies should be directionally positive for export basis levels for producers; however, there are many factors that impact export basis levels, some not transparent, so this is not a guarantee. Additionally, the CGC would still have overhead and operational costs related directly to maintaining accreditation/oversight of outward inspection. Therefore, the cost savings of moving to accredited third-party inspection are still uncertain. As well, there are customers representing approximately 30% of exports who want to settle only on CGC inspection. Therefore, the CGC would need to maintain some capacity to provide inspection for these customers and also to step in if a third-party inspector lost their accreditation. This would further add costs to the system and reduces the potential cost savings of moving to third-party accreditation.

It is also important to understand what Canada's competitors are doing regarding outward inspection. The United States is Canada's major competitor in exports of high-quality grain. In the U.S., the Federal Grain Inspection Service (FGIS) only accredits private inspectors on domestic based business. At export port locations, FGIS provides mandatory grain and inspection and weighing services directly at most locations and oversees delegated state-based services to do weighing and inspection in its place in specific locations. If Canada moves to accrediting third-parties for outward inspection and the U.S. continues to only have federal or state-based export inspections, it may create a perceived relative deterioration of the Canadian quality assurance system in the eyes of some customers.

While the Producer Coalition is supportive of mandatory outward inspection remaining as a function performed by the CGC, there are improvements that should be made to the current system to improve timeliness of service. For example, if vessels are being loaded on a weekend, documentation should also be issued on the weekend. Ensuring timely services from the CGC is vital to strengthen the functions that support Canada's quality assurance system and the Canadian brand.

Export Sales Reporting

Improving market transparency has been a long-standing focus of the Producer Coalition as a key issue for producers. This review of the CGA and CGC operations provides a major opportunity to improve market transparency in the Canadian grain industry and put producers on equal footing with other supply chain participants to allow producers to make informed decisions and improve their profitability.

Recent market disruptions, changes in trade patterns, and supply and demand dispositions have reinforced the need for more transparency in the agricultural supply-chain. Farmers are concerned about the lack of market transparency, demonstrated by resolutions passed at five Saskatchewan crop commissions' Annual General Meetings in 2021 calling for the

establishment of an export sales reporting program.¹² Without available data on export sales, producers are unable to accurately understand market dynamics and time their sales to maximize profits. This puts producers at a distinct competitive disadvantage to other players in the supply chain who already have much of this information available to them.

Although the CGC does currently report on exports from licensed facilities, this data does not represent current sales that are being made in the markets and therefore, producers are unable to use this data to understand current demand. In comparison, the United States has had an export sales reporting program in place since 1973. The program not only provides producers with up-to-date market information, but also provides a public good by acting as an early alert system for any potential impact foreign sales have on U.S. supplies and prices.

The Producer Coalition strongly believes that Canadian producers need timely access to sales and export data, and that the CGC is best suited to collect and disseminate this data as the CGC is a neutral party which is already privy to much of the information needed. Through the CGA, grain companies should be legislated to report daily and weekly sales over a specified size to the CGC within a brief interval following those sales. The CGC could then make this data available on its website in a timely manner such as what is already done for the other data series the CGC collects and reports.

It is important to note that this model would not disseminate individual company names or sale prices. As the U.S. has been running an export sales reporting program for almost 50 years, with no concerns around confidentiality, there is no reason why a similar export sales reporting program could not be implemented in Canada. It is critical to note that providing producers access to export sales data will just be putting them on equal footing with the rest of the supply chain, as grain buyers, grain companies and processors already have access to this data.

Producer Payment Protection

Producer payment protection provided through the CGC's Safeguards for Grain Farmers Program is a key function of the CGC that needs to be maintained. While the producer payment protection program has mostly provided adequate protection for farmers, there are still concerns regarding a lack of transparency with the program as producers are often unaware of the level of security and coverage available when selling their grain to licensed grain buyers. The Producer Coalition recommends that the CGC conduct a separate review of potential changes to payment protection programming with a focus on improving transparency and developing a more robust and sustainable licensing and bonding system.

Conclusion

Maintaining the strength of Canada's quality assurance system, the Canadian brand, and the competitiveness of producers should be central to this review. It is important that the CGA continue to provide a legislative framework that protects the commercial interests of producers

¹² Resolution passed by the Saskatchewan Barley Development Commission, Saskatchewan Canola Development Commission, Saskatchewan Flax Development Commission, Saskatchewan Pulse Growers, and Saskatchewan Wheat Development Commission

through regulatory safeguards and a robust quality assurance system for grain exports. It is imperative for further analysis to be completed, including benefit-cost analysis, by AAFC and the CGC with provisions for further post-analysis consultation, to ensure that any proposed changes that arise from the review do not harm Canada's quality assurance system, the Canadian brand, or the competitive position of Canadian farmers.

The Producer Coalition looks forward to further consultations on this review and would welcome further discussions with AAFC and the CGC on this topic.