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Accumulated Surplus Comments
Canadian Grain Commission
600-303 Main Street
Winnipeg, MB R3C 3G8

To whom it may concern,

The Saskatchewan Wheat Development Commission (Sask Wheat) would like to submit the following comments for the consultation process regarding the CGC user fees surplus. Part of Sask Wheat's mission is to provide leadership for advocacy that will contribute to profitable and sustainable wheat production for Saskatchewan producers. The potential uses for the accumulated CGC surplus will have a direct impact on Saskatchewan wheat producers, therefore we have provided comments on the proposed initiatives and outlined the initiatives we feel will provide the most direct benefits to producers.

Sask Wheat Position: That the determined use or uses of the accumulated surplus go towards activities that will directly benefit producers as they are the primary source of CGC fee recovery, despite licensees collecting and remitting the fees to the CGC.

General Comments:

- There was no mention of what the potential surplus could be by March 31, 2018. The potentially available surplus of \$71.6 million was calculated using the surplus level as of September 30, 2016. A document in the April 22 *Canada Gazette* disclosed that an additional \$9.99 million would be generated from August 1, 2017 to March 31, 2018 if fees were not reduced on August 1, 2017. This information should have also been presented in the original surplus consultation document. Furthermore, as the CGC has now signaled its intent to lower fees on August 1, 2017, an estimate of the surplus at this time is required to determine approximately how much money will be available to invest in specific proposals and the opportunity to invest the surplus in multiple areas.

CGC's Proposed Options:

1. Provide initial funding for a Producer Compensation Fund

- Sask Wheat fundamentally disagrees with the statement that “licensees are the stakeholder group most directly responsible for generating the surplus”. Licensees simply pass on these fees to producers, therefore producers are the ones who have been funding the surplus. That is why it is crucial to ensure that the money producers have paid and invested provides them with a direct benefit.
- Sask Wheat would see the potential to use some limited amount from the surplus to design and implement a more robust and sustainable licensing and bonding system that protects the commercial interests of producers from excessive risk taking by companies, or from companies engaging in risky behavior while they pursue an “exit strategy” due to imminent bankruptcy. This is an opportunity to invest in designing a proper bonding system and updating the current one.
- Creating a producer compensation fund as described would create a classic “moral hazard” problem in the industry and lead to increases in riskier business behavior by licensees. In order to incentivize proper business behavior, grain companies need to be held individually responsible for their actions and the risks they take. Bonding that reflects an individual company’s risk profile and activities is required to keep the system accountable.
- Any design that promotes a pooling of risk among companies, will create a situation where less risky firms are subsidizing the riskier behavior of other licensees and ultimately the commercial consequences of that riskier behavior.
- Any system that seeks to reduce the initial obligations of licensees with regards to bonding requirements will also tend to reduce the costs of risky behavior in the industry and lead to commercial consequences for producers.

2. Reduce the CGC's prescribed fees for a fixed period of time

- The only mechanism by which producers could benefit from a subsidy from the surplus fund to lower CGC fees over the next five years is if the street price to producers was expected to increase by that subsidy amount (on average) over the five year period. Sask Wheat views that a reduction in fees would not likely provide benefits to producers through higher street prices.
- Due to the demand for export capacity being greater than the capacity available, a reduction in fees would likely be absorbed in the export basis and therefore simply absorbed by the grain companies.
- Research conducted by Richard Gray (University of Saskatchewan), for Sask Wheat estimates that producers lost between \$5-6.7 billion dollars for the 2013-2014 and 2014-2015 crop years due to excess basis levels.¹ The CGC fee reduction through a subsidy of \$25 million over 5 years is small in relation to the average export basis in recent years and very small relative to the variability in the export basis that producers have experienced. Therefore, there is no expectation that a reduction in the CGC fees through a subsidy would impact street prices for grain. One exception to this case would be if the export capacity was large relative to the demand for the export capacity, i.e., short crop scenario, and competition among companies for producers' grain was intense enough to drive the basis levels to simple cost recovery.

3. Upgrade the CGC facilities (grain research lab, office space & building system)

- There could be an opportunity for some limited investment in infrastructure if the investments would be in producer's interests.
- In order to determine this, stakeholders would need to see a business case before investment occurred.
- This business case would have to outline the need for producers to be funding these investments when the grain research lab is seen as a public good and therefore should be funded by tax payers.

¹ Gray, R. 2015. The Economic Impacts of Elevated Export Basis Levels on Western Canadian Grain Producers. Report submitted to the Saskatchewan Wheat Development Commission.

4. Establish laboratories and real-time analytical testing at licensed terminal elevators or other locations to improve and enhance services to the industry

- This option is likely more appealing to producers if approached from the perspective of conducting pilot projects, or time limited initiatives, that deliver strong perceived value to the industry, and producers in particular. There are new and emerging issues that would benefit from some measurement, examination, and analysis for the benefit of the whole industry.
- One very pressing example is the need for a thorough examination of the impact of mycotoxins, eg. fusarium, on the grading system, which would benefit the whole industry. In addition, investment in improving the accuracy, timeliness, and cost of testing procedures for mycotoxins is needed, both in laboratory settings and at primary elevators.
- Mycotoxins, such as OTA and DON, and glyphosate residues are important concerns for the end-users of Canadian grain and the grain industry as a whole. A potential pilot project could be to re-instate inward inspection for a specified period, and enhance testing frequency on inward volumes in order to ensure the quality of Canadian grain and maintain the trust of our trading partners.
- Furthermore, there has been an increasing number of complaints from our trading partners of the large variability in the consistency of grain in ship holds. Therefore, increasing the monitoring and validation of grade during vessel loading would also be valuable for maintaining the trust of our trading partners.
- No long-term investments should be made without a proper business plan being developed outlining what the returns would be for producers.
- In addition, any investments that significantly increase the CGC base operating costs should be carefully discussed with producers.

Additional Options:

Improve Market Transparency

- Sask Wheat would also like to see an additional option explored with regards to initiatives that the CGC could undertake to improve market transparency.
- There is a great need to improve both price, stocks and sales transparency in the Canadian grain industry. This would be true for the country elevator positions and the export positions.
- Furthermore, there are also improvements that can be made to the timeliness and quality of data reported by the CGC and the industry.
- Investments in improved market transparency and quality of data would be of great value to producers and the industry as a whole.

Harvest Sample Program

- Another potential initiative could be to undertake promotional activities to increase awareness and use of the Harvest Sample Program. Producers are often not aware of the services available from the CGC, and the importance of the Harvest Sample Program for evaluating and updating grading factors.
- The CGC could also look at providing outreach to promote transparency in grading standards as this is often an area of concern for producers.

Subject to Inspectors Grade and Dockage Program

- Finally, some of the surplus could be used to specifically lower the cost of the Subject to Inspectors Grade and Dockage service provided by the CGC. This would provide a direct benefit to producers in terms of reducing barriers to asking for the service and easing access to the program by the cost reduction.

Sask Wheat looks forward to working with the CGC and other industry stakeholders in developing initiatives for the surplus that will be most beneficial to the grain industry as a whole.



Bill Gehl – Chair

Sask Wheat Development Commission