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User Fees 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 proposed user fees for the 2018-2023 period. Part of Sask Wheat's mission is to provide leadership and advocacy on behalf of Saskatchewan wheat producers. Saskatchewan producers will be directly impacted by the user fees set by the CGC as a part of the costs they face to export their commodities.

Sask Wheat values the opportunity to provide feedback regarding the proposed changes in user fees for the 2018-2023 period. We have also provided a joint submission with the Alberta Wheat Commission (AWC) and Manitoba Wheat and Barley Growers Association (MWBGA) on the user fee consultation. We will highlight some of the comments made in that submission here.

Our organizations support the decision of the CGC to update the analysis used to forecast grain volumes, however we feel that the model does not provide an accurate prediction. The forecasted volumes for 2018-2023 are held constant throughout the entire period. We view this as an unrealistic prediction, as there is a clear increasing production trend in the industry that needs to be accounted for. Research conducted by Richard Gray & Mohammed Torshizi (University of Saskatchewan), identified that production of Western Canadian grains has an upward trend of approximately 450,000 tonnes a year.¹ Our organizations believe that the CGC should adjust their forecasting methodology to reflect both increases in production and export capacity due to recent investments in west coast capacity. If predicted grain volumes are held constant, the CGC could be dealing with another surplus of user fees.

Our organizations also support the decision of the CGC to move to a formula-based fee structure to replace the existing fixed-fee structure. However, the timeline for this transition needs to be clearly

¹ Gray, R., Torshizi, M. 2016. An Economic Analysis of Western Canadian Grain Export Capacity.

outlined as well as the process for determining formulas. The consultation document is silent on these issues.

Finally, our organizations recognize the CGC's proposal in the April 22 edition of the *Canada Gazette* to lower user fees starting August 1, 2017 for the remainder of the 2017/2018 crop year. We acknowledge the need to prevent the current surplus from growing even larger; however, we feel that the CGC should have held consultations with all stakeholders as none of our organizations were consulted.

Sask Wheat would also like to submit the following comments in addition to the comments we submitted with AWC and MWBGA. First, while Sask Wheat acknowledges the exercise the CGC is attempting in comparing CGC costs to total industry grain handling and transportation costs, we disagree with the costs included in Table 3 found in Section 8.1. Sask Wheat would like to see the on-farm storage and cartage- farm to site costs removed from this table. Comparing user fee costs strictly to shipping and handling costs passed onto farmers by the grain companies would give a more accurate representation of the percentage user fee costs account for in the total shipping and handling costs. While we appreciate that this cost comparison exercise in no way affected the outcome of the rate setting proposed by the CGC, we believe it is a more appropriate representation of the CGC share of the transportation and handling costs.

Sask Wheat has also submitted comments to the CGC in response to the consultation on the current user fee surplus. Sask Wheat provided comments on all of the proposed initiatives for the surplus provided by the CGC as well as adding some of our own. We feel we need to reference some of our comments from that submission related to the proposals that would have a direct impact on the costing structure of the CGC. The proposed initiatives we would like to highlight here are, the initial funding for a producer compensation fund, the reduction in fees for a fixed period of time and the enhancement of laboratories and real-time analytical testing.

Use of the surplus to 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.

Use of the surplus to 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.² 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.

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.

Use of the surplus to 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

Sask Wheat was pleased to have the opportunity to participate in this consultation, and invite you to contact us should you have any questions with respect to this submission.



Bill Gehl – Chair

Sask Wheat Development Commission