



“The Voice of Manitoba Farmers”

1-1313 Border St. ~ Winnipeg MB ~ R3H 0X4

ph: (204) 697-1109 ~ fax: (204) 697-1109

kap@kap.mb.ca ~ www.kap.mb.ca

Review of the *Canada Grain Act* & The Canadian Grain Commission June 29, 2006

Keystone Agricultural Producers, representing 7,000 farm families, is pleased to have the opportunity to provide comments on the review of the *Canada Grain Act* and the Canadian Grain Commission. KAP's Grains, Oilseeds and Pulses Committee is submitting this paper on behalf of the organization and it is a response to the questions in the on-line survey.

Focus & the Sector:

The top focus of the review should be **protecting the interests of producers** and **maintaining Canada's reputation as a supplier of quality grains on the world market**. In order to maintain this focus the review must be all encompassing and look at a broad range of issues.

When thinking of the grain sector as a whole, from plant breeding to processing, there does not appear to be a clear vision since agriculture is evolving faster than the CGC. In reality, there is a shift away from export of bulk commodities to domestic value added, livestock feeding, alternate fuels and niche markets. There may be additional services that the CGC can provide on a domestic basis as opposed to all of its focus being on an international level. The Commission's services are not all encompassing due to financial restraints and other factors. Government should ensure that it provides the financial resources to allow the CGC, working in conjunction with the APF goals, to carry out the mandate of the APF "Branding Canada" initiative. When grading the CGC on effectiveness, direction and vision on a 100 point score, our committee graded 80% on effectiveness (giving consideration to the potential of restrictions caused by inadequate financial resources), 60% on direction and 40% on vision. We would also like to add that the level of communication to producers of the Commission's activities and responsibilities should be improved and expanded.

As it relates to providing leadership for the grain sector, it is somewhat difficult to decide who should be doing this. There are so many demands from numerous players, which have competing interests and don't necessarily share the same vision. Balancing all of those demands or reaching consensus is a difficult task. There has to be an understanding that one player cannot dominate the grain sector at the expense or future of another. The CGC cannot provide this leadership but rather an avenue for consensus needs to be developed among the industry players. The strategy on consensus has to include primary producers and all players must be consulted. The CGC is only one of the players and can contribute to the vision to go

forward. There may be sector specific strategies but one sector cannot act upon a strategy that will be at a detriment to another sector.

The *Canada Grain Act* has served the industry relatively well in the past, but is the Act relevant to the new realities of agriculture and the shift in focus. Agriculture is evolving faster than the ability of regulation to reflect the needs of the industry. What is required for the Act to be updated and does the political will exist to make the changes necessary? Given the new realities of where the grain industry is and where new opportunities are emerging, the Act needs to be updated to reflect that but should continue to protect producers and ensure the quality of Canadian grain.

The legislative mandate of the CGC needs to be visionary, flexible, allow for change and evolve as we experience changes in the industry. The committee suggested that one possible avenue could be an industry board to advise the Commission on its role and function.

In our opinion, the CGC has not fulfilled its legislative mandate in the area of licensing and bonding. The Commission is taking steps on the licensing and bonding issue but there are still a lot of questions as to whether or not the enforcement will be strong enough to protect the financial interests of farmers.

International markets continue to perceive the quality of grain from Canada as high quality because we deliver what we say. We, as a country, can sell grain on paper and the customer knows that they are going to receive exactly what they ordered (Score 5). This service by the CGC adds to Canada's reputation and contributes to the concept of "Branding Canada".

Challenges & Opportunities in the Export Market:

There are many challenges facing grain producers today and many of those will continue over the next several years. The number one challenge is low commodity prices on the world market. Another area of concern is the ability to react to market demands, especially niche markets, and the grain system, including CGC, should enhance and not hamper those opportunities.

The committee was neutral on whether or not the Canadian brand advantage would weaken as grain exporting nations move to containers and buyer countries have less reason to worry about poor quality product from co-mingling (Score 2.5). We believe very strongly that a major threat will be heavy government subsidies for foreign producers (Score 5). The committee felt strong that there was a threat of increasing consolidation and vertical integration of companies in the grain industry in Canada (Score 4.3).

If we don't get workable bilaterals, Canada's international competitiveness positions will be weakened somewhat in coming years. Bilaterals among our competitors that excludes us creates new trade barriers plus the emergence of low cost producers that don't have similar input costs have reduced traditional markets supplied by Canada. The strengthening of the Canadian dollar will weaken our competitiveness and the potential volume decrease of Canadian exports, due to biofuels, will give us less influence in the international market with regards to bulk commodities. If we have less influence in bulk exports then we need to move towards more quality assurance programs for specialized commodities (IPing, containerization).

Avenues of strengthening Canada's position in international markets would be developing higher value niche markets that other countries can't service developing bilateral agreements. Factors that contribute to Canada's weakness in the international markets are the lack of railway competitiveness, lack of bilateral agreements, regulatory red tape (for example, PMRA) and transportation limitations. There is also a tendency by governments to put standards in place for the industry which add to the costs of doing business while our competitors do not adhere to the same standards.

Strengthening Canada's Position:

The review asked that participants grade several opinions on strengthening Canada's trade position and the committee responded as follows (1 meaning strongly disagree and 5 meaning strongly agree):

- Reinforce the brand by investing heavily in research to increase Canada's leadership in healthy properties (i.e. anti-oxidants) and tell the world about it. (Score 4)
- Reinforce the brand by investing heavily in research to increase Canada's leadership in manufacturing and mixing properties (e.g. gluten content, oil properties) and tell the world about it. (Score 4)
- Protect our quality assurance processes through setting grade standards that are at least as strong as today. (Score 4.3)
- Protect our quality assurance processes through inspection and grading that is at least as strong as today. (Score 5)

Grading / Inspection of Our Product / Transportation:

The main grading issue is the lack of consistency of grades across the board. The adoption of new technology and the affordability of that technology to implement new standards is the main reason for the inconsistency. We are not adequately compensated for our current production in order for us to move to driveway technology. We need technology to allow us to access traits that will give us access to niche markets. The grading system has to adapt to embrace the technology and not hold it back.

The KVD system works well for what it was designed to do but this system is not changing to meet the new realities (Score 58.5 out of 100). For the future, the CGC needs to look to some better method than KVD while keeping KVD in place until there is another system that is acceptable and affordable for producers. As well, the grain varietal registration system is not adequate to meet today's needs (Score 48 out of 100). **However, in light of the recent CGC KVD proposals further analysis of impacts and opportunities need to be explored.**

Grain for domestic Canadian consumption should be the same as that for export. Buyers have opportunities to buy to their own specs. When comparing standards for export and those for the Canadian market, the standards should be the same.

On a 5 point scale with 1 meaning that we strongly disagree and 5 meaning strongly agree, the committee weighed the points as follows:

- Compulsory inward inspection and weighing should be ended. (Score 1.2)
- Exports within the same company should not require inspection and grading. (Score 2.7)
- Exports by container should not require inspection and grading by the CGC. (Score 1.8)
- An affidavit system is a desirable option for some or all classes of wheat. (Score 4.2)
- Only outward weighing and inspection at terminals should be compulsory. (Score 1)

When looking at whether CGC grading and inspection should be optional, the committee strongly believes that if a company other than the CGC does the grading and inspection, that company must meet the standards of the CGA and their work must be monitored by the CGC.

The Canadian Grain Commission's handling of producer cars has been well done; however, on handling of containers there wasn't consensus since there is a gap caused by the CGC's capacity to inspect all containers.

Regulatory Approaches:

The performance of the CGC in licensing primary elevators, grain dealers, and others governed by licensing requirements has been a topic that our committee has discussed in much detail over the past few years and was mentioned earlier in this submission. On a scale of 100, we rate the licensing aspect of the operation of the CGC at 40.

Licensing standards are about right as long as the enforcement is in place for everyone. As we alluded to earlier, the issue of enforcement has created a problem for some farmers. On a scale of 100, we grade the Commission at 85% for how it responds to complaints and disputes, although the majority of committee members had not dealt personally with this situation but they also had not heard of cases that were dealt with unfairly.

The CGC deals with administration of the bond which deals with license companies, but for those unlicensed companies, the CGC does not deal with it and does not assume liability. (The issue discussed was licensing and bonding). The committee graded the Commission at 70% for how it deals with liability issues.

It is believed that the "Value of Certificate Final" has tremendous value on the export side, since an importing company can buy a product and know exactly what they are going to get. CGC is currently only liable for re-testing the cargo and that is all that should be required as long as they are consistent with their testing. The importance of inward and outward weighing plays a factor.

Operations:

This sector is a shared responsibility of several Canadian bodies and in general it is effective but it is geared to a bulk export market which may need to change somewhat as we move to the future.

With respect to the Canadian Grain Commission, the federal cabinet appoints the Chief Commissioner and two other commissioners, who work out of Winnipeg. In general, government has ensured that there are qualified people in place. There was a concern raised with regard to political favoritism and it is believed that government should try to maintain non-partisan with respect to appointments.

The federal cabinet also appoints several assistant commissioners who work in the regions but are not obliged to report to the Chief Commissioner. The mandate of the assistant commissions needs to be reinforced as working in the best interests of farmers. We strongly believe that these commissions should have to report to the Chief Commissioner to ensure accountability but not be subservient to the Chief Commissioner.

The Future:

The future of grain production and Canada's system can be one of much change and critiquing to ensure that it is responsive to the ever changing environment. The survey posed the question of the impact and /or need for change if the Canadian Wheat Board experienced any substantial change in mandate and our committee believes that as long as the CGC is doing its job with grading, it should not matter what the CWB's mandate may be.

The Commission's activities serves 100 percent of Canadians all of the time through the services it provides and its role in "Branding Canada", and therefore should be paid for by the taxpayers through the federal government.

Concluding Remarks:

We would like to thank you for the opportunity to provide input into the review and we look forward to seeing the outcome in the near future. The Canadian Grain Commission and the Canada Grain Act is important to our industry and with ongoing changes to meet the needs of the industry it can take us into the future.