



Agricultural Producers Association of Saskatchewan (APAS)  
Submission to the Canadian Grain Commission

*Potential use of accumulated Canadian Grain Commission  
Surplus*

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## Introduction

The Agricultural Producers Association of Saskatchewan (APAS) is the province's general farm organization. As the united voice of agricultural producers in Saskatchewan, APAS strives to represent the views of a wide variety of agricultural stakeholders and develop comprehensive policies that can benefit all sectors of our industry.

APAS members and representatives have reviewed the Canadian Grain Commission consultation material and discussed the accumulated surplus. The following submission outlines several ideas and proposals that APAS supports with respect to the use of the accumulated surplus. The APAS comments to this consultation were developed in accordance with the following principle: ***that the surplus funds be invested in activities that directly benefit primary agricultural producers, in recognition that user fees are passed onto producers through lower prices and higher elevator tariffs.***

## Summary of Recommendations

Any decisions regarding the use of the surplus must be accompanied by CGC commitments to:

- Work with producers and industry to review Canada's quality factors and grain grading systems.
- Hold further consultations with farm organizations to address problems with the current payment protection program. Pending further consultation, this review may lead to the development of a fund-based model of payment protection.
- Work with producer groups to begin expanding the CGC role in areas of concern and interest to primary producers. Examples include:
  - Improved transportation and market transparency
  - Generic grain contracts and dispute resolution services
  - Complaint accountability and follow-up
  - Increased auditing and transparency
  - Expansion of "Subject to Inspectors Grade and Dockage" program

This submission provides background information for each of these priority areas. The submission concludes with an assessment of the CGC's proposed options, in accordance with the principle that the surplus be used to fund activities that provide clear and direct benefits to primary producers.

## **Priority #1: Revised Grading Systems**

**Any decisions regarding the use of the surplus must include a commitment from the CGC to begin working with producers and industry to review Canada's grain grading systems.**

Grain producers have increasing concerns with the accuracy and reliability of grain grading at primary elevators. The use of new grading techniques like falling number and vomitoxin testing are common practice in the trade, yet are absent from the CGC grading system which is based on visual standards. Discrepancies between CGC grades and the quality standards have led to instances where Saskatchewan producers are not provided full coverage for quality losses under the provincial crop insurance program. At their 2016 Annual Meeting, APAS Representatives passed motions requesting Crop Insurance and CGC revise their grading systems to better reflect the quality requirements now required by grain buyers.

APAS supports the development and introduction of new grading techniques that reduce industry's reliance on the use of subjective methods of assessing quality. The grading system must evolve with the introduction of new techniques (like the Hagberg falling number) to enhance the accuracy and reliability of quality assessment. The CGC surplus presents an opportunity for Canada to become a world leader in the development and use of objective grain grading methods that produce repeatable and accurate results for both producers and our international customers.

APAS supports using a portion of the surplus to conduct a review of Canada's grain grading systems and quality factors. APAS supports using part of the surplus to research and develop improved testing equipment at primary elevators and Port. APAS does not support using surplus dollars to purchase testing and other analytical equipment for grain elevator companies. A review of Canada's grading system will inform future changes to grain standards. Once in place, it becomes the responsibility of grain buyers to acquire the necessary equipment to meet the standards.

## **Priority #2: Fixing Payment Security**

**Any decisions regarding the use of the surplus must be accompanied by a commitment from the CGC to begin working with producers to enhance producer payment protection.**

The bond-based system of producer payment protection has not provided adequate protection against payment default. The system is capable of generating significant shortfalls in security, leaving producers at risk of nonpayment when a licensed and bonded grain buyer becomes insolvent. The bonding system of payment security also relies on extensive reporting

requirements and is administratively onerous. These requirements may have prevented smaller grain buyers (e.g. feed mills) from participation in the CGC licensing program. APAS supports the expansion of CGC licensing, wherever possible, to ensure producers are protected from payment default, as well as provided dispute resolution services and regulatory protection in areas such as weights and grades. It is estimated that the bonding system costs approximately 23 cents per tonne to administer. Producers have a direct interest in ensuring payment protection programming provides cost-effective and transparent protection against payment default.

The initial observation is that a payment protection fund, like the one used in Ontario, offers improvements over the existing bonding system. However, APAS cannot lend full support to the creation of a compensation fund until more specifics are known, such as cost estimates, protection timeframes, and coverage levels and deductibles.

### **Priority #3: Enhanced producer protection and transparency**

**Any decisions regarding the use of the surplus must be accompanied by a commitment from the CGC to expand its mandate to provide better producer protection and transparency in the trade.**

The accumulated surplus presents an opportunity to begin addressing a number of gaps in regulatory oversight that exist in the grain handling system. There is a general consensus that CGC's advocacy role and regulatory presence has diminished over the years. The elimination of provincial commissioners has reduced the CGC's ability to respond to producer concerns and complaints. The CGC role further diminished after 2012, when the Commission moved to near cost recovery operations with reduced staffing levels. This was followed by a decision, in 2013, to remove general farm organizations from the western grains standards committees.

Below is a high-level list of proposals and ideas that APAS supports. These ideas and proposals are not listed in priority, nor should they be considered complete. APAS is interested in exploring these options in greater detail with the Commissioners and their officials in the future. The CGC may choose to address these issues within a broader review of strengthening its mandate to work in the interest of producers.

- **Improved transportation and market transparency:** During the public review of the Canada Transportation Act, APAS and a coalition of Saskatchewan farm groups requested additional reporting requirements to better enable producers and other industry participants to make informed decisions when marketing their grain. Vessel line ups at port, export price quotes, and forward sales by commodity are just some of the performance and sales information requirements that were requested but not implemented. There is an opportunity for the CGC to collect and disseminate this kind of

information in the interest of providing better market transparency in Canada's grain trade.

- **Generic grain contracts and dispute resolution services:** APAS supports the development of a generic grain contract to govern the commercial responsibilities of grain buyers and sellers. The Australian "Grain Trade Rules" offer one example of how standardized dispute resolution services and contract terms and conditions are applied to grain markets in other jurisdictions. There is an opportunity for the CGC to provide guidance and leadership on this issue.
- **Complaint accountability and follow-up:** APAS supports increased complaint investigation and accountability, whereby the CGC reports on the type of complaints received, the follow up conducted and the measures in place to prevent future incidences.
- **Increased auditing and transparency:** APAS supports increased inspection of scales and other measurement equipment at licensed grain elevators. Inspection must also be accompanied by increased reporting.
- **Expansion of "Subject to Inspectors Grade and Dockage" program:** Grain dealers and process elevators are currently exempt from the same standards and requirements applied to primary elevators. For example, producers cannot request "subject to inspector's grade and dockage" when dealing with process elevators. Grain dealers, brokers and process elevators also continue to charge shrinkage allowances on grain sales, despite the regulated zero allowance that is in place for primary elevators.

## Comments on Proposed Options

APAS members and representatives reviewed the CGC's proposed options and assessed each according to the principle that the CGC accumulated surplus be invested in activities that benefit primary producers in recognition that user fees are passed on to producers through lower prices and higher elevator tariffs.

### A. Provide initial funding for a Producer Compensation Fund

From Priority #2, "Fixing Payment Protection": The initial observation is that a payment protection fund, like the one used in Ontario, offers improvements over the existing bonding system. However, APAS cannot lend full support to the creation of a compensation fund until more specifics are known, such as cost estimates, protection timeframes, and coverage levels and deductibles.

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

This option was considered, however there are too many variables to predict whether reduced user fees will translate into improved grain prices to producers. As a result of this uncertainty, APAS believes the surplus is better spent on addressing activities that have clear and direct benefits to producers, including the priorities and projects outlined in this submission.

C. Upgrade the CGC Grain Research Laboratory, office space and base building systems

APAS agrees that the Grain Research Laboratory and infrastructure must be adequately funded and kept up to date. These services, however, are a core component of what the CGC considers to be in the "public good", as explicitly noted in the CGC user fee consultation document. APAS believes the surplus must be invested in CGC activities that provide clear and direct benefits to primary producers, including the priorities and projects outlined in this submission. As part of the user-fee consultation, APAS is calling on the federal government to increase the federal government's public investment in CGC to ensure its laboratories remain world class facilities for grains and oilseeds research.

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

From Priority #1, "Revised of Grading Systems": APAS supports using a portion of the surplus to conduct a review of Canada's grain grading systems and quality factors. APAS supports using the surplus to research and develop improved testing equipment at primary elevators and Port. APAS does not support using surplus dollars to purchase testing and other analytical equipment for grain elevator companies.

## Conclusion

APAS supports the development of a formula based fee schedule capable of preventing the recurrence of accumulated surpluses. At the same time, the availability of these funds and the current consultation process present an opportunity for the CGC to make clear commitments on a number of areas of interest and concern to producers, including the priorities outlined in this submission. APAS recognizes that improving Canada's grading system, while addressing problems with payment security and expanded producer protections in the areas identified above will take time and further consultation with affected stakeholders. However, the accumulated surplus should be used wherever possible to expedite the consultations and regulatory processes.

Consultation on Canadian Grain Commission Surplus May 2017

For more information about this submission, please contact the APAS Policy Manager at 306-789-7774 ext. 4, [policy@apas.ca](mailto:policy@apas.ca).