



**Submission by the National Farmers Union  
to the  
Canadian Grain Commission  
Economic Study on Inward Services**

**Conducted by Meyers Norris Penny**

**Regina, Saskatchewan  
March 29, 2006**

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## **Preface**

The National Farmers Union is a democratic, direct-membership farm organization made up of thousands of family farmers across Canada. It is the only farm organization in Canada to be chartered under a Special Act of Parliament (June 11, 1970).

The NFU is a non-partisan organization. Our goals include economic and social policies that maintain the family farm as the basic food-producing unit in Canada. To realize these goals, we work to:

- Create, expand and safeguard orderly marketing and supply-management systems;
- Promote policies which safeguard the interests of farm families;
- Ensure that Canadian food is safe, nutritious and available to all who need it; and
- Encourage farming practices that protect, enhance and sustain the environment.

NFU members believe that farmers, regardless of the commodities they produce, share common interests. We believe that dividing farmers along commodity lines is counter-productive, because it creates a situation where farmers are pitted against one another. We believe that by working together in a co-operative manner, farmers can further their common interests. We also assert that the interests of family farmers are often in conflict with the interests of large, multinational agribusiness corporations. In fact, as the level of corporate concentration increases in the marketplace, farmers' economic power decreases. Low realized net farm incomes are a direct result of high corporate concentration in the marketplace.<sup>1</sup> The NFU believes that farmers must work collectively to assert their interests in a marketplace dominated by multi-billion dollar corporations.

The NFU also believes that a government-sanctioned regulatory framework that operates in the public interest and which protects farmers is an essential element in a properly-functioning marketplace.

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<sup>1</sup> The Farm Crisis and Corporate Profits: A Report by Canada's National Farmers Union, November 30, 2005

## Introduction

The *Canada Grain Act (CGA)*, passed in 1912, established the Canadian Grain Commission (CGC). Section 13 of the CGA stipulates that the CGC is obliged, first and foremost, to operate “in the interests of grain producers” in the establishment and maintenance of standards of quality for Canadian grain, and “to regulate grain handling in Canada to ensure a dependable commodity for domestic and export markets.”

As the wording of this Section indicates, the CGC was clearly established as the farmers’ watchdog on the grain industry. That objective has been reaffirmed numerous times in the past nine decades.

In 1987, on the occasion of the CGC’s 75<sup>th</sup> anniversary, then CGC Chief Commissioner G.G. Leith wrote in the introduction to the Commission’s official history book: “The establishment of the Act and the Board (of Grain Commissioners) was the response of the Government of Canada to demands by western producers for regulation of the grain gathering and transportation system... Then, as now, the Commission’s purpose was to protect farmers’ interests and, through the *Canada Grain Act*, to provide a legislative framework for a fast-growing grain industry. Active lobbying by farmers had made the government well aware of the practices which needed remedy.”<sup>2</sup>

While Leith went on to note that the CGC legislation allowed for “settlement of disputes” between farmers and grain companies, it is clear the primary purpose of the CGC was to act in the interests of farmers. Author J. Blanchard acknowledges the implementation of the CGA was a direct response to abuse of market power by grain companies and railways: “There can be no doubt that there were abuses in western Canada – this was inevitable in a situation where the railroad and the grain trade held all the cards and the farmer held none.”<sup>3</sup>

The situation which existed nearly a century ago is not unlike the context farmers find themselves in now. Four grain companies and two railways dominate the Canadian grain handling and transportation system,<sup>4</sup> and it is only through a strong regulatory framework provided by the CGA and the ability of the farmers’ marketing agency, the Canadian Wheat Board, to intervene on farmers’ behalf, that the abuses of the early 1900s are kept in check.

The reality that the CGA was implemented to protect farmers’ interests becomes clear when it is compared with federal legislation passed in other countries. “Federal legislation in the US... was not passed until 1917 and then in a form designed to satisfy the powerful grain trade lobby... Further afield, in Argentina, grain producers had no opportunity at all to make themselves heard. The vast tenant farms were tied into a

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<sup>2</sup> A History of the Canadian Grain Commission 1912-1987 by J. Blanchard. Published by the Canadian Grain Commission, 1987. Minister of Supply and Services Canada

<sup>3</sup> *ibid.*

<sup>4</sup> The Farm Crisis and Corporate Profits, National Farmers Union , 2005

system controlled by the railroads and large grain companies – a system which worked only to their advantage.”<sup>5</sup>

Western Canadian farmers of the early 1900s lobbied hard to have an Act passed which would regulate the grading system. Examples abound of farmers being cheated on both grade and weight. In response, they provided hard evidence to the government to prove their grievances were justified:

*“I recall as a very small boy, my father coming home from taking a load of wheat by horse and sleigh twenty miles to the then-town of Expanse. At that time, the town had four elevators. I recall him telling my mother they (the line elevators) would only ‘take Number 3 or take it home’, and that the price had gone down again from the week before. All of our neighbours were talking about being short on weight. My father and some neighbours bought a scale, dug a hole and set it up about two miles from our farm. They would weigh their loads on the way to the elevator. If they (the farmers) questioned the weight, the answer (from the line elevators) was ‘take our weight or take it home’. There was no Canadian Grain Commission to send a sample to get a grade check. Nor do I think the scales were ever checked. This was the freedom some think they want.”<sup>6</sup>*

Before the rise of the farmer-owned co-operative elevator companies, four global grain companies controlled the global market. In western Canada, they operated through “front” companies – line elevator companies set up to trade on the Winnipeg Grain Exchange. Their overriding influence and market power was reduced as a result of the rise of the prairie Wheat Pools, and the implementation of the CGA. But over the past decade, the four major farmer-owned co-operative grain handling companies have disappeared, and farmers are once again facing a situation where they are confronted by a shrinking number of huge, US-based transnational corporations. Today, the top five grain companies control close to 80% of the global grain trade.<sup>7</sup>

History, and the experience of farmers in other countries, has shown that private, for-profit grain companies and/or their agents cannot be trusted to provide unbiased, fair and accurate measurement of grade and weight. While it may be true that the regulatory framework imposed on these grain companies under the Canada Grain Act increases their operating expenses, the benefits to farmers, and their customers, more than justify the regulations.

Since 1912, farmers and the nation as a whole have benefited from the fair and independent assessment of grade and dockage, licensed and bonded elevators, a transparent and regulated grain exchange, and the right of farmers to load their own

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<sup>5</sup> A History of the Canadian Grain Commission 1912-1987. Canadian Grain Commission

<sup>6</sup> A Lesson in History, letter to the National Farmers Union from Avery Sahl, Mossbank, SK, March 24, 2006

<sup>7</sup> Presentation by Adrian Measner, Canadian Wheat Board CEO, at a symposium in Regina sponsored by the NFU and the University of Regina, February 24, 2006. Reported in the Union Farmer Quarterly, Summer, 2006.

producer cars. These innovations have allowed Canada to gain and maintain world market share based on high-quality grains.

As an internal CGC document noted in 1992: “The Canadian grading system was established to provide form and structure to the standards of quality that have been developed for Canadian grain. Division of quality is structured to offer the producers the opportunity to receive a price for their grain relative to its quality and to enable our customers to obtain the same quality on a consistent basis. We then endeavour to link those objectives by facilitating the transitory process from farm to vessel or farm to processor. Ultimately, a certificate is issued guaranteeing the quality attested.”<sup>8</sup>

For the CGC to fulfill the quality control mandate of the CGA, representative sampling of grain is key. Representative samples, particularly those obtained through inward inspection, are essential for official inspection certificates – the final guarantee for farmers – and customers - of a fair weight and grade.

## **Inward Inspection**

Since 1997, when the Grain Commission proposed curtailing inward inspection at ports (in response to pressure from the Western Grain Elevator Association), the NFU has been the most active farm organization in Canada in studying and evaluating CGC programs and operations and in making recommendations to improve and strengthen the CGC.

Inward inspection involves taking official samples of grain at terminal and transfer elevators to determine grade and dockage and to determine financial compensation to be credited to the shipper. As the Meyers Norris Penny Review Panel correctly acknowledges in its introductory letter to the NFU, inward inspection achieves three important outcomes:

1. it supports Canada’s grain quality and quality assurance systems;
2. it protects the integrity of grain transactions; and
3. it supports producer protection.

***Changing or eliminating CGC inspection and weighing activities will undercut these three important broad outcomes, and, therefore, will have a significant negative impact on producers.***

Inward inspection ensures that:

- The identity of the grain is established before commingling;
- The identity of the grain is preserved so that the sample will be available to resolve disputes or facilitate the appeal process;
- Substantive and valuable statistical information is available to: a) establish the basis for warehouse receipts; b) identify current stock positions; c) facilitate future audit processes; and d) predict cargo quality prior to shipment.

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<sup>8</sup> Internal Review of the Regulation Administered by the Canadian Grain Commission. Canadian Grain Commission, July, 1992

- Grain is collected to allow for future reviews of grain grades and specifications.
- Final grade assigned by the CGC can be checked against the grade initially assigned by the elevator manager to ensure consistency in accuracy, and to reduce the incidence of penalties imposed by the Canadian Wheat Board (CWB) for “missed grades;
- The presence of illegal or ineligible varieties is detected before these varieties enter the system.
- CGC-approved automatic sampling systems are monitored.
- Railway freight rates are based on CGC-monitored weights.

These benefits are of primary importance to farmers, who understand the importance of a strong CGC which operates on their behalf.

***Canada’s farmers have not advocated any weakening of the CGC regulatory role, nor have they called for cuts to the CGC’s mandate or its resources.***

Indeed, the NFU, on behalf of family farmers, has consistently called for a strengthening of the Grain Commission’s watchdog function, and tougher enforcement of regulations for grain companies. The licensing enforcement initiative announced in 2005 by the CGC was applauded by the NFU. It remains to be seen how effective that enforcement initiative has been.

***The NFU strongly believes the CGC must reaffirm and strengthen its mandate as industry regulator – protecting farmers’ interests and ensuring fairness in the system. To this end, we recommend the CGC retain and strengthen the current system of inward inspection, and reject any suggestion that inward inspection be optional or that grain sampling and/or grain inspection be delegated to grain companies themselves or “accredited” private service providers.***

One of the largest private inspection, verification, testing and certification companies in the world is SGS Group, which operates over 1000 offices and laboratories and employs over 43,000 people around the world. One of its clients is Cargill, the dominant player in the global grain trade. If Canada’s grain inspection services were contracted out, SGS would be well-positioned to capture the business.

The CGC, through its various functions including inward inspection, constitutes a high value investment for farmers. The CGC is mandated to operate in the public interest, not in the interest of private shareholders who are seeking a profit.

***The high quality of Canadian grain, for which the CGC is primarily responsible, puts hundreds of millions of dollars in farmers’ pockets every year. Weakening the CGC’s ability to perform any of its obligations – and particularly inward inspection – is an ill-conceived approach that will end up reducing farmers’ returns.***

Given the fact that realized net farm incomes have plummeted in the last three years to record lows, it is unconscionable that a policy of further reducing those incomes is being

seriously considered. Despite record financial aid from the federal government, returns from the marketplace are so low that the average Canadian farm is earning an overall average return of between negative \$10,000 and negative \$16,000 per farm.<sup>9</sup> The National Farmers Union has documented the decline in realized net farm income, and the coinciding increase in corporate profits, in a recently released report.

## **Financial implications of phasing out CGC inward inspection**

It is true that structural changes in the grain handling and transportation system have had an impact on CGC operations. Over the past 40 years, the number of primary elevators has fallen from over 5000 to under 400, and average grain receipts at port terminals have dropped by about 20 percent since the early 1990s. Average storage capacity at primary elevators has gone from 2000 tonnes to over 10,000 tonnes, with some facilities capable of storing 100,000 tonnes.<sup>10</sup> But this should not be used as justification for phasing out mandatory inward inspection.

*The NFU estimates that cost savings resulting from centralizing inward inspections would be extremely small – roughly \$2.5 million annually – or one quarter of a penny per bushel<sup>11</sup>. This small saving would not come close to offsetting the potential costs of missing problem carloads of grain and subsequently mixing those missed loads into the inventories held in storage at port terminals.*

The NFU believes that mandatory, immediate, on-site inward inspection by CGC inspectors provides substantial benefits to the system. It allows inspectors to “catch” contaminated, off-condition or incorrectly-represented carloads while they are being emptied, weighed, and elevated, and before they are mixed with large quantities of other grain. Even if contaminated or off-spec grain is binned, current inward inspection procedures allow problems to be spotted and isolated almost immediately.

The maintenance of the current system of inward inspection is also of vital importance to the farmers’ marketing body, the Canadian Wheat Board. The CWB needs to know exactly what type and grade of grain is being delivered into a given terminal at a given time. Inward inspection is also of critical importance to producer car shippers, because the Canada Grain Act says specifically that they will have official weighing and inspection at unload. All these producer-based organizations rely for their continued business success on the information collected from inward inspection and weighing services performed by the CGC.

*If the mandatory inspection and weighing functions of the CGC were eliminated or revised, the impact on the financial and business interests of individual farmers, their*

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<sup>9</sup> The Farm Crisis and Corporate Profits, November, 2005, National Farmers Union

<sup>10</sup> Letter from NFU President Stewart Wells to Hon. Bob Speller, Minister of Agriculture and Agri-Food, April 5, 2004.

<sup>11</sup> NFU Submission to the Minister of Agriculture and Agri-Food on the Canadian Grain Commission’s Program and Governance Reviews, Ottawa, ON, March 23, 1999. This document is included at the end of this brief as Appendix A.

*producer-car loading facilities, and their marketing agency, the Canadian Wheat Board, would be massive – and also entirely negative. There would be no benefit to farmers in reducing or phasing out the CGC’s current role. In fact, farmers would be fundamentally worse off under such a regime – just as they were a century ago before the Canada Grain Act was passed by Parliament.*

In the opinion of the National Farmers Union, the list of options and alternatives suggested by MNP – other than the first option of “status quo” - would not guarantee producers’ rights would be preserved, nor would they ensure the integrity of grain transactions would be preserved.

Funding for the CGC is dependent on an annual grant from the Parliament of Canada, and the perennial problem of deficits is one which needs to be addressed realistically within the mandate of the CGC. That is, it must be done in such a way that the interests of farmers are protected. The CGC deficit – which in recent years has amounted to approximately \$10 million annually – is in some ways a result of the CGC management’s own choices.<sup>12</sup> Since 1991, the CGC had frozen its fees. In contrast, over that same period from 1991 to 2002, grain companies increased their handling and elevation tariffs by 44%.<sup>13</sup> Had the CGC increased its charges at just one-half the rate that grain companies increased theirs, the CGC would have a surplus.

Seen another way, a \$10 million CGC deficit equals approximately 43 cents per tonne. This is just one penny per bushel. For a strong and effective CGC farmers will be willing to pay the penny.

Of course farmers want to control costs. And of course we want to maximize the effectiveness and efficiency of the agencies that protect us, such as the CGC. In the current climate, however, it seems far more prudent for farmers to pay an extra penny per bushel than to risk falling victim to industry-driven cuts to the CGC that may result in farmers losing much more than a penny.

The NFU recommends that the CGC increase its fees to cover its projected deficit. Further, CGC fees should be adjusted upward each year, as needed to cover its expenses at a rate not exceeding the increase in the average elevator tariff.

## **Conclusion**

This review by Meyers Norris Penny is charged with providing a cost-benefit analysis of the requirement, under the Canada Grain Act, of inspection and weighing of every rail car arriving at a terminal or transfer elevator. This inspection and weighing is to be carried out by CGC personnel. Samples are taken to establish grade, dockage, moisture and protein and to check for contamination or infestation.

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<sup>12</sup> NFU Submission to the Canadian Grain Commission Review Panel, Winnipeg, MB, June 30, 2002

<sup>13</sup> Average tariff, Saskatchewan Agriculture and Food, Stat Facts



Grain handling companies have been very outspoken in their opposition to this requirement, and have been pressing for decades to have it eliminated. They claim it “represents an unnecessary and costly intrusion into their business and say it should be made optional.”<sup>14</sup> These companies have also lobbied hard to have the CGC move away from its role as a regulator of the grain industry, which works on behalf of farmers, to a passive service provider which provides grading, weighting and inspection services to grain companies for a specified fee.

The National Farmers Union believes that moving the CGC from a regulator role to a service provider role is very short-sighted and would go against the public interest. Farmers in western Canada fought long and hard to have strong regulations created for the betterment of the grain industry, and those regulations have paid huge dividends to all players in the system, including grain companies, farmers, and the nation as a whole. We strongly recommend that the CGC retain its role as the farmers’ watchdog in the system; and that mandatory inward inspection continue to be a function of the CGC.

*As noted earlier, farmers have not called for changes to inward inspection. Nor will they benefit from any changes, which will amount to between a tenth of a penny and a quarter of a penny per bushel in savings for the grain companies.<sup>15</sup> There is also no evidence to suggest that grain companies will feel compelled to pass such small savings on to farmers. Farmers, therefore, will pay twice for the weakening of the CGC in the area of inward inspection: the first through the loss of current benefits; and the second through the refusal of grain companies to pass on any potential savings to farmers.*

All of which is respectfully submitted

By the National Farmers Union

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<sup>14</sup> “CGC review criticized”, Western Producer, March 23, 2006

<sup>15</sup> NFU Submission to the Canadian Grain Commission Review Panel, Winnipeg, MB, June 30, 2002

**Appendix A: NFU Submission to the Minister of Agriculture and Agri-Food on the Canadian Grain Commission's Program and Governance Reviews – March, 1999**

**National Farmers Union Submission  
to the  
Minister of Agriculture and Agri-food  
on the  
Canadian Grain Commission's  
Program and Governance Reviews**

**Ottawa, Ont.**

**March 23, 1999**

## **Preface**

The NFU is the only voluntary, direct-membership, national farm organization in Canada. It is also the only farm organization incorporated through an Act of Parliament (June 11, 1970). The NFU is non-partisan and works toward the development of economic and social policies that will maintain the family farm as the basic food-producing unit in Canada. To help realize this goal, the NFU and its members work to:

- create, expand, and safeguard orderly marketing and supply-management systems;
- promote policies which safeguard the interests of farm families;
- ensure that Canadian food is safe, nutritious, and available to all who need it; and
- encourage farming practices that protect, enhance, and sustain the environment.

NFU members believe that individual farmers must work collectively to assert their interests in an agricultural industry increasingly dominated by multi-billion-dollar corporations.

**National Farmers Union Submission  
to the  
Minister of Agriculture and Agri-food  
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**Ottawa, Ont.**

**March 23, 1999**

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## **Introduction**

In their Governance and Program Reviews, Canadian Grain Commission (CGC) Commissioners and managers recommended fundamental changes in the CGC's operations and, we believe, direction. While each recommendation in the Reviews must be examined on its own merit—and we do so—the package must also be examined in its entirety and in context. In this way we gain insight into the objectives of the CGC's leadership and can evaluate whether the general direction embodied in the Reviews best serves the interests of farmers, Canadian grain customers, and the grain handling industry.

The CGC has two roles: to protect farmers' interests within the grain handling industry and to ensure that our customers consistently receive high-quality grain. The NFU believes that the cuts and changes recommended in the Reviews undermine the CGC's effectiveness in both roles.

The CGC faces a choice: Will it continue to *regulate* the grain handling industry “in the interests of grain producers” or will it become a *service provider*, on call to deliver grading, weighing, and inspection services to grain companies, on request and for a specified fee? The NFU will demonstrate below that the CGC has already drifted dangerously close to the passive, service-provider model and that the changes contained in the Reviews will accelerate and complete the CGC's transformation from industry regulator to industry servant.

## **Money**

The CGC projects a 1998-99 deficit of \$9.9 million. CGC management cites this deficit as one catalyst for its proposed changes and cuts. It is important to put this deficit into perspective. The CGC oversees the movement of approximately 25 million tonnes of grain each year. A \$9.9 million deficit works out to 40¢ per tonne—just 1¢ per bushel.

In the long term, if this deficit persists, and after exploring prudent cost-cutting measures which protect farmers' interests and the integrity of the system, farmers could pay the extra

penny. In the short term, the federal government should provide \$25 million over three years to allow the CGC and farmers time to determine the advisability and efficacy of proposed solutions and to phase in changes, if needed, in an orderly fashion.

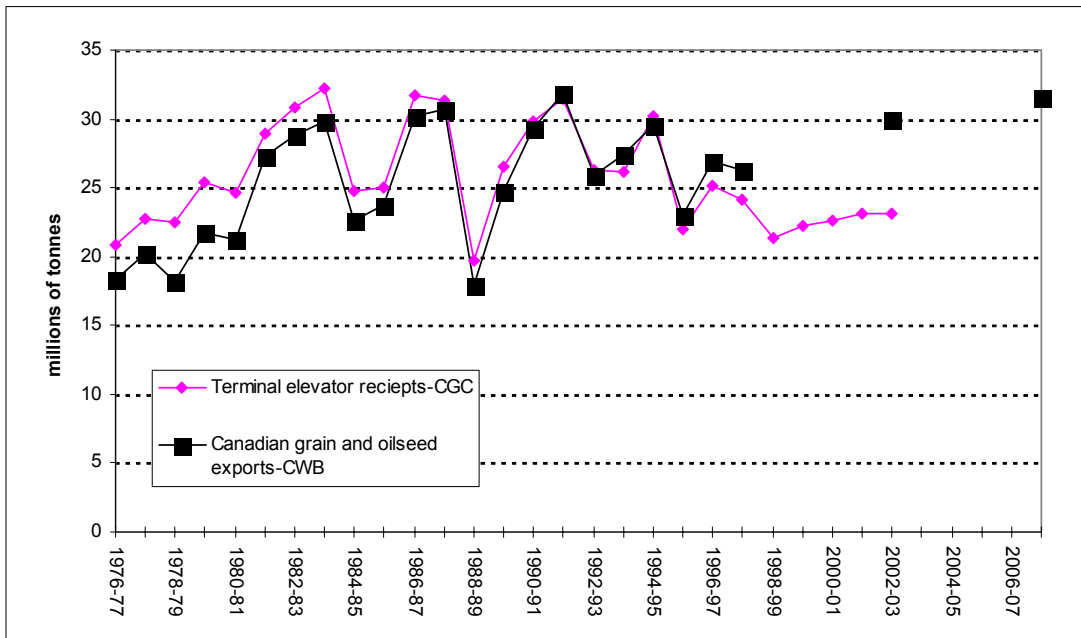
There is, however, conflicting projections regarding the CGC’s financial future. Just last year (1997-98) the CGC posted a \$1.5 million *surplus*. The CGC contends that its deficit is a result of export declines resulting from cropping shifts caused by the termination of the Crow Benefit. The CGC states that the loss of the Crow Benefit:

reduced dramatically the exports of grain through terminals. Between 1991/92 and 1994/95, terminal receipts averaged 28.5 million tonnes annually. Since then the annual average has been 22.8 million tonnes, a 20 per cent decline. ... This has presented a serious problem for the CGC because its revenues depend on the volume of grain handled by licensed port facilities. We do not expect this export trend to change in the foreseeable future.

[U]nless we make some significant changes, we face an operating deficit of approximately \$10 million dollars this fiscal year, and ongoing annual deficits of \$5 to 7 million for the next few years. (Program Review, p. 2.)

There is reason to question whether the export volume decline is as large as the CGC states and whether it has correctly identified future trends. Figure 1, below, compares CGC export volumes and projections with those provided by the Canadian Wheat Board (CWB).

**Figure 1: CWB and CGC export volumes and projections 1976-77 to 2007-08**



Source: CGC, CWB, and Canada Grains Council (See Appendix B for details)

While the CGC's data and projections indicate a substantial and prolonged decline in exports through terminal elevators, CWB projects no such decline.<sup>16</sup> Note also that the CGC's projections are below both pre- and post-Crow average volumes and almost 30% below CWB projections. In light of the uncertainty over the CGC analysis of export trends, it is not prudent to plunge forward with major changes to the CGC based on one year's deficit.

It is possible that the CGC has inadvertently or intentionally overreacted to its deficit. The result is a culture of crisis at the CGC wherein management is now proposing fundamental, and, we believe, unwise cuts to its programs and changes in its mandate. This crisis, occasioned by the deficit, must not be used as an excuse to weaken the CGC, cut services, deregulate grain handling, reduce protection for farmers within the system, and put Canada's reputation as the supplier of the highest quality wheat in the world at risk.

- 1. The National Farmers Union recommends that the Federal Government provide \$25 million over three years in bridge funding to the CGC.***
- 2. The NFU further recommends that such funds be tied to performance requirements which protect farmers' interests and the integrity of the quality-assurance system. (See Appendix A for a full discussion of necessary performance requirements.)***

## **The CGC's two roles**

The CGC has two roles: 1) to regulate the grain handling industry "in the interests of grain producers"<sup>17</sup>; and 2) to ensure that our valued customers continue to receive the consistent, high-quality grains and oilseeds that they have come to expect from Canada. The incomes and existences of over 100,000 family farms across Canada depend on the CGC effectively executing both roles.

We will turn first to its regulator—farmers' watchdog—role. In 1912, at the urging of farmers, the federal government passed the Canada Grain Act (the Act) and created the CGC. Acting largely without regulation before that time, elevator companies and railways worked to reduce competition and prices to farmers. Railways would not provide farmers or small grain buyers with cars and grain companies often manipulated grade, dockage, and weight to their advantage. J. Blanchard notes that farmers, with few options, were:

forced to sell their grain to the elevator company at whatever price was offered. ... It was found in 1897, however, that prices varied greatly depending on the competition a buyer faced at a particular station. If there was no competition, the street price could be very low.<sup>18</sup>

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<sup>16</sup> Those interested in more detail on the discrepancy between CWB and CGC data can turn to Appendix B.

<sup>17</sup> *Canada Grain Act* Section 13.

<sup>18</sup> J. Blanchard, *A History of the Canadian Grain Commission*, Canada Grain Commission, 1987, p. 12.

Building on previous provincial Acts, the Canada Grain Act and its subsequent amendments legislated farmers' right to producer cars, fair and independent assessment of grade and dockage, accurate scales, licensed and bonded elevators, and a transparent and regulated grain exchange. The excesses of an unregulated industry and resulting losses to farmers demonstrated to legislators at the time that an Act and a Commission were needed to actively safeguard farmers' interests within the system.

Those who argue that “times have changed” need look no further than the recent conviction of Archer Daniels Midland (ADM) for price-fixing on the livestock feed additive lysine. ADM's illegal profiteering and suppression of competition cost farmers in Canada and around the world approximately \$180 million.<sup>19</sup> ADM owns 52% of Canada's wheat flour milling capacity; 30% of our durum wheat milling capacity; and 45% of United Grain Growers—one of Canada's largest grain companies with 160 elevators in western Canada. In addition, mergers threaten to consolidate the industry and elevator closures are reducing competition at many prairie delivery points. As grain company power increases, the CGC's regulatory and oversight powers are more critical than ever.

The Canada Grain Act states that:

*... the Commission shall, **in the interests of 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.* (Section 13) [emphasis added]

Farmers want and need the security that a strong CGC regulatory role offers them. And they have not requested that the government diminish the CGC's mandate or its resources.

In its second role—ensuring that our valued customers receive consistent, high-quality grains and oilseeds—the CGC shines. Canada has built an enviable reputation for quality second to none in the world. As part of the Western Grain Marketing Panel process, that Panel contacted importers around the world and asked them to rate major grain exporters. The results of that research are listed in Table 1, below.

**Table 1: Rating of major grain exporters by importing countries**

[Insert photocopy]

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<sup>19</sup> An Ontario class-action suit is seeking \$35 million in damages on behalf of that province's hog farmers.

*Source: Grain Marketing, Western Grain Marketing Panel, July 1, 1996, p. 52.*

Note that Canada scored number one in seven of eleven categories including intrinsic quality, cleanliness, consistency of quality and first in *all* quality-related categories. Buyers around the world confirm that the Canadian system of varietal registration, production, handling, grading, and inspection consistently produces the world's highest quality grain.

Canadian durum wheat continues to capture a large market share in the U.S.—much to the consternation of U.S. officials—because pasta makers there demand quality and consistency. Canada's reputation for quality allowed it to maintain and expand its market share around the world in the face of generous U.S. and EU export subsidies.<sup>20</sup>

Our quality reputation has made Canadian grain a “differentiated product” and, thus, allowed the CWB and other marketers to capture price premiums around the world. Taking wheat as an example: because Canadian wheat's quality advantage makes it a differentiated product and because the CWB is the single seller of that differentiated product, the CWB can exercise considerable monopoly power in the high-quality wheat market, can price discriminate, and can reap higher returns for farmers. The Kraft, Furtan, Tyrchniewicz report estimated that this combination of high quality and CWB single-desk marketing put an additional \$265 million in Canadian wheat producers' pockets annually. It seems unwise for the federal government to approve cuts to the CGC which endanger this \$265 million annual premium in order to save \$5 or \$10 million.

## **We need the CGC more than ever**

When considering the two CGC roles outlined above, one soon concludes that rather than cutting CGC activities and expenditures, it may be more reasonable to expand them. It may be that changes in the world grain system will place more demands on the CGC, not fewer. CGC Chief Commissioner Barry Senft makes this same point in the introduction to the Program Review:

The Canadian grain industry is undergoing fundamental change. Globalization, technological advances, corporate mergers, economic upheavals, and shifting markets are driving a revolution in Canada's grain sector. (CGC Program Review, p. 1.)

To this list of factors contributing to industry change, the NFU would add: genetically-engineered seeds; an increase in the number of varieties; more numerous buyers demanding more precise and consistent quality standards; calls for an Identity Preserved

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<sup>20</sup> Because of low U.S. grain quality, that government has had to resort to expensive export-development strategies. Between 1985 and 1995, the U.S. spent billions of dollars on its Export Enhancement Program (EEP). In mid-1998, the U.S. donated 1.5 million tonnes of wheat (worth approximately \$300 million) to Indonesia in an attempt to wrest a portion of that country's market from Canada. This is just one of many cases of the U.S. attempting to win markets through costly giveaways. Canada's worldwide reputation for high quality, made possible by the CGC, makes such export subsidies and giveaways largely unnecessary.



(IP) system; growth in the number and acreage of specialty crops; reduction in delivery choices; increased grain company market power; and more competitive world markets.

We agree with Mr. Senft that the world grain market is changing and becoming more complex. However, it is hard to conclude that decreasing the role and effectiveness of the CGC is the proper response to these changes. If an increasingly complex and competitive world grain situation is taxing the resources of the CGC, we should consider an expanded role for the CGC and, if necessary, and after exploring prudent cost-reduction measures, expanded funding.

In its producers' watchdog role, there is ample reason to conclude that the CGC needs to be more active, not less—that it needs more resources, not fewer. As a result of branchline and elevator closures, most farmers have lost their local elevators and, with them, the personal relationship they had with local agents. Now, farmers are shipping grain far and wide to agents who they have met only over the phone.

In addition, the average farmer is moving more grain and at lower margins. For the CGC's watchdog role this means three things: farmers are hard pressed to ensure fair grades, etc. on the increasing volumes of grain they move; as deliveries become bigger, "errors" become more costly; and, even a small loss for the farmer can quickly wipe out any small profit a farmer might make on his or her grain. Farmers are dealing with an increasingly distant, powerful, and faceless grain handling system: they need conscientious CGC monitoring more than ever.

In its quality-assurance role, there is also reason to believe that we need the CGC more than ever and that it should consider expanding its efforts. The dissolution of the former Soviet Union and the termination of single-desk buying agencies in Brazil, Mexico, South Africa, and the partial dissolution of such agencies in Indonesia, Saudi Arabia, and a host of other countries means that Canadian sellers are facing more numerous buyers. Automation of milling and baking requires more consistent grain. Thus, Canada faces more numerous and more demanding customers.

All indications point to an expanded need for CGC activities. Few indicate that the CGC's role lies mainly in the past or that government should curtail the CGC's role or its resources. The NFU believes the direction of the CGC's Governance and Program Reviews would shift the CGC away from its regulatory role and diminish its ability to discharge its quality assurance mandate. Because of this, the NFU believes that the overall direction embodied in those Reviews is misguided, unwise, and damaging to the interests of farmers and to our global reputation for grain quality.

# Recommendation by recommendation

## Inward inspection

The CGC is mandated by the Act to officially inspect each rail carload or truckload of grain arriving at a terminal or transfer elevator. This CGC duty is called “inward inspection.” The CGC states that inward inspection “is part of the CGC’s core mandate.” (Program Review p.12)

In most cases, the CGC currently inspects grain immediately and at the terminal (“on-site”) as the carload is being dumped, weighed, and elevated. CGC management, in its Program Review, recommends that:

In the short term, the CGC should continue to offer inward inspection on grain arriving at terminal elevators....

[T]he Canada Grain Act should be amended to permit optional inward inspection.

By August 1, 1999 the CGC should move to a central inspection process.... (p. 12)

In the long term, the CGC recommends that the Act be changed to allow the CGC to:

offer a service<sup>21</sup> whereby the CGC would audit company inspection processes and sampling procedures to facilitate the trade of grain between primary and terminal or transfer elevators based on company-assigned grades assigned at unload. (p. 13)

The CGC lays out its plan with refreshing frankness: mandatory inward inspection is temporary; it should immediately be restructured: changed from on-site to centralized inspection; it should soon be replaced by optional inspection; and, in the future, where inward inspection is conducted, it can be done by grain company employees.

The NFU believes that *mandatory, immediate, on-site* inward inspection *by CGC inspectors* provides benefits to the system. It allows inspectors to “catch” contaminated, off-condition, and incorrectly-represented carloads while they are being emptied, weighed, and elevated and before they are mixed with large quantities of other grain. Even if contaminated or off-spec. grain is binned, current inward inspection procedures allow problems to be spotted and isolated almost immediately. Immediate, on-site

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<sup>21</sup> Note the terminology in the preceding excerpts: the CGC “offers” inward inspection “services.” It offers to make them “optional” or to accredit grain company employees to conduct them. Elsewhere, in a recommendation on re-inspection and appeals, CGC management recommends that “the service could be eliminated in the future if ... the industry no longer wants it or is not willing to pay to cover the costs.” (p. 14.) The use of such passive language seems to belie a regulatory agency actively and conscientiously enforcing the Canada Grain Act *in the interests of grain producers*. The eagerness with which the CGC offers to make its “services” optional and to accredit grain company personnel to do the work leaves one to wonder about the existence of the CGC in the future.

inspection by highly trained CGC inspectors reduce the number of quality-reducing carloads which are mixed into the terminal grain supply and, thus, increase the overall quality of that grain in storage.

Under the CGC's proposal for centralized, delayed inward inspection, problem carloads may not be detected for many hours, possibly not until a day later. By that time the problem grain may have been moved and re-mixed or it may be on its way into a ship.

In addition, delayed, centralized inspection will have the following adverse effects:

- terminal employees will not be advised of potential problems: the need for special handling or cleaning, high percentages of admixtures, etc.;
- inspectors will not be able to investigate suspected mixes in the sampling system, wrong car number and I-90 tags, sampling problems such as dust buildup (leading to increased dockage), unrepresentative samples due to missing buckets or chains on sampling systems;
- due to the above, producer car shippers may be adversely affected.

CGC Commissioners and managers, in the Program Review, seems to argue that outward inspection is enough to ensure grain quality. However, if delayed, centralized inspection allows low-quality grain into bins where it is mixed with terminal inventories, *then the overall, average quality of the grain in those terminals will be reduced*. In the computer programming world this is referred to as “garbage in: garbage out.”

Our recent experience with deer excreta would seem to indicate that *more thorough* and *immediate* inspection is needed. Given the low tolerance of some foreign buyers for excreta and other contaminants, one carload, carelessly allowed into a terminal bin, could render huge volumes of otherwise high-quality grain unsuitable for sale.

Most importantly, the cost savings that would result from centralizing inward inspection are tiny (\$2.5 million annually: one-quarter of one penny per bushel). Further, it is unlikely, given rising handling fees, that this tiny fraction of a penny in savings would make its way back to farmers. Against this near-zero-benefit to farmers must be weighed the potential costs of missing “problem” carloads of grain and mixing these loads into terminal inventories.

In 1991 the CGC conducted a pilot program on centralized inward inspection at Sask. Wheat Pool Terminal 6: That test failed. Shortly after, CGC manager Jack Robertson stated that centralized grading wouldn't work.<sup>22</sup>

In a January 4, 1999 question and answer session between CGC employees and management, an employee asked why, given the failure of the trial at Pool 6, the CGC does not undertake a further trial “instead of implementing something that doesn't work.” CGC managers responded: “We don't have the luxury of doing that now. We need to make changes, and quickly, to make the CGC sustainable in the long run.” In answer to a

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<sup>22</sup> *External Review Presentation: Summarized Question from January 4th, 1999, Canadian Grain Commission.*

similar question on the failure of the centralized inspection trial, CGC managers answered: “At that time, we tried a pilot project for one elevator and the pilot didn’t work. The proposal now is for all elevators so centralized inspection will be workable.”<sup>23</sup>

***3. Given the risks centralized inward inspection poses to grain quality, the nearly-non-existent financial benefits to farmers, and the demonstrated failure of centralized inspection in trials, the NFU recommends that CGC inspectors continue immediate, on-site inward inspection of all grain.***

## **Outward Inspection**

The CGC rightly states that “Outward inspection is the key to Canada’s reputation for grain quality.” (Program Review, p. 15) There can be no doubt of this. Despite the critical nature of outward inspection, the CGC recommends reducing the number of inspectors who carry out this duty. The CGC recommends a “flying squad” model with outward inspection crews moving from terminal to terminal where vessels are being loaded.

The CGC’s recommendation to cut the number of outward inspectors comes in the same Program Review as its recommendation to centralize and then discontinue inward inspection. It seems clear that cuts to inward inspection would increase the number of quality-depressing carloads entering the system and, thus, make outward inspection all the more critical. If inward inspection is cut, we would move from two lines of defence to one. The CGC, however, recommends decreasing personnel on the single remaining line.

Further, the CGC’s proposed cuts to inward and outward inspection come just months after the Canadian government agreed to take grain from U.S. states infested with kernal bunt.<sup>24</sup> Such a move puts increased demands on our inspection system. Canada’s current kernal-bunt-free status gives us a sales advantage over the U.S. Allowing kernal bunt infested grain to slip through our inspection system would cost Canadian farmers millions of dollars.

“Flying squads” may work however, reasonable evaluation indicates prudent concerns.

***4. The NFU recommends that the CGC delay moving to a “flying squad” model until it demonstrates: that the number of inspectors present when a vessel is loaded will remain the same; that the workload of those inspectors will be consistent with the need for them to perform conscientiously and at a high level; and that none of the duties currently performed by these men and women will remain undone.***

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<sup>23</sup> External Review Presentation: Summarized Question from January 4th, 1999, Canadian Grain Commission.

<sup>24</sup> December 4, 1998 “Record of Understanding Between the Governments of Canada and the United States Regarding Areas of Agricultural Trade.”

## **Closing the gap**

Currently, farmers delivering to country elevators are paid based on a “primary standard.” Exports, however, are graded at a higher “export standard.” The CGC recommends “closing the gap” and replacing “primary and export standards with a single standard to be used at all levels in the industry...” (Program Review, p. 8.) The CGC notes that, on an average year, between 85 and 97 per cent of deliveries at terminal elevators meet export standards.

A farmer evaluating such a proposal would immediately ask: “Will this cost me money or put money in my pocket?” This is a question, however, that the CGC has not answered. When asked to speculate, CGC and CWB officials state that closing the gap may cost farmers money and will certainly alter the distribution of money between various grades of grain. The risk of increased costs to farmers is especially significant in low-quality years—those with an early frost for instance. If closing the gap is likely to increase farmers’ costs, then the CGC must demonstrate that there are other, significant, offsetting benefits.

That the CGC has recommended proceeding with this change without attempting to estimate its costs or benefits to farmers raises questions about the CGC’s commitment to “establish and maintain standards of quality...” “in the interests of grain producers.” Without detailed cost and benefit information, the central question of farmers’ interests cannot be answered.

***5. The NFU recommends that the CGC implement a single standard for each grade only if it can be demonstrated that this change will provide significant net financial benefits to farmers.***

## **Governance and the Assistant Commissioners**

On page 17 of its Governance Review, CGC management states:

A three-person Commission structure is what allows the CGC to exercise regulatory authority. A structure in which the authority of the Commission was vested in a single person (i.e., a sole Commissioner/CEO) could be perfectly effective as a service provider but inappropriate for the exercise of a regulatory ... power.

Thus, it is provocative when, on page 22 of the Governance Review, CGC management recommends a new governance system based on a single “full-time Chief Commissioner-CEO, with a part-time Board.” Further, it recommends replacing the four appointed Assistant Commissioners with several Board members (referred to as Commissioners). This proposal eliminates full-time Assistant Commissioners, replaces them with part-time board members, and strengthens the role of the CEO.

The NFU agrees with the CGC when it states that the single-CEO model “is perfectly effective as a service provider but inappropriate for the exercise of a regulatory ... power.” This corporate-style governance model seems to fit well with the industry service-provider model implied in many recommendations in the Program Review. In contrast, what is needed is a strong regulatory structure embodied in the three Commissioners of the CGC. The proposed CEO and part-time Board could not serve this need.

Further, the NFU questions the propriety of the CGC management recommending the termination of the Assistant Commissioners: the farmers’ representatives. Given the CGC’s stated purpose of protecting farmers’ interests within the system, the NFU wonders: out of what corporate culture could come a recommendation to terminate the Assistant Commissioner position—farmers’ link with, and voice in, the CGC.

The Assistant Commissioners have served farmers well with a high degree of dedication and knowledge. Part-time board members, *who will have multiple duties and roles in addition to their farmer-representative function*, cannot do as effective a job. Further, as farmers’ representatives in the complex grain-handling system, the Assistant Commissioners need a great deal of specialized knowledge and experience not readily acquirable on a part-time basis. Finally, in order to carry out their duties, Assistant Commissioners need offices, staff, equipment, and resources. The job of Assistant Commissioner is not a part-time position.

***6. The NFU recommends that the CGC governance structure—three Commissioners and four full-time Assistant Commissioners—remain unchanged.***

## **Funding**

Farmers currently pay the full cost of CGC services.<sup>25</sup> No matter how CGC costs are charged to grain companies, those companies will pass those costs back to farmers. Thus, while the CGC has proposed changing the way it charges for services, it is unlikely that those changes will alter the amount farmers pay.

That being said, it may make sense for the CGC to alter its charges to more accurately reflect costs and benefits and to decrease its reliance on terminal elevator exports. In addition to providing \$25 million over three years in transition funding, the government may want to explore other changes in CGC funding.

The CGC proposes a “quality assurance fee” to be collected via a checkoff at the farmers’ point of delivery. The NFU notes that farmers often legitimately object to checkoffs. In order to make any new CGC checkoff more palatable to farmers, it must be clear to them that new checkoff payments are completely offset by reductions in other CGC charges—that to farmers, these changes are “cost neutral.” Preliminary to this, it would seem necessary to begin explicitly stating on cash-purchase tickets the amount of CGC fees

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<sup>25</sup> With the exception of research which is paid out of general government revenues.

which farmers are now paying (only United Grain Growers currently lists CGC fees separately). Explicitly listing fees now would make it possible to demonstrate to farmers that a “quality assurance fee” is not a new or additional charge but, instead, a new way of collecting money that they have long been paying. Farmers pay for the CGC: their payments should be as fair and transparent as possible.

The NFU agrees with the CGC that such changes should be phased in and adds that these changes must not be used as a method to increase farmers’ costs. There is not, however, sufficient detail in the CGC’s Program Review to evaluate the effects, on farmers, of a change in CGC funding. The CGC should prepare a separate report on funding options and then consult with farmers and others on the best way to fund the CGC .

***7. The NFU recommends that the CGC consult with farmers and others with the aim of restructuring its fee structure in a way which gives it increased financial stability, which maximizes its effectiveness in protecting Canadian grain quality, and which protects farmers from excessive charges.***

## **The shift at the CGC**

The Canada Grain Act states that:

*... the Commission shall, **in the interests of 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. [emphasis added]*

Compare this to excerpts from the new CGC Vision Statement proposed by CGC Chief Commissioner Barry Senft:

*We will maintain unbiased 3rd party objectivity;  
We will do what is good for the entire grain industry;  
...  
We are a business-like government organization;  
We will focus on client needs;  
We will generate an annual operating surplus;  
We will consider commercial opportunities which do not compromise or give away our (Canadian) competitive edge.*

Note that the “clients” whose “needs” are mentioned in the preceding Vision Statement are not merely producers, but all industry participants. Mr. Senft is clearly attempting to soft-peddle to industry the CGC-legislated responsibility to *regulate* the industry *in producers’ interests*.

In the Program and Governance Reviews we glimpse CGC Commissioners and managers backing away from their regulatory role; offering to provide “optional” “services” upon request to grain companies; proposing imprudent cuts; recommending privatization

through the accreditation of grain company employees; proposing grading changes without determining their effects on farmers; recommending the termination of full-time Assistant Commissioners; moving to a corporate-style CEO and Board structure; and musing about turning the CGC into a “service provider.”

***8. The NFU recommends that Minister Vanclief firmly remind CGC Commissioners and managers of their role as industry regulators.***

## **What the CGC isn't checking**

Farmers at the turn of the century were cheated by unfair scales and improper dockage measurements. The CGC was created to stop these abuses. The CGC, if it is to regulate the industry and protect farmers, must actively intervene on farmers' behalf. In many cases, it currently does not do so.

### **Protein testers**

Farmers are paid for their wheat based on its protein. The difference between 12.5% protein No. 1 CWRS wheat and 14.5% protein No. 1 CWRS was 54¢ per bushel in 1997-98. For this reason, accurate protein tests at country elevators are critical.

Farmers who have taken the trouble to have their wheat protein tested at several country elevators report that *protein tests can vary by as much as 3%* from highest to lowest. On a single 1500 bushel semi-load, an error of this magnitude could cost a farmer over \$1200.

CGC Commissioners and managers have long known that country elevator protein testers are inaccurate and unmonitored and that this might be costing farmers million of dollars. Despite this knowledge, they have done nothing to intervene—they have done nothing to regulate this part of the system in the interests of producers. If just one-tenth of protein testers consistently under-stated protein by just one-half of one percent, the cost to farmers could be over \$10 million annually.

The CGC is proposing cuts to inward inspection that might save farmers one-quarter of one penny. Yet they refuse to regulate protein testers which may be costing farmers 5 or 10 times more. In light of this, farmers find it hard to believe that cost savings are the prime motivation behind the CGC's proposed cuts to inward inspection and other CGC responsibilities. CGC officials clearly do not feel responsible for farmers' costs or returns: this must change.

### **Country elevator weigh scales**

Neither the CGC nor anyone else consistently checks country elevator scales. Measurement Canada has the responsibility for doing so but ceased annual inspections in 1995. Measurement Canada now checks only those that have been identified as having



problems and tries to get to the rest if its inspectors are in the area. Many country elevator scales in western Canada have not been checked since 1995.

There have been recent reports that Measurement Canada has signed a memorandum of understanding with a grain company to allow that company to check its own scales. The CGC—if it understood its history and its mandate—would not allow such lax regulation of such a vital part of the handling system.

### **Terminal elevator drying**

Elevator companies charge the CWB (farmers) for terminal elevator drying. They may dry grain either by actually sending the grain through a natural gas-fired grain dryer or by blending it with other grain (also called “paper drying”). They can charge the CWB pool accounts much more for the former than the latter. Clearly, there is room for grain companies to abuse this ability and to overcharge farmers. This is especially true because the CGC has, over the years, cut its monitoring program for terminal drying. If farmers experience a wet fall, drying charges can reach nearly \$20 million. Without CGC monitoring, it is impossible to ensure that farmers are being charged only for services actually rendered.

### **CGC charges to farmers**

Currently grain companies charge CGC fees back to farmers through deductions off their cheques. One company, United Grain Growers, states the amount of CGC charges deducted on its cheques to farmers; most other grain companies do not. There currently exists no mechanism to ensure that the amount that farmers are charged in the name of the CGC equals the amount that grain companies pay to the CGC. The CGC does not seem to feel that it is its responsibility to ensure that farmers are charged only for CGC services which they actually receive. If grain companies are overcharging farmers for CGC services, it may be the case that if they merely remitted all that they collected that a substantial portion of the CGC deficit would disappear. CGC officials must ensure that fees to farmers are collected accurately, fairly, and transparently.

### **Malt barley “street” buying programs**

Through the use of cash payments, the Canadian Wheat Board induced grain companies to participate in a program where farmers are paid immediately for their malt barley. Previously, farmers had to wait weeks or months until their malt barley was unloaded and accepted before they received their money. The new program will dramatically shorten farmers’ waiting time for their malt barley cheques.

The risk, however, is that grain companies will misgrade farmers’ malt barley and capture premiums for themselves. This risk is made all the more real by a recent change to barley grades. Whereas previously the grade of malt barley were “special select, select, and *sample* select,” the nomenclature of the grades has been changed so that now the grades are “special select, select, and *standard* select.” Whereas the term “sample”

would previously have triggered questions from farmers, they may not notice that “standard select” is now the term for the lowest grade. This terminology change may allow grain companies to downgrade malt barley without the producer noticing.<sup>26</sup>

The NFU suggests that the CGC publish data which compares the grade distribution of malt barley in the first six months of the 1998-99 crop year with historical distribution figures. This data will reveal whether grain companies are using “street” buying programs to procure malt barley at advantageous grades.

The solution, of course, is for the producer to sell his or her malt barley “subject to inspectors’ grade and dockage,” as is the producer’s right under the Act. Few producers, however, are aware that there might be a problem so few pursue this solution. The CGC could prevent possible farmer losses simply by requiring elevators to attach a small, prominent note to every malt barley cheque informing producers of their rights and advising them of potential pitfalls. The NFU understands that CGC officials are aware of the losses (or potential for losses) to farmers under the street-buying program. Farmers believe that the CGC has a responsibility to act in such instances.

### **What the CGC isn’t checking: Conclusion**

The CGC’s refusal to actively seek out areas where farmers may be bilked and to actively intervene to protect farmers’ interests starkly demonstrates how far the CGC has strayed from its farmers’ watchdog role. Inaction on these issues could be costing farmers tens-of-millions annually. There should be no talk of staff or funding cuts at the CGC so long as such a substantial portion of its critical regulatory work remains neglected and undone.

Perhaps the CGC is already under-staffed and underfunded and this is why it cannot inspect and monitor protein testers and terminal drying. The CGC must begin to work *actively* to monitor and regulate *all parts* of the handling system to ensure that farmers are treated fairly and properly.

#### **9. The NFU recommends that the CGC:**

- ***test, inspect, certify, and seal all grain protein testers;***
- ***check all elevator scales at least annually;***
- ***ensure that CGC charges deducted from farmers’ cheques are accurate, visible, and audited;***
- ***monitor terminal drying to ensure that farmers are not overcharged;***
- ***actively work to inform farmers of their rights and options when selling malt barley and other grains;***

## **Who initiated this?**

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<sup>26</sup> At \$5/tonne (the typical price spread between the highest and lowest malt barley grades), this would cost farmers approx. 11¢ per bushel or \$400/carload.

Farmers did not ask that the CGC downsize to save them a penny a bushel. It is the grain companies who initiated this round of cuts and who pressured the CGC to turn away from active industry regulation.<sup>27</sup> Despite its clearly-intended role as producers' watchdog, the CGC is down-sizing and dismantling itself as a result of pressure, not from farmers, but from grain companies. It is highly illegitimate for the grain industry regulatory agency—for the producers' watchdog—to diminish and disassemble itself at the request of the industry. It is like a farmer's dog reducing its vigilance of the henhouse at the request of the foxes.

The cuts and changes recommended by the CGC's Reviews will save farmers nothing. They will, however, decrease the number of inspectors in terminal elevators, decrease the already compromised regulatory effectiveness of the CGC, and increase the latitude for industry abuses. Cuts like those proposed to inward inspection push the CGC and its inspectors further from the day-to-day operations of the grain companies and decrease the CGC's ability to regulate the system. Grain companies support such moves. This is natural: all businesses chafe under regulation and seek to deregulate themselves.

What is not natural is to see the CGC Commissioners and managers enthusiastically embrace this scheme and work vigorously toward its implementation. The Program Review states: "The recommendations presented in this report are the decisions and the responsibility of the CGC's Commissioners and senior managers." (Program Review p. 2.) The Federal Minister of Agriculture should recognize that many of the changes proposed by those Commissioners and senior managers are designed to benefit grain companies and will undermine the protections for farmers currently built into the system.

## Conclusion

In total, CGC services currently cost farmers approximately 5¢ per bushel. Canada's world-wide reputation for supplying some of the highest-quality grains in the world is worth several times that. Further, even if the CGC succeeds in making the cuts and changes which it recommends, total savings will be less than 1¢ per bushel. Finally, there is no mechanism in place (nor does the CGC propose one) which would ensure that any 1¢ per bushel saving would make its way back to farmers and not be snatched by grain companies. The real question for farmers is: Are we willing to risk our valuable reputation for quality and disable our watchdog in the grain handling system in return for a penny a bushel which we may not ever see?

This is also the question for the Federal Minister of Agriculture and his government counterparts. While Barry Senft and the other CGC Commissioners initiated the Program and Governance Review and while they endorse the recommendations in those Reviews,

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<sup>27</sup> In 1997, the Western Grain Elevators Association (WGEA) requested cuts to inward weighing and inward inspection ("...the request from WGEA came to the CGC to remove inward weighing...", letter from Barry Senft to Nettie Wiebe, then NFU President). While cuts to weighing went ahead, cuts to inward inspection were rejected by the CWB and others. It is clear that the current round of cuts and changes are a continuation of ongoing pressure by industry groups to cut the CGC's role and resources.

farmers are clear that the final decision on the direction of the CGC rests with the Minister, the members of the Standing Committee on Agriculture, and with government MPs. It is the responsibility of the Minister and other elected officials to ensure that their appointees execute the provisions of the Canada Grain Act.

***10. The NFU urges the Minister to actively and personally take control of the CGC reform process in order to safeguard farmers' interests. We suggest that rather than taking the form of cuts, that the reform process may more legitimately focus on expanding the CGC mandate and resources. This would ensure that the CGC could carry out its vital roles as regulator and quality assurance agency in an increasingly challenging world grain marketing and handling environment.***

***11. The NFU further recommends that attempts by CGC Commissioners and managers to alter the direction of the CGC—without authorization of government or farmers—provides the Minister with sufficient ground to re-evaluate the appropriateness of the continued service of those Commissioners and managers.***

**Respectfully Submitted  
by the  
National Farmers Union**

## Appendix A: Details of bridge funding

The NFU recommendations regarding funding are that:

- *the Federal Government provide \$25 million over three years in bridge funding to the CGC; and that*
- *such funds be tied to performance requirements which protect farmers' interests and the integrity of the quality-assurance system.*

The NFU proposes that bridge funding come with performance requirements so as to ensure that when that funding is exhausted, the CGC is strong, focused, and ready to fully carry out its vital roles. The NFU proposes the following requirements, almost all of which flow directly from the Canada Grain Act:

- a) The CGC should ensure that it is overseeing all relevant aspects of the grain handling system including protein testing, scales, malt-barley buying, etc.
- b) The CGC must focus clearly on its dual roles of industry regulator (producers' watchdog) and quality assurance.
- c) Through its Assistant Commissioners, the CGC must undertake producer education and consultation and must allocate the money necessary to do so.
- d) CGC Commissioners and managers must be committed to "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...*in the interests of grain producers.*"
- e) The protection of Canada's reputation for high-quality grains and oilseeds must be a top priority and the CGC should work to *increase* quality and consistency. Further, it should not undertake cuts or changes which endanger our quality system unless those changes are first approved by farmers and will return significant net savings to them.

## Appendix B: CGC and CWB export projections

Attached are CGC and CWB “export” numbers and projections. Note that the CWB’s projection for 2002-03 is 29.9 million tonnes and the CGC projects 23.1 million. A difference of 6.8 million tonnes or almost 30%.

There are slight differences between the CGC and CWB numbers which nearly cancel each other out but which the NFU has done its best to document.

- The CWB numbers include “U.S. direct” shipments (est. 3.5 million tonnes in 2002-03) which do not pass through terminal elevators and which do not generate CGC fees.
- CWB numbers do not include western grains to eastern Canadian domestic customers (est. 1 million tonnes) but CGC numbers do.
- CWB numbers do not include “direct hits” from Thunder Bay and the West Coast (approx. .6 million tonnes) and CGC numbers do.
- CWB numbers do not include special crops (approx. .7 million) and CGC numbers do.

Therefore, to equate CWB and CGC numbers, one must do the following:

CWB **minus** U.S. direct **plus** west. grains to east. domestic **plus** “direct hits” **plus** special crops **equals** CGC.

For 2002-03, the formula works as follows:

29.9 million tonnes **minus** 3.5 million **plus** 1 million **plus** .6 million **plus** .7 million **equals** 28.7 million.

Thus, using methodology as equivalent as possible, CWB projections for 2002-03 would yield 28.7 million tonnes while the CGC predicts 23.1 million: a difference of 5.6 million tonnes. While what these two sets of data are measuring, and their methodology, differ slightly, even after adjusting for those differences, the CGC’s projections for the future terminal exports remain significantly below those of the CWB and significantly below historical levels. The CGC does not explain these low projections.

While the CWB estimates are reduced slightly once adjusted to the CGC’s methodology, the graph, Figure 1, remains essentially unchanged. Note that if one splits the difference between the CWB’s and the CGC’s estimates (yielding 25.9 million tonnes), the CGC’s projected deficit disappears. If one accepts the CWB’s estimate, the CGC runs a significant surplus.