



Cereals Canada

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Agriculture and Agri-Food Canada
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Re: Consultation on the Canada Grain Act Review

About Cereals Canada

Cereals Canada is a national, not-for-profit organization that facilitates collaboration between partners across all sectors of the cereals value chain – with a focus on wheat, barley and oats. Our membership encompasses leading farm organizations, grain handling, export and processing firms, as well as crop development and seed companies.

This submission is divided into two parts focused on key aspects of the Canada Grain Act:

- A) Provision of Outward Inspection Services:** the position outlined in this submission is shared by all but one of Cereals Canada’s members and was approved by the Board of Directors on March 24, 2021. **Position: Enabling Official Inspection and Certification Service by Third Party Service Providers.**

- B) Western Grain Classification Reform:** the recommendation is shared by all Cereals Canada members and was approved by the Board of Directors on April 22, 2021. **Position: We request that the CGC begin consultations with the wheat value chain in western Canada to review the classification system for potential improvements and efficiencies.**

A) Outward Inspection and Certification:

Cereals Canada members recognize important opportunities for improvement under the CGA, particularly with a view towards achieving greater efficiency and responsiveness in the Canadian grain handling system through reforms to official outbound inspection and certification.

The following submission outlines the majority position of Cereals Canada members related to outward inspection and certification under the Canada Grain Act (CGA). This focus on inspection and certification is based on the recognition that other relevant areas (including access to binding determination; producer payment protection; and, licensing) will be covered through separate submissions led by Cereals Canada producer group and exporter members.

The current Canadian approach to outbound inspection and certification requires the mandatory use of Canadian Grain Commission (CGC) delivered services and oversight of those services is maintained by



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the CGC itself. While the current inspection and certification system performs a useful function, it is also widely viewed to be cumbersome and inefficient. Significant challenges facing the Canadian value chain under the current system revolve around the frequent occurrence of double inspections, slow service and delays and uncompetitive/high service costs.

With a view towards addressing these challenges, Cereals Canada endorses moving to have mandatory inspection and certification conducted by accredited third-party inspectors, rather than being performed by the CGC directly. By enabling competitive service delivery of mandatory inspection and certification by accredited third parties, this approach will bring greater cost-effectiveness and agility into the grain handling system. Moving towards the use of third parties makes it feasible for inspection and certification to be conducted on a wider scope of exports (including on a voluntary basis to those currently exempted).

As part of these changes, the CGC's role around official inspection and certification should become focused on oversight of the system, rather than service delivery. This focus will cover the following areas:

- Continuing to establish grade standards.
- Establishing criteria for accreditation of third-party inspectors.
- Overseeing initial accreditation of third-party inspectors and ongoing maintenance of accreditation.
- Issuing the certificate final, if requested, based on inspections carried out by accredited third-party inspectors.

Cereals Canada's position on reform to official inspection and certification is guided by the need for a system that is both cost-effective and highly responsive. We view reform as an opportunity to bring Canada in-line with the needs of global customers who are accustomed to working with third-party inspectors, as well as other major grain export competitors operating via systems that enable participation by accredited third parties. Cereals Canada recognizes that this change will have an impact on the CGC's operating revenue and expenses which will need to be balanced to maintain the organization's other critical functions in supporting the Canadian grain system.

Cereals Canada calls on the government of Canada to address the need for reform to the CGA quickly, enabling third-party inspection and certification with oversight through the CGC. This reality has implications both to the profitability of the Canadian industry as well as the competitiveness of Canadian exports on the world stage. A detailed overview of Cereals Canada's position related to necessary reforms to inspection and certification under the CGA is provided below.



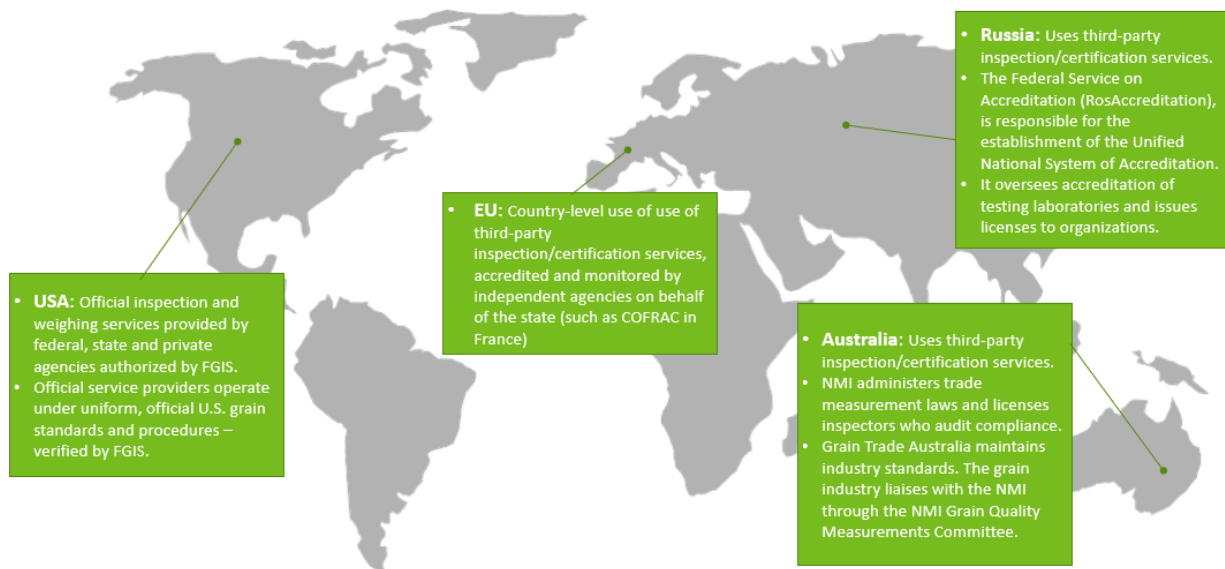
Industry Perspectives on the Current Inspection and Certification System:

The CGA currently requires all grain discharged from terminal elevators to be officially inspected and weighed in order to determine the quality and quantity of the grain. There are notable exemptions to this regulatory requirement for shipments to the U.S., rail to Mexico, and container trade. These exemptions are viewed by Canadian industry to be necessary to support the movement of exports particularly by truck and rail.

Currently, samples from terminal elevators are collected using CGC-approved sampling equipment and methods while mandatory on-site outward inspections are completed by CGC staff. Under this system, both oversight and delivery of outward inspection services is performed exclusively by CGC personnel in an independent manner. Grain handlers/exporters often also contract with third-party service providers to conduct additional testing. This leads to a duplication of efforts that results in higher costs and inefficiencies within the grain handling system.

Additional inspection outside the CGC is driven by contractual obligations with customers and at times a need for greater operational fluidity than can be provided by the CGC. Many customers who source grain from multiple origins outside of Canada seek consistency in the supplier providing inspection and testing services across all origins. As highlighted in Figure I, Canada is the only major grain exporter that currently requires mandatory inspection to be performed by a single government agency, leading to double inspections when customers require services from a specified third-party company.

Figure I: Comparison to Competitor Approaches:





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With respect to lack of fluidity, lack of labour for weekend loading and 24-hour loading operations are examples where current government provided inspection services do not match the needs of the industry. Exporters indicated significant concerns regarding the level of service from Canadian grain commission inspectors. These concerns included ability / willingness to provide services when required (e.g., weekends, holidays, etc.), timeliness of results and certification (results provided when boat is fully loaded or on route rather than during loading) and availability of laboratory results. There are also current examples in the wake of the COVID-19 pandemic where government provided inspection services are not meeting the needs of the industry, where private inspections would.

Unnecessary delays or duplication of efforts affect the velocity of Canada's grain handling system. Overall, transaction costs such as added expenses or interruptions ultimately impact Canadian efficiency and export competitiveness given the low margin and high-volume nature of the grain industry.

The mandatory nature of the official CGC inspection and weighing system, combined with this commercial need for third-party services also means that in many cases there is unnecessary duplication of effort and cost. Grain industry estimates indicate that approximately 70% to 90% of grain exported from Canada is double inspected, highlighting significant inefficiencies under the current system. The direct costs associated with these double inspections, at just 70%, were valued at roughly \$34 million in 2018-19. These estimates of additional costs come from two sources. The difference in charges between the Canadian Grain Commission and the private inspection companies and the percentage of double inspections.

As mentioned above, it is also important to note that under the current system, shipments from terminal elevators destined to the United States (U.S.) and rail shipments to Mexico are exempt from inspection and weighing requirements by the CGC, as are all containerized grain shipments. Exemptions for U.S. shipments have been incorporated into the Canada Grain Act Regulations (sections 49(a) and 70(1)). Exemptions for export to Mexico are outlined in direction to the industry from the CGC.

These exemptions have created a notable gap in the coverage of exports monitored through the CGC's inspection and weighing system. The significant costs and challenges associated with delivering official services for these markets is the reason why the CGC made the decision implement exemptions. While official services for currently exempted markets could practically be performed by third parties on a voluntary basis (as negotiated by the buyer and seller), this is not allowed under the current system.

The CGC's shift away from provision of direct weighing services towards oversight demonstrates the potential for new service delivery models. Although weighing was a function previously performed exclusively by the CGC, in 2012 this responsibility moved to terminal operators. CGC now maintains an oversight role for weighing. The shift in responsibility for weighing towards terminal operators has demonstrated the potential for services to be delivered by non-CGC parties while maintaining robust standards and supervision through the CGC. The move towards enabling weighing to be conducted by terminal operators under the oversight of the CGC has resulted in cost-savings and efficiencies, without



negative impacts on the performance of measurements needed to support the required monitoring of exports.

Enabling Official Inspection and Certification Service by Third Party Service Providers:

A move to rethink the CGC's role in inspection and certification to a that of an oversight and standard setting body would offer benefits to the value chain. Cereals Canada members have endorsed a preferred approach that consists of enabling mandatory official inspection and certification to be performed by accredited third-party service providers.

Simply put, under this preferred model, outbound inspection and certification would be performed by accredited service providers rather than by Government of Canada employees. Service providers would be competitively sourced by grain companies, while fees for service delivery would be determined by the market. Under this model, the CGC would retain a significant role as a regulator, providing independent oversight to the inspection and certification system, while third-party service providers would bring the new benefits to the system such as more competitive service costs and performance.

The important role of oversight for accreditation along with standard setting for inspection and certification processes would continue to be performed by the CGC, similarly to the approach already adopted by the CGC for weighing since 2012 (where terminal operators are empowered to conduct weighing under CGC supervision). Overall, the CGC's oversight role related to inspection and certification would focus on the following areas:

- Continuing to establish grade standards.
- Establishing criteria for accreditation of third-party inspectors.
- Overseeing initial accreditation of third-party inspectors and ongoing maintenance of accreditation.
- Issuing the certificate final, if requested, based on inspections carried out by accredited third-party inspectors.

A move to enabling the delivery of official services through accredited third parties would resolve important challenges surrounding the existing model for outbound inspection and certification. One example is the current gap in inspection and certification (for exports to the U.S. and rail to Mexico) that has resulted from operational and cost constraints at the CGC. Under a model where accredited third parties are contracted by grain companies to provide required inspection and certification service, the scope of coverage would no longer be limited by the CGC's constraints. Accordingly, official service could be reintroduced on a voluntary basis for exempted shipments to the U.S. and Mexico, based on the needs negotiated by the buyer and seller. This expanded coverage would enhance the coverage of Canada's quality assurance system compared to the current system.

Similarly, a move towards enabling the participation of accredited third parties would resolve the duplication of inspections that affects the current system. As previously mentioned, estimates indicate that approximately 70% to 90% of grain exported from Canada is currently double inspected,



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highlighting significant inefficiencies and added costs for Canadian farmers and exporters. The additional and unnecessary cost borne by the value chain due to this duplication in 2018-19 was valued at roughly \$34 million (at 70% duplication). This excludes added time and management.

Through the introduction of competitive third-party service offerings for outward inspection, much lower costs for service delivery can also be achieved. Indeed, according to the WGEA, qualified third parties can provide an export certificate for approximately \$0.50 per tonne versus \$1.35 per tonne currently being charged by the CGC for its mandatory inspection service. CGC fees were as high as \$1.70 per tonne in 2019.

In addition to the overt cost savings, this model will provide significant operational and logistic efficiencies. Currently export companies are constrained by the operational realities of a Government of Canada workforce, which introduces limitations for continuous operations. In times of backlog, these operational constraints can result in additional demurrage charges and contract penalties.

By enabling competitive sourcing from accredited third parties the Canadian quality assurance system can gain lower costs while CGC's focus on oversight and standards can ensure that quality is upheld. This model has been espoused by a wide-range of stakeholders in the Canadian grain industry, most recently through the Grain Sector Input to the Agri-Food Economic Strategy Table and endorsed in the Barton Report. This inclusion of grain sector input into the Barton report demonstrates that considerable industry debate and discussion has already taken place on the need for reform.

The grain sector input to the Barton report concluded that "as a regulated service provider, the CGC should be focusing on providing the right services most appropriate in a rapidly changing industry, which may or may not be the optimal path for procurement of funds". This view is endorsed by Cereals Canada members.

Other Considerations:

It is recognized that over 90% of the CGC's operating budget flows from revenue generated through mandatory inspection, weighing and certification services (2019-20 Departmental Plan, Planning Performance and Reporting, Government of Canada). Notwithstanding the fact that these services are widely considered to be overpriced, if service provision shifts to third parties, it will leave a notable shortfall in the CGC's operating budget.

Due to the outsized impact of outward inspection and weighing on CGC revenue, changes to the status quo could have repercussions for the financing of service delivery in other areas. This shortfall will need to be addressed by accessing alternative funding sources in order to support the organization's long-term viability. The funding structure will need to position the organization in a way that maintains sufficient capacity and expertise enabling world-class oversight of the Canadian quality assurance system.



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While the CGC's operational funding and capacity are areas that need to be considered, the existing funding model should not dictate the path forward for inclusion of third parties as service providers for outbound inspections. Rather, the organization's optimal funding model should be derived from the most efficient and cost-effective way of providing the necessary services and regulatory oversight.

In both the U.S. and Australia, organizations with similar mandates to the CGC (e.g. U.S. Federal Grain Inspection Service) do not operate with a view towards complete cost recovery. Arguments can be made to maintain CGC continued services (such as the Grain Research Laboratory, grain grading, harvest sample program, etc.) through government funding, rather than the current cost-recovery model. This is particularly clear when we consider the important benefits to the public good provided by CGC oversight of the grain safety, quality assurance and grain handling system.

It is also important to consider customer perspectives and implications for the Canadian brand. Indeed, it is widely recognized that trust and transparency are important features of the quality assurance system underpinning the Canadian brand. This brand has been cultivated by the Canadian value chain to embody consistency, cleanliness and quality.

Given the wide integration of third-party services throughout the global supply system, including major export competitors (as highlighted in figure 1), Canada will be moving more closely in-line to the expectations of major customers sourcing from multiple origins. In the case of the United States and Mexico, the return of official inspection and certification services will enhance the existing system (by enabling voluntary official inspection in those markets).

Canadian industry is best positioned to interface with customers around the implications of introducing third party services to the official inspection and certification system. Further consultations or dialogue with key customers, if required, should be led by Canadian industry through the lens of maintaining and enhancing the well-established Canadian brand. The Government of Canada should rely on the guidance of Canadian industry (through the industry's dialogue with customers) in establishing official services that meet customer expectations and support this brand.



B) Western Grain Classification Reform:

The last reform of the western wheat classes was done in 2015/2016¹ where quality parameters for CWRS were tightened and there was the creation of the CNHR class. The past 5-6 years since these changes were made, both the growers, exporters and customers have had varying degrees of experience with them and can provide further recommendations on how to improve the system going forward. Cereals Canada has had conversations with several groups within the Canadian wheat value chain on streamlining the western Canadian wheat classification system, including breeders (public and private), crop development companies, grain handlers and exporters, end-use processors and provincial wheat producer groups.

Cereals Canada sees that in order for the western Canadian wheat classification system to respond to the needs of the aforementioned sectors, Agriculture & Agri-Food Canada and the Canadian Grain Commission (CGC) need to prioritize the review of the current classification system in order to match the classification system with current market realities.

We request that the CGC begin consultations with the wheat value chain in western Canada to review the classification system for potential improvements and efficiencies. The suggested consultation could be used as an opportunity to simplify the classification system to meet current demand for medium protein wheats and differentiate from others globally through our Canadian brand to deliver consistent, high quality, medium protein wheat to complement Canada Western Red Spring (CWRS) wheat.

A review and update to the western Canadian wheat classification system to match the classification system to match current market realities will, in part, help the recovery of the Canadian economy post-pandemic by creating growth opportunity in markets demanding high quality medium protein wheat from Canada.

Western Canadian Wheat Classification System

There are currently 10 classes of wheat in Western Canada² as indicated in Table 1 below:

Table 1. Wheat Classes in Western Canada

Count	Class name	Class Abbreviation
1	Canada Western Red Spring	CWRS
2	Canada Western Hard White Spring	CWHWS
3	Canada Western Amber Durum	CWAD
4	Canada Western Red Winter	CWRW



5	Canada Western Soft White Spring	CWSWS
6	Canada Western Extra Strong	CWES
7	Canada Prairie Spring White	CPSW
8	Canada Prairie Spring Red	CPSR
9	Canada Northern Hard Red	CNHR
10	Canada Western Special Purpose	CWSP

Although 10 wheat classes that exist, the insured acreage of wheat grown from 2015-2020³ shows that the most insured, and therefore grown, classes of wheat are CWRS and CWAD. Figure 1 shows that from 2016-2020, on average, of the insured acres in Western Canada, 68% were CWRS, 23% were CWAD, 4% were CPSR and the remainder was a combination of the other classes, which individually represent 2% or less by class (i.e. less than 300,000 acres)³.

Figure 1. 2016-2020 Insured acres of wheat in western Canada by class³

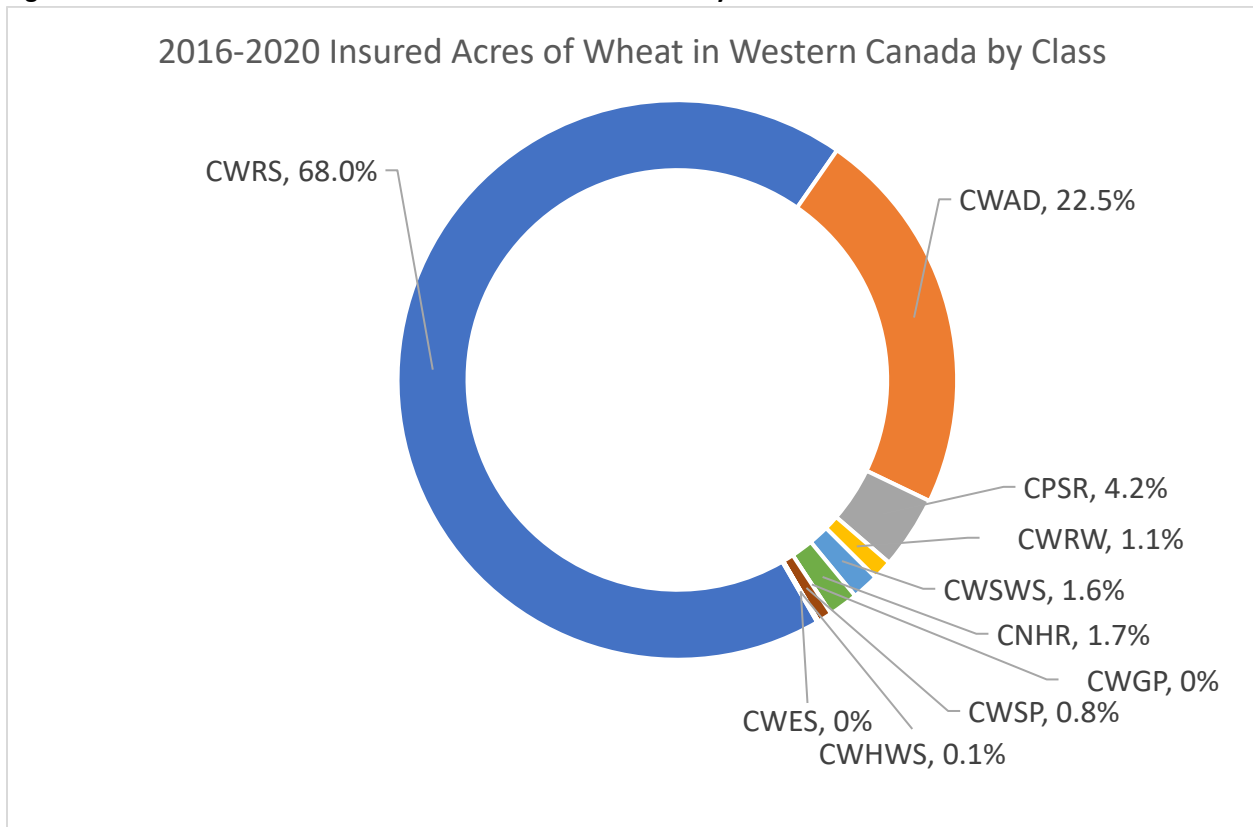
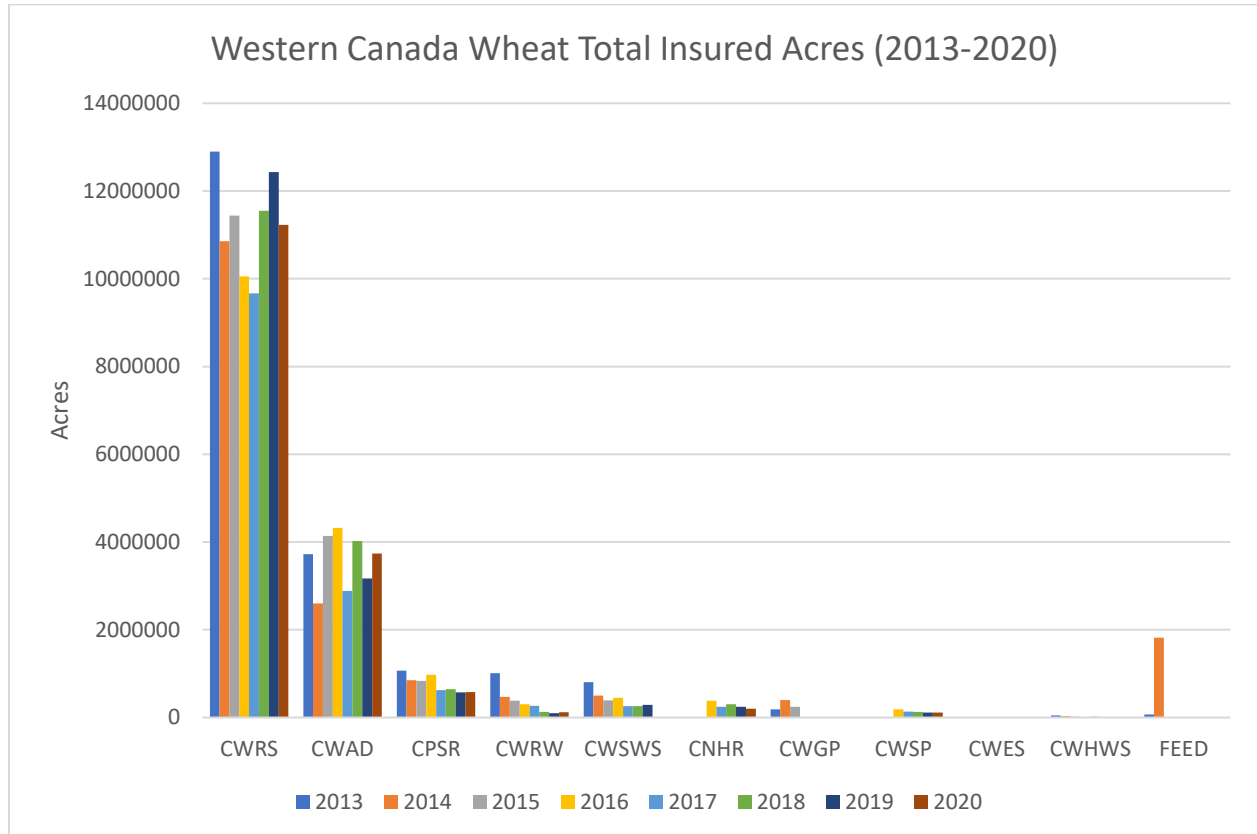




Figure 2 shows the insured acres by year since 2013 demonstrating a clear trend of CWRS and CWAD being the critical classes for western Canadian wheat production. The insured acreage of the other classes (CPSR, CWRW, CWSWS, CNHR, CWGP, CWSP) are declining year over year between this same period.

Figure 2. 2013-2020 Insured wheat acres in Western Canada³



These proportions are also consistent with the rankings of wheat classes for exported volumes. Figure 3 shows that from 2016-2020, on average, of the proportion of exports of Western Canadian wheat, 63% was CWRS, 18% CWAD and 16% other⁴, which represents in essence a blend based on specification (i.e. CPRS+) of other wheat classes, or sales to USA/Mexico with no certificate final. Classes shown as “other” are because there isn’t a critical mass of quantity of individual classes consistently available on a year-to-year basis, and therefore doesn’t make sense to be marketed individually by class. For this reason, sales other than CWRS and CWAD are sold based on specification based on the customers need in-country.



Figure 3. 2016-2020 Western Canadian wheat exports by class⁴

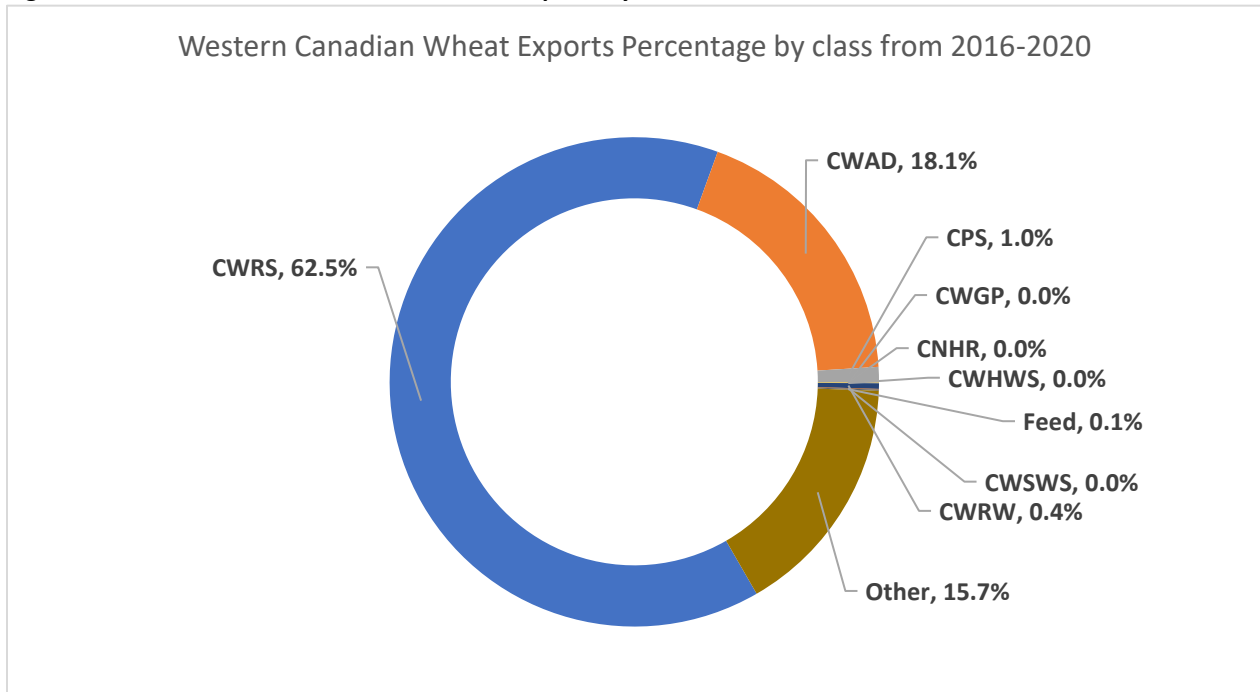
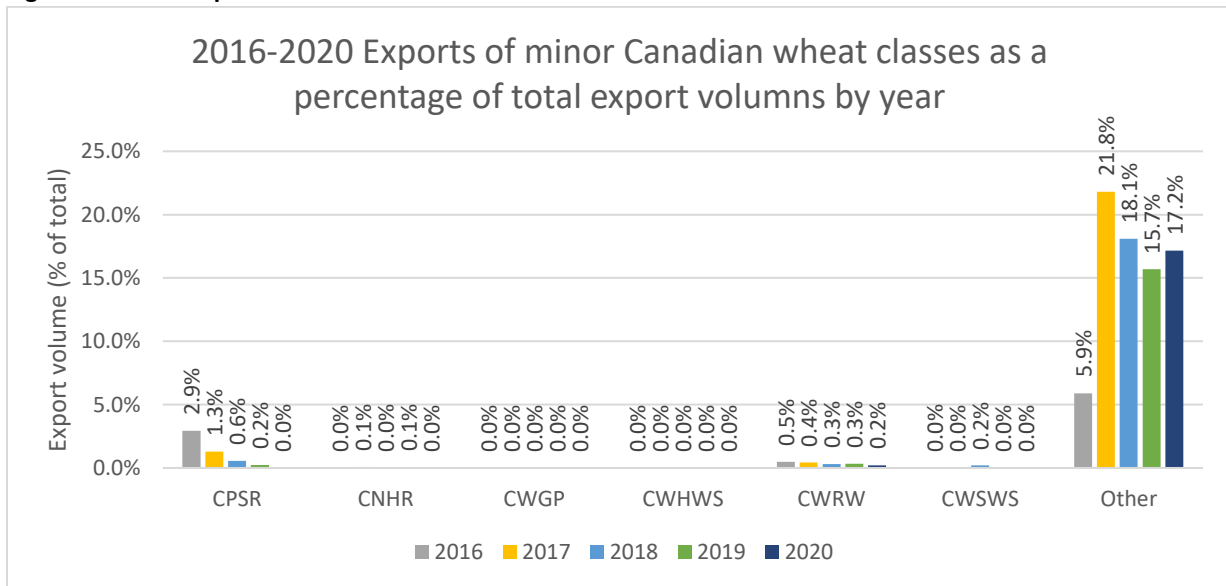


Figure 4 shows more detail on the declining trend of exports by individual minor classes in the past 5 years and “other” shipments⁴, i.e. by specification or shipments to the US/Mexico without a certificate final making up a fair proportion of exports.

Figure 4. Wheat exports of minor wheat classes from 2016-2020⁴





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Given that classes other than CWRS & CWAD are not exported by class, and there are low acres of the other classes grown, there is an opportunity to streamline the western Canadian wheat classification system.

Drivers for Change

According to the 2017 Agriculture and Agri-Food Economic Strategy Report, “the process for grain classification needs to take into account market realities”⁵. Additionally, the Government of Canada 2019 budget indicated that “a broad-based review of the [Canada Grain] Act...will be undertaken to address a number of issues raised by the Canadian grain industry, including...issues with the current grain classification process that unnecessarily restricts Canadian grain exporters”⁶.

Customers that are currently purchasing Canadian wheat are looking into additional options for sourcing medium protein wheat. Particularly, these end users are looking for functionality, consistency, food safety, ethical behaviour, binding contracts and sustainability, which Canada can offer and be competitive with other regions producing medium protein wheats. The design of the current western wheat classification system, with so many classes of wheat, segments the options too much with no benefits to the customers needs as there is not enough supply of the individual minor classes to provide consistent supplies year over year. If a single class of medium protein wheats were to be established, Canada could have a high-quality offering in this medium protein market where demand continues to grow.

Much of the public investment in wheat variety development is in CWRS & CWAD. If Canadian growers saw producing medium protein class of wheat as profitable, then there would need continued innovation, and therefore research investment. Investment in research to boost the yield of medium protein wheats in Canada can guarantee consistent supply and exporters will have the ability to sell by class or as a blend with other wheats to be sold as specifications. This creates an opportunity for the Canadian value chain to meet future demands and meet market realities. As the world population continues to grow, there will be higher demand for staple foods and demand for wheat-based products will continue to grow. Countries that cannot afford to purchase exclusively high-protein wheat from Canada will have an option to purchase medium protein wheat by class or as a blend.

References

¹ <https://www.grainscanada.gc.ca/en/about-us/consultations/wheat-class-modernization.html>

² <https://www.grainscanada.gc.ca/en/grain-quality/official-grain-grading-guide/04-wheat/classes-varieties.html>

³ <https://www.grainscanada.gc.ca/en/grain-research/statistics/varieties-by-acreage/>



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⁴ <https://www.grainscanada.gc.ca/en/grain-research/statistics/exports-grain-wheat-flour/>

⁵ <https://www.ic.gc.ca/eic/site/098.nsf/eng/00022.html>

⁶ <https://www.budget.gc.ca/2019/docs/plan/chap-02-en.html>



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