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# **Standing Committee on Agriculture and Agri- Food**

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**EVIDENCE**

**Thursday, December 6, 2012**

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**Chair**

**Mr. Merv Tweed**



## Standing Committee on Agriculture and Agri-Food

Thursday, December 6, 2012

• (0850)

[English]

**The Chair (Mr. Merv Tweed (Brandon—Souris, CPC)):** Good morning, everyone. Welcome to the Standing Committee on Agriculture and Agri-Food, meeting 61.

Our orders of the day, pursuant to Standing Order 108(2), are for a study of the agricultural and agrifood products supply chain for grains and oilseeds.

Joining us via video conference today from Saskatoon, representing the Inland Terminal Association of Canada, we have Mr. Kevin Hursh, executive director; and from the National Farmers Union, we have Mr. Terry Boehm, president.

Welcome. I am not certain, but I suspect you've made presentations to this committee before. After you make a few remarks, we'll move to committee members for questions. Thank you for being with us.

Mr. Hursh, would you like to lead us off?

**Mr. Kevin Hursh (Executive Director, Inland Terminal Association of Canada):** Thanks very much for the opportunity.

First, I will provide a little background on ITAC, the Inland Terminal Association of Canada. There was a time when the grain handling system of western Canada was dominated by farmer-owned cooperatives. Those days are long past but there are a number of farmer-owned grain facilities and most of them are under the banner of ITAC. Seven Saskatchewan members and three Alberta members make up ITAC, and they have to be at least 50% farmer owned.

I'll run through the members, which will help explain the supply chain and how everything works.

Starting with the Alberta members, there's Westlock Terminals, which is organized as a new generation co-op. It's north of Edmonton in the town of Westlock. There's Providence Grain Solutions, also in Alberta, with a central office in Fort Saskatchewan, a high throughput facility in Gaudin, near Fort Saskatchewan, and other grain facilities at Viking and Crossfield. They've also purchased a facility at Marengo, Saskatchewan. There's Lethbridge Inland Terminal, the first newly built, wholly farmer-owned grain facility in Alberta.

Turning now to the Saskatchewan members, there's Weyburn Inland Terminal, which is one of the largest facilities on the Prairies. They also have some other operations, including a pelleting operation and a majority interest in an ethanol plant. Great Sandhills Terminal is at Leader, Saskatchewan. They also have an old wooden

elevator in the town of Leader. Their concrete terminal is outside the town of Leader. They're also a majority owner in Great Sandhills Railway, which runs from Swift Current to Burstall.

Gardiner Dam Terminal is located near Strongfield, Saskatchewan. Viterra is a partner in that operation. Prairie West Terminal is a facility in the Plenty/Dodsland area; they have a concrete terminal there. They also have old wooden facilities in Dodsland and Plenty which they use for malting barley storage. They own some of the former Pioneer grain facilities in Kindersley and Luseland.

North West Terminal at Unity, Saskatchewan, is a large terminal with cleaning and drying services. There's also a fairly new ethanol plant, North West Bio-Energy, which is right on site. South West Terminal, near where I farm in southwestern Saskatchewan, is located officially at Antelope, which is just a spot on the rail line. It's near Gull Lake, Saskatchewan. They have other crop input facilities at Hazenmore and Cabri. Cargill is a partner in South West Terminal. CMI Terminal is a terminal and crop supply business in the Naicam/Spalding area of Saskatchewan. Viterra is a partner.

Alliance Grain Terminal is a 102,000 tonne export terminal in Vancouver. It's owned by six grain operations, including a number of the ITAC group: Weyburn Inland Terminal, North West Terminal, Prairie West Terminal, and Great Sandhills Terminal. Two other grain companies are also involved in that export terminal at Vancouver. They are Paterson Grain and Parrish and Heimbecker. Not all the ITAC members have direct access to a port facility but these four ITAC members do have a direct stake in Alliance Grain Terminal.

Another player that should be mentioned is GNP Grain Source Group. It's a consortium of seven farmer-owned independent grain shippers, including six ITAC members: North West Terminal, Prairie West Terminal, Great Sandhills Terminal, Providence Grain Solutions, Lethbridge Inland Terminal, and Westlock Terminals. GNP Consulting is a subsidiary of GNP Grain Source Group, and it manages rail logistics and transportation issues for all those members.

There's a case where a number of farmer-owned facilities have got together to purchase the consulting services of an expert in the logistics chain.

With respect to some of the issues that have legislative ramifications, changes to the Canada Grain Act, of course, are speeding through Parliament. ITAC welcomes the removal of mandatory inward inspection. We believe that's a good move in the changes to the Canada Grain Act.

With respect to mandatory inspection, in many cases, when grain goes from a terminal on the Prairies to a port facility, often reinspection doesn't make any sense, particularly if that grain is going to the same owner. If the grain is going from North West Terminal to Alliance Grain, for instance, it's all under the same ownership. If they want to have that grain reinspected, they can do that and then pay for that service, but removing the mandatory need to, we believe, was a good move.

In ITAC's opinion, outward inspection should not be mandatory either. That's a change we would like to have seen.

In a number of cases the overseas customer buying grain doesn't want the services or the grading of the Canadian Grain Commission. They want another service they rely on, for instance, SGS. Therefore, we believe making outward inspection by the Canadian Grain Commission mandatory is not serving the system well.

Within the changes to the Canada Grain Act, we believe the activities for the public good have not been extended far enough. In other words, things such as the Canadian Grain Commission's grain research lab, their policy functions, and their food safety role are for the public good. In our opinion, those should be funded by taxpayer dollars and not by farmers' dollars. Since those are part of the system that has to be paid for largely by the industry, that means user fees, which will be increasing dramatically on August 1, are much higher than they need to be. Even though those are paid by grain shippers, they are ultimately paid by farmers. We believe the public good aspects of the Canadian Grain Commission should be expanded. We hope the Canada Grain Act will be reopened at some point in the near future for continued modernization.

Before letting Terry have his turn and then opening it up for questions, rail service legislation is the other main point I want to talk about.

This has been eagerly awaited not only by ITAC but by the entire grain industry and the entire shipper community, whether for coal or potash or any of the other major commodities that go by rail. The belief among all the shippers is that service level agreements are necessary to level the playing field.

Most of the grain elevators, especially with ITAC, may have only one terminal on either CN or CP rail. Rarely do they have a choice between the two, and rarely do they have another mode of transportation that's going to make sense to get grain to an export position. Therefore, they are not in a very strong bargaining position with the railways, and the current system is very one-sided.

The railway will say that they're going to drop 100 cars on Monday and that they need to be filled within the eight-hour day, or that they want to take those cars away on Tuesday, so you scramble to get your people in place to make sure you're ready to load those 100 cars. But then the railway doesn't drop them off on Tuesday; it doesn't happen until Wednesday. There are really only 50 cars that come, and three of them leak. If you don't fulfill your role as a grain

shipper, you don't get your incentive rate. However, if the railway doesn't do what it says it's going to do, there are no ramifications the other way.

The legislation, as we understand it, would make it mandatory for the railways to sit down and negotiate service level agreements, commercial agreements with ramifications if you don't perform. That's what ITAC members want and what the entire industry says it wants. It wants predictable performance and balanced accountability.

The other point I will quickly make is that good logistics are very important. Currently the federal grain monitor, which is Quorum Corporation, compiles statistics. However, they tend to be well after the fact. There's a need for current, ongoing information to monitor the entire logistics chain to see where problems are developing. Information is necessary to make logistics work, but it needs to be current, and it needs to be widely available. There is worry that with changes to the Canadian Grain Commission and the changes that have occurred to the Canadian Wheat Board, there are likely to be more information gaps in the future.

In closing, the logistics system has worked well this fall. There were worries that changes to the Canadian Wheat Board could cause a number of bottlenecks. It has actually been a very good fall for grain movement. There were a number of factors involved in that, but we know there will always be instances where we run into difficulties and things do not work as well. We want to have a system in place that can get us through those rough spots, and the most important point is balanced accountability between shippers and the railways.

● (0855)

Thanks very much for this opportunity. I look forward to answering questions later.

**The Chair:** Thank you.

Mr. Boehm, welcome.

**Mr. Terry Boehm (President, National Farmers Union):** Thank you.

I'm the president of the National Farmers Union. For those who aren't familiar with it, it's a voluntary, national, direct membership organization composed of farmers from across Canada. We're the largest voluntary national farm organization. Farmers actually have to pay directly and become members. We're wholly financed by memberships and donations from members. There's very little outside financing.

We believe that small and medium-sized family farms should be the fundamental food-producing units in Canada. Our mandate is to work for economic and social justice for those farmers.

In reference to today's committee hearings, I'd like to introduce the topic in a couple of ways. Part of it is a historical reference. At settlement time, particularly in the prairie west, essentially we had an adversarial grain handling system: farmers and this monopoly of railways—CP was a monopoly at the time. They colluded with their own grain company, Ogilvie Mills, and farmers were regularly cheated on grade, stockage, etc.

As a function of that, farmers agitated, and in recognition that it was in the general interest of the economy of the country as a whole, there was essentially a mildly forced collaboration system created, in which all sectors of the handling system collaborated. An important part of that were: the Manitoba Grain Act, and then the Canada Grain Act of 1912, the creation of the Canadian Grain Commission, and other institutions later on, such as the Wheat Board. The cooperative grain elevator systems created their own pooling system and central selling agency to mitigate the effects of those who would extract excess revenues from farmers.

Now we're systematically dismantling that collaborative system, under the guise of buzzwords like "modernization", "rationalization", and an assortment of pieces along that line, and really are recreating an adversarial system where farmers fundamentally end up paying for all of the costs in the system, as they always have. In that system, it allows for the maximization of profits at the farmers' expense, on the rail side, on the grain handling side, etc.

We've seen rationalization take place where, in the Prairies, we've gone from approximately 5,000 elevators to which farmers could deliver—Mr. Hursh can probably give the exact number—to approximately 200 delivery points. At the same time, we've seen the costs for elevating the grain, taking it from farmers, elevating it and placing it on rail cars, rise substantially. We've seen transportation costs rise substantially, even though we've had a rationalized rail system and branch lines abandoned.

One of the key factors in maintaining profitability and the reputation of Canadian grains and oilseeds has been the Canadian Grain Commission, because it has a reputation in its assorted auditing processes, of which inward inspection is one of them, of making sure we have quality product, dependable product, as the mandate states, for domestic and export purposes.

Now, how do you maximize profits in the system? Well, you reduce costs; you eliminate competition; you create guaranteed revenue streams through legislated protection; and you externalize costs. In the so-called value chain, there are a number of factors both on the input side and on the marketing side that farmers deal with. Those include machinery, fertilizers, chemicals, fuel, seeds, seed cleaning, land, education, and organization costs. On the output side from the farm, they include on-farm storage, trucking, grain handling, the Canadian Grain Commission, rail transport, terminals, exporters, and ocean freight.

● (0900)

Essentially, there are costs in the system regardless of how you organize it, but there are inefficiencies and oligopolistic behaviour which ultimately cost the farmer more.

My colleague, Mr. Hursh, cited the issues with railway service. That has been an ongoing problem, although we take a little bit of a

different tack. We feel that the statutory requirements—the statutory obligations, the railway service obligations—are important and that if we move into a totally commercial arrangement and ultimately the two railways are the only game in town, our negotiating ability will be diminished, and they will establish a fee for service that again will transfer costs to farmers.

I mentioned legislative protections. In the past, we have had, and still have for the moment have, the Canadian Grain Commission and other institutions, but what we're increasingly doing is creating profit centres, particularly in seed, by the utilization of plant breeders' rights, patents, and an assortment of modifications to the variety registration system that create a very successful shift from a public good varietal development and seed system to a private system, at a great cost.

I'll cite one example. The Roundup Ready patent that Monsanto has is now over 20 years old. If you look at just the prairie canola crops, just those, you'll see that they've been achieving approximately \$100 million annually over the last 16 to 17 years for that patent. Surely we could create much more innovation by investing that money, maybe in public research institutions, etc. That's coming directly out of farmers' pockets.

We've seen consolidation take place in the grain handling system and the trucking system options, the machinery companies, the fertilizer companies, the chemical companies, and the seed companies. That has all led to increased costs for farmers. Again, this has been part and parcel of a competition policy that hasn't been very aggressive in Canada and that seems to think one or two players is adequate competition. Farmers, at the end of the day, pay for that.

The balancing of power has been critically important. The Canada Grain Act was one of those pieces. At the Canadian Grain Commission, we used to have the car allocation policy group and an assortment of mechanisms that actually created efficiencies in the system, but they have been jettisoned for so-called modernization. Again, if you look at the balance sheet, costs go up. These costs have been externalized. Farmers are carrying tremendous amounts of debt; this figure is a bit dated, but it's \$65 billion.

We've talked about the Canadian Grain Commission. We believe the inward inspection piece should remain mandatory. The fundamental reason we believe it should remain mandatory is that if we look at the past, we'll see that often grain was bought in the country and, miraculously, when it got to terminal position, it became a better grade. In 1909, there was a million-bushel differential in the crop. That isn't of the scale that we produce now. Grain bought as number two or three in the countryside became number one at the terminals.

What it also does is it acts as a quality assurance mechanism, both internationally and domestically, in detecting contamination, whether it be animal feces in the crops, chemical contamination, treated grain perhaps, admixtures, etc. This has been very important, because we have several disadvantages in Canada, including the distance to tidewater, and quality has been our ace in the hole in marketing. On outward inspection, one of the key pieces about the Canadian Grain Commission is that it's mandated to act in the interests of the grain producers.

• (0905)

Private companies like SGS, etc., would not see the interests of the grain producers in their transactions as being key to the services that they provide.

**The Chair:** You have one minute, Mr. Boehm.

**Mr. Terry Boehm:** Okay, I'll just wrap up by saying that all of these policies we're seeing are really turning back the clock without looking at the entire public good, the economic cost-benefit analysis taking place. We see it where we're paying excess contributions in the railway freight rates of \$100 million. I cited the \$100 million just on one patent going out. It's \$200 million on just two items out of the Prairies, and the list goes on and on.

Thank you very much.

**The Chair:** Thank you.

Mr. Atamanenko, go ahead.

**Mr. Alex Atamanenko (British Columbia Southern Interior, NDP):** Thank you, gentlemen. It's nice to see you here at this virtual meeting.

First of all, Terry, I want to congratulate you and your executive. I wish you all the best this year. It was certainly a pleasure being at the conference a few weeks ago. Welcome, Mr. Hursh.

We're talking about the supply chain. There are a couple of topics that come to my mind and which you, Terry, have explained before. I noticed in the publication at the convention there was a kind of year-end review, and you talked about the Canada–European trade agreement. In addition to listing all the other issues I've been concerned with, you talked about stripping farmers of the right to save seed. I'll be honest with you; it's something that I hear about but don't know a lot about. I know there's an issue with UPOV 91 versus UPOV 78. I hate to say this, but it's a kind of “Saving Seeds for Dummies”. I'd like to know exactly what's going on here. Could you explain that?

If I have some time, I'd like to get some idea of your context with Australia, with some of the folks who went down there. I'd also like

to get a really good handle on what your concerns are with saving seeds in this whole supply chain.

• (0910)

**Mr. Terry Boehm:** That's one input that farmers are fundamentally able to supply themselves. From time to time, they'll buy new varieties and multiply them on the farm. Unfortunately, it's also massively profitable on the input supply side, if you can generate control and force farmers into buying all their seeds every year. Currently, we have plant breeders' rights legislation based on UPOV 78, which essentially is silent, but it allows farmers to save and reuse protected varieties of seed on their farms.

There's a push to move to UPOV 91. One of the great concerns we have with UPOV 91 is that it has a so-called farmers' privilege, which would allow farmers to save and reuse seed, but at the behest of the government. It wouldn't be the customary agricultural practice that farmers have engaged in for all of time.

Also, it would give the owner of that plant breeders' right exclusive rights to control both the conditioning of the seed and its stocking. Conditioning is the cleaning and treating of that seed, and stocking is the bagging and storing of that seed. If those rights holders exercise that exclusive right, farmers could be cut out of the game altogether because they aren't going to plant unclean seed on their farms. That control over the seed cleaning element is critical. If they can't store or stock seed without permission, they're stuck buying seed at a very high cost. We look at GM canola for example, and we're paying \$10 or \$11 per pound for that seed, for a \$13 or \$14 a bushel seed.

Additionally, UPOV 91 would give the rights holders the ability to collect what's called cascading rights or downstream royalty collection. They could collect royalties not only on the sale of the seed but also when farmers deliver their grain. At any point in the food system, they could make a claim, which again would probably encourage those we sell to, to offer proof that we've produced that seed from purchased seed, certified seed, etc., over time. That will drastically increase the cost to farmers.

We sent a letter to the Government of Canada—

**Mr. Alex Atamanenko:** Terry, I'm sorry, but I want to interrupt for a second.

What's the difference on the ground between now and if this comes into effect in a couple of words?

**Mr. Terry Boehm:** The difference on the ground would be that farmers could very well lose a big chunk of their ability to save and reuse seed, which would drastically increase costs.

The deans of agriculture at 10 universities suggested that 10% of farmers' gross income should be spent on seed and that's outlandish.

**The Chair:** Thank you.

Mr. Richards.

**Mr. Blake Richards (Wild Rose, CPC):** Thank you, Mr. Chair, and thank you both for joining us today. I have some questions for each of you.

Mr. Boehm, I was curious when you mentioned in your opening remarks that most of your money comes from farmers and donations, and membership fees to your union. You mentioned you had very little outside funding. I'm curious as to where the outside funding comes from. Can you give us examples of where that outside funding comes from?

• (0915)

**Mr. Terry Boehm:** A little bit from time to time may come from other NGOs that will assist us in a particular research project or something in that regard. It's very—

**Mr. Blake Richards:** Do you have examples of that for us?

**Mr. Terry Boehm:** Some of that would come from organizations like Inter Pares. It would amount to maybe \$10,000 in the entire annual budget of the organization.

**Mr. Blake Richards:** There is one other question to which I would ask you to give me a fairly brief answer. It's about value-added processing. Obviously, value-added processing has the opportunity to increase profits for farmers, create additional revenues, and improve the value chain in the process.

Can you give me some examples of how your members would currently benefit from value-added processing?

**Mr. Terry Boehm:** One of the myths about value-added processing is the assumption that it automatically benefits farmers, and especially in the grains and oilseeds industry, until value-added domestically would consume more than our entire crop, essentially, the price of those crops is determined by international markets. We benefit a little bit perhaps on domestic feed barley sales from the cattle industry. The hog industry is a good example. It was touted as its saviour—

**Mr. Blake Richards:** I'm sorry to interrupt, but I don't have a lot of time.

**Mr. Terry Boehm:** Okay.

**Mr. Blake Richards:** Are you suggesting that you don't believe value-added processing would offer opportunities for farmers? You don't think there'd be extra profits in it for farmers at all?

**Mr. Terry Boehm:** If they're direct participants in the value-added system, otherwise, our prices are generally determined by—

**Mr. Blake Richards:** So it is possible that you believe the value-added processing could provide value to farmers under the right circumstances.

**Mr. Terry Boehm:** Well, certainly, in certain respects, but not as much as is generally believed.

**Mr. Blake Richards:** Sorry, I don't have that much time, so I'm going to have to move on, but I do appreciate that.

Mr. Hursh, on the same topic, value-added processing, does your association have any members or partners that are involved in value-added processing? Do you see it as having a role in helping to increase profits for farmers?

**Mr. Kevin Hursh:** Yes, and the best examples would be some livestock pelleting plants, and some specialty crop processing and cleaning operations.

The ethanol plant, especially the one at North West Terminal Ltd. at Unity, does very well. It's not a large ethanol plant, but it provides ethanol and there's an incentive for smaller plants.

There are also some things in the woodwork that I can't comment on, but I know there's some investment being made in further processing by one of the players that will come to light in the next while.

Since those terminals are majority farmer owned, that value-added processing does directly benefit producers.

**Mr. Blake Richards:** Well, I certainly appreciate those examples.

In your opinion, do you think that the changes that we've made in terms of the Canadian Wheat Board, obviously, creating an open market rather than that monopoly, increases those kinds of opportunities for farmers? Do you think it makes them more feasible?

**Mr. Kevin Hursh:** I don't expect a great increase in malting production with barley or a great increase in flour milling.

I think many of the processors would prefer to deal in an open market and that might slightly lever in favour of more operations. However, I don't think the Canadian Wheat Board was as large an impediment to value-added as some people believe. Although, the main value-added function is canola crushing. About half of our canola is going to domestic crushers. That has been where we have made the most progress. But I think that's just a case of the economics being right. I don't think the Canadian Wheat Board being involved seriously impeded those economics.

I do believe that potential processors would prefer to deal directly with farmers in an open market. I should also note that among the ITAC membership and the farmer directors, there was a wide variance of opinion as to whether the CWB monopoly was a good thing, or whether its time had passed. There was a wide divergence, and ITAC did not have a position on how the Canadian Wheat Board should evolve.

• (0920)

**The Chair:** Thank you.

Mr. Valeriote.

**Mr. Frank Valeriote (Guelph, Lib.):** Mr. Hursh and Mr. Boehm, thank you.

Kevin, thank you for that balanced answer. I remember hearing about the Alliance Grain Traders who were going to suddenly open up a plant out west, and as soon as the Canadian Wheat Board was dismantled, all of a sudden there was no opportunity out there to open up a plant to make pasta.

Having said that, Kevin, I am getting a mixed reaction and mixed messages from farmers and lobbying groups about the rail service agreement. On the one hand, I hear cars are still damaged, there's leakage, and they are not showing up on time. Then, I hear that at this particular point in time, things are running very well and the trains and cars are on time. There may not be such a concern expressed. Could you enlighten us—briefly, because I only have so much time—on the issue of the railcars and the railway again?

**Mr. Kevin Hursh:** Certainly. The system has worked reasonably well this fall, but this fall has been a little different. We had a very good harvest season, so we have a fairly narrow grade. We don't have this wide proliferation of grades and a bunch of grain that's damp. That helps the system. We didn't grow a monster crop either. Crop yields were trimmed back, so the volume to be moved is somewhat down. Probably shipments of other commodities such as potash are down as well, which allows more room in the system to move commodities such as grain.

We're really pleased that grain movement has been relatively good. We don't want an unbalanced system. We just want a balanced accountability. In any agreement between parties usually each has obligations and if they don't fulfill their obligations, there are penalties or reasons to push them back into compliance. That's what we would like.

**Mr. Frank Valeriote:** May I interrupt? The stakeholders have been able to come to their own agreement on a rail service agreement or on a dispute resolution clause. I'm wondering, has anybody indicated to you the expectation of when the government will present legislation to impose one on the stakeholders?

**Mr. Kevin Hursh:** It's my understanding from the news I've seen that the government is ready to introduce its rail service legislation, and that we will get a first chance to see it by the middle of this month. You're in Ottawa, and I am not. I'm sure you have much better information than I do.

**Mr. Frank Valeriote:** Actually, we don't have any better information. We're very much looking forward to the introduction of that agreement.

Terry, I'll ask you something. It's very interesting, the public good versus private profit. We're moving away from the public good. I hear that on the issue of innovation, less money being spent on public research. You seem to allude to it when you talk about outward and inward inspection. Is there a risk to the determination of quality of our grain through the changes to inward or outward inspection?

**Mr. Terry Boehm:** The quality aspect parameters are established by the Canadian Grain Commission. The question is if you don't have an auditing process to ensure those parameters are indeed respected, which inward and outward inspection does, then you can very quickly run into quality issues.

Even with our system of inward inspection, we have run into that where boatloads have been rejected due to contamination with deer feces, etc. If you catch these things before they contaminate large lots, which inward inspection offers the possibility to do, you prevent those issues, and you maintain a reliable quality product. You can still maintain quality, but reliability may be an issue. That's one of the issues the Americans have with their system, which isn't

as robust as ours. It's actually competing with us on quality and reliability.

● (0925)

**Mr. Frank Valeriote:** Okay. Finally, on the issue of public research which I alluded to earlier, a number of people have expressed a concern that the government is withdrawing its investment in public research, the public good versus private interest. Can you expand a little on that? Do you share that concern?

**Mr. Terry Boehm:** Absolutely. We've seen at all sorts of the institutions, particularly in plant breeding, cutbacks taking place. Breeders are leaving institutions for other pastures, and we put ourselves at peril. When we talk about innovation, it's innovation to what end? We feel that publicly financed innovation that's equitably and cheaply distributed to farmers and to the economy as a whole generates the maximum value for Canadians. If you allow it to be financed up to a point and then transfer it over to the private sector to be sold back to us, again, with intellectual property regimes which are going to be strengthened in the Canada-European trade agreement drastically with enforcement provisions that make one pale, that comes at a cost. That costs not just farmers but it costs the economy as a whole.

The question is whether you think it's appropriate to allow that amount of money to go to the largest players in the seed industry—the Monsanto and Bayer and DuPonts, etc.—or whether you want to develop that and shift it to farmers and benefit Canadians as a whole through the activities of farmers.

**The Chair:** Thank you.

Mr. Storseth.

**Mr. Brian Storseth (Westlock—St. Paul, CPC):** Thank you very much, Mr. Chair.

I have to apologize for the overly partisan comments from my colleague from the Liberal Party, a kind of Johnny-come-lately to the whole shipping issue.

I have to clarify a couple of points. The level-of-service discussion actually emanates from the shippers' bill of rights, which Mr. Hursh will be very familiar with and which I was working with ITAC on back in 2007. The legislation eventually passed in 2008, under the expert guidance of our chairman of the transport committee at that point in time, who today is the chairman of the culture committee. From there we discovered the level-of-service agreement issues that needed to be done, and have been moving forward from that point in time. I think this is a very important aspect of the transportation industry, about how the supply chain works for our grains and oilseeds producers.



Mr. Hursh, in regard to the level-of-service agreement, further to the comments of the Liberal Party, our government has been very clear that we would put forward legislation before the new year. Those are public statements that have been made in the media. I know that your organization, as well as many other shippers, have been dealing with the government, and have been part of the process with Mr. Dinning.

Could you talk about some of the important aspects of the level-of-service agreement that you are hoping to see come forward, such as the ability to have certain elements brought forward? Could you talk about some of those issues, Mr. Hursh, that are most important to ITAC terminals?

**Mr. Kevin Hursh:** I guess it will be interesting to see how it rolls out and whether each individual shipper has to do their own negotiation, or whether groups of shippers or a whole industry will be able to use some sort of template agreement to come to some resolution when dealing with the railways, that these are our obligations, and these are their obligations, and how this will be monitored and what the system will be in place if one or the other side believes that their partner is not living up to their agreement. ITAC is a—

**Mr. Brian Storseth:** If I could just interrupt for one second, just so we can dig down a little bit, would you agree that one of the most important aspects is that every shipper has the ability to get a level-of-service agreement from the railways?

**Mr. Kevin Hursh:** Correct. That's the problem. The railways basically walked away from the table in the Dinning process, saying that they were not going to play this game, that they were not going to voluntarily enter into agreements with shippers. That's why the hammer was legislation saying that they will have to sit down and come to a commercial arrangement.

• (0930)

**Mr. Brian Storseth:** You would also agree, then, that the second most important part of that is that there is some accountability mechanism put in place so that the railways will have to abide by the level-of-service agreement that they agreed to with each shipper, recognizing that every shipper is not going to get the same level of service, but that the agreement they get needs to have some mechanism of enforcement. Would you agree with that?

**Mr. Kevin Hursh:** For sure, there has to be some level of enforcement. The difficulty will be to make it timely and accessible so that it doesn't take six months or a year and a great deal of cost to try to get to the point at which there's a resolution.

**Mr. Brian Storseth:** Cost-effectiveness, of course, is another aspect. We don't want to have to go back to group FOA, or some of those other aspects that were required in the past.

Would you also agree that one of the concerns the shippers had... I'm trying to gauge what you feel for ITAC users would be the most important aspects. You've identified the need for a level-of-service agreement for every shipper, understanding that the actual details will be different with each shipper, because not every shipper has the same ability to provide their details or commitments moving forward, and they need to have an easy mechanism by which to hold railways accountable to that level-of-service agreement.

There's another aspect I would like to raise that I have some concerns with, and which shippers raised with me, and I'm not sure it's even plausible. I am referring to the level of service or the standards that we, as Canadians, put on, being enforced as our grain goes across other borders. I'm not sure it's even possible for us to impose our rules on, say, the Americans or the Mexicans. Would you agree with that?

**Mr. Kevin Hursh:** I would, in principle. I'm not quite sure what you're getting at there.

**Mr. Brian Storseth:** It has been one of the statements I've heard as I sit down with shippers. They often say if they could get everything, they would like these rules to be set across the board. Of course, in our first commitment we make here to shippers, I'm not sure that's going to be possible.

Do you think that's as important as making sure we have accountability and level-of-service agreements in the first place?

**Mr. Kevin Hursh:** I think level-of-service agreements are really what we're after.

**Mr. Brian Storseth:** Okay, perfect.

The last thing I'd like to quickly mention is the fleet. You have suggested there is a deterioration of the fleet, and we've heard that in the ag committee before. Could you confirm whether you're talking about only the railway's fleet of grain cars, or are you talking about the government's fleet as well?

**Mr. Kevin Hursh:** Generally, I'm not sure it matters whether it's a government-owned car or a railway-owned car. You do hear complaints about those not being in good repair. I don't have any statistics or anything quantitative to really put an edge on that at all.

**The Chair:** Thank you.

Mr. Allen.

**Mr. Malcolm Allen (Welland, NDP):** Thank you, Chair.

Mr. Hursh, both you and Mr. Boehm have said the same thing, and we've actually heard it from a number of folks using the same term: CGC and the public good. Would you take a moment to give me a sense of what you believe is that public good which the government should basically fund, if I can use that term, rather than having your organization and your members or farmers having to pay for that particular piece? Then I'll ask Mr. Boehm to do exactly the same thing.

You may have divergent viewpoints on other things, but you certainly seem to have the same viewpoint on what is determined as a public good. I'd like to see if you both agree on what you determine the public good to be.

**Mr. Kevin Hursh:** The grain research laboratory is a real gem that the Canadian Grain Commission has. It does a lot of great work and puts quality parameters around each year's crop. For instance, if that were moved from the Canadian Grain Commission to Agriculture and Agri-Food Canada, and considered a research mandate and funded as research, that would take that cost out of the system. Maybe it shouldn't be; you would have to work closely with the Canadian Grain Commission. But either way, if it were funded entirely through government contributions, that would take that cost out of the system.

The Canadian Grain Commission has to do things related to food safety. It has to do things related to policy development. All of those things should be considered part of the public good. If you went through all of that, rather than 7% or 8% or 10% of the budget being considered public good, it should be 20% or 25%. It would take millions of dollars of costs out of the system that then wouldn't have to be collected from shippers and farmers in user fees. I think other countries have done a better job than we have in getting those costs out of the system.

• (0935)

**Mr. Malcolm Allen:** Terry?

**Mr. Terry Boehm:** I think the Canadian Grain Commission with the grain research laboratory, etc. is a very low-cost institution. It has an annual budget of about \$80 million. Up until this year, about \$25 million was contributed by the federal government. The function of the grain research laboratory is extremely important to the Canadian Grain Commission and the country in the determination of grades, quality factors, and ultimately the end-use quality of grains. Critical in all of this is if you hive off pieces of the Canadian Grain Commission to other areas like Agriculture Canada, then it's also subjected to those same cutbacks, etc., and you risk losing it entirely. This is critical.

Critical to the Canadian Grain Commission's is that mandate, in the interest of the grain producers. That grain research laboratory, all of those pieces, are fulfilling that mandate. What the grain producers do is in the public interest. If we benefit economically, it gets spread throughout the country. The Canadian Grain Commission should be financed by tax dollars, at least a portion of it, because it's for the public good.

**Mr. Malcolm Allen:** Kevin, you mentioned earlier that you would like to see the removal of the outward inspection. You'd rather see it be a commercial enterprise. I think that's a commercial contract between buyer and seller. If that were the case—and in the inward situation it is the case—if CGC offered that commercial service, would you be pleased that this might be an alternative beyond SGS or anyone else who's in the private system?

**Mr. Kevin Hursh:** I guess the position is that mandatory outward inspection should be removed.

The Canadian Grain Commission should and could still have an accreditation role for any third-party inspections. If you have a country, let's say Brazil, and they decide that this customer in Brazil wants a certificate from some third party, and that's what they desire for the grain purchase, why do you mandate that the Canadian Grain Commission also must charge, under the new user fees, \$1.60 per

tonne, when that cost is much higher than what the private inspector will want and it's not desired by the purchaser?

In cases where it isn't required, or isn't useful, let the buyer and seller decide what service it is. Let the Canadian Grain Commission oversee it. But the Canadian Grain Commission charges under the new user fees of \$1.60 per tonne are about four times what a private inspector will charge to do the same job, because the Canadian Grain Commission has all these overhead costs that must be recouped through user fees.

**The Chair:** I have to stop you there.

Mr. Zimmer.

**Mr. Bob Zimmer (Prince George—Peace River, CPC):** Thank you for presenting today to the committee.

Terry, I have a question for you. In the past the NFU has been a little cautious about marketing freedom for farmers, or dual desk, as you would possibly refer to it.

I'm from the Peace area of B.C., so I've talked to farmers in the west. We have a lot of grain and canola where I'm from, and I've heard a lot of positives on the new system. I just wanted to know, from your and your members' perspective, what has been their response since August 1 to the new marketing freedom for western Canadian farmers?

• (0940)

**Mr. Terry Boehm:** I think it's too early to tell in many respects. We've had a unique situation where we have relatively small grade spreads. An awful lot of the crop hasn't been marketed yet, and we're in a situation where we have buoyant prices, the result of droughts in the U.S., Russia, and elsewhere. Our members still understand that the single desk, just like the consolidation that takes place in the fertilizer industry and machine companies and grain companies, gives them economic power and that ultimately their returns over time will likely be diminished.

**Mr. Bob Zimmer:** Are they doing worse this year than last?

**Mr. Terry Boehm:** The prices are not determined entirely by single desk or no single desk, or voluntary or otherwise. We have droughts that have created relatively buoyant prices. For the moment, farmers are getting high prices, but you can't attribute that to marketing freedom or a voluntary board.

**Mr. Bob Zimmer:** It's been a good start, I must say.

Kevin, can you comment on the new marketing freedom or dual desk system? You've made a few comments about opportunities that are out there. Can you comment, on behalf of your members, what their opinions have been on the new system?

**Mr. Kevin Hursh:** ITAC members are handlers of Canadian Wheat Board grains, in fact, disproportionately so, because for a private terminal without international connections handling Canadian Wheat Board grains—and the Canadian Wheat Board was doing the marketing—you just get paid for handling. It was a good deal.

Now, with a voluntary Canadian Wheat Board, which I don't think is doing nearly as much business as they had hoped to do as a voluntary board, certainly it's a big adjustment for ITAC members. ITAC members are the ones that aren't associated with a larger grain company and haven't gone and hired a bunch of staff to send them overseas to kick tires and find sales. They make deals with other people at agricultural expositions. There are many mid-size and large grain companies and interests that they can access.

In the transition, certainly, there's been a lot of adjusting and a lot of figuring out how it's all going to work. By and large, grain movement through the ITAC facilities has been fine and they seem to be adjusting well. I don't hear a whole lot of complaints about terminal access for the ones that don't have access to their own terminals.

Those commercial agreements seem to be in place. The transition, frankly, has happened with far fewer difficulties than I would have predicted.

**Mr. Bob Zimmer:** I'd like to ask Terry another question that's attached to marketing freedom, and that is, value-adding domestically. You mentioned you had some concerns and that it didn't necessarily benefit farmers.

Value-adding also provides Canadian jobs. I would ask you, is it not a benefit to add to the Canadian job pool by value-adding here domestically? Is that not a positive?

**Mr. Terry Boehm:** Absolutely.

What I nuanced was that you couldn't necessarily make a direct link to increased profitability to farms because of value-adding because we're selling at world market prices in general.

**Mr. Bob Zimmer:** I'd like to ask Kevin another question and maybe Terry as well if we have time. It's about rail.

Kevin, you mentioned some concerns. I've had personal conversations with Mr. Mongeau of CN. He assured us that they're working on some of the problems that are on the Prairies and tried to allay our fears.

Nevertheless, I hear concerns even today that there are still significant issues on the Prairies. It's not just with farmers; it's with other producers of natural resources, for instance.

Can you comment on what those issues are specifically? You talked about there being 50 cars instead of 100. What is the typical problem on the Prairies that you see? Can you give us a few examples? Maybe you could mention a possible remedy for that as well.

We know some of the car fleet is hurting too, as my colleague, Mr. Storseth, referred to. I suggest that the fleet needs to be rebuilt. Can you comment on some of those problems on the Prairies with railcars, please?

**The Chair:** I'm going to give you about 25 seconds to do so.

**Mr. Kevin Hursh:** It's about communication and coordination. The railways claim that they're very modern and know where everything is happening. They don't seem to communicate when they have a problem. They don't seem to be able to coordinate things. A lot of it has to do with efficiency and getting things where they need to be on time.

● (0945)

**The Chair:** Thank you.

With that, we'll close the first hour of our meeting.

Thanks, gentlemen, for being with us today. We appreciate your input into our discussions.

We're going to suspend for two or three minutes while we seat our new guests.

● (0945)

(Pause)

● (0950)

**The Chair:** Welcome back for part two of the meeting.

Joining us now, from the Canadian Grain Commission, are Elwin Hermanson, chief commissioner, and Gordon Miles, chief operating officer.

We have a witness joining us by video conference and I'll introduce him when he gets to his chair.

Mr. Hermanson, please. You know the drill.

**Mr. Elwin Hermanson (Chief Commissioner, Canadian Grain Commission):** Thank you, Mr. Chair.

Good morning. *Bonjour.* We want to again thank the committee for giving us the opportunity to meet with you today.

Allow me to make a couple of introductions. First of all, I'm Elwin Hermanson, the chief commissioner of the Canadian Grain Commission, and I've been in that position since 2008. I'm from Beechy, Saskatchewan, where I have a farm. I'm joined by Gord Miles, who is the chief operating officer for the commission. He coordinates and oversees the delivery of the programs, services, and activities of our corporate services, industry services, and grain research laboratory divisions.

It's only been a few weeks since we last appeared before this committee. I recall I was in a bit of a rush that day because I had to catch a train. I have lots of time this morning, so that's good.

We mentioned at that time that the grain sector is at a pivotal juncture, when public policies and regulatory structures need to keep pace with the rapid changes in the marketplace. I think that message needs to be reinforced again today to policy-makers and legislators such as yourselves. The government has taken significant steps on this front, first with the removal of the Canadian Wheat Board's single desk, and now with the proposed amendments to the Canada Grain Act.

In this spirit, I'm pleased to inform you that on November 30, the Canadian Grain Commission ended a consultation on proposed changes to our user fees. We are now reviewing the feedback received during consultation, and we propose to implement a new fee schedule on August 1, 2013, which will reflect a more streamlined and cost-effective Canadian Grain Commission.

I'd like to put the commission into context within Canada's grain sector. I'll talk a bit about our mandate, our organization, and our role in the areas of grain quality assurance, grain research, and market access.

The Canadian Grain Commission reports to Parliament through the Minister of Agriculture and Agri-Food Canada, the Honourable Gerry Ritz. Our organization is led by three commissioners. As well as myself, there is an assistant chief commissioner and a third commissioner. We are national in scope, with employees across Canada. The amendments proposed in the jobs and growth act will further streamline our operations.

Under the amended Canada Grain Act, the Canadian Grain Commission will continue to be mandated to establish and maintain standards of quality for Canadian grain for both international and domestic markets. We will continue to regulate grain handling in Canada and work to ensure that Canada's grain is a dependable commodity. Our mandate will continue to cover 21 grains. At present, we are funded through a combination of appropriations and user-fee revenues, though going forward we expect our operations to be funded primarily through user fees.

Grain is graded visually by highly trained inspectors. We set grain grades and standards. These have a scientific foundation, based in research conducted in our grain research laboratory. We regularly review standards to ensure their continued relevance. The eastern and western standards committees are a key part of this review. Members include producers, grain handlers, processors, exporters, and representatives from government agencies. The committees consider grading issues and make recommendations to us. Grades are important because they establish grain quality and facilitate fair transactions for producers. They also reflect the end-use characteristics required by our customers and ensure the consistency of product from cargo to cargo and from year to year.

We also play a role in grain safety and grain safety assurance. We screen, monitor, and certify grain shipments to assure that export cargoes meet international safety tolerances. Our laboratory is able to test for pesticide residues, trace elements, mycotoxins, fungi, and moulds.

We also assure that weights are accurate at terminal elevators. The correct weight of grain that is loaded to a vessel is recorded on the certificate final issued at export. Speaking of the certificate final, it indicates the official Canadian Grain Commission grade and weight, and it assures that a cargo meets contract specifications. In 2010-11, we inspected over 30 million tonnes of Canadian grain for export. So far this year, we have inspected 351 vessels of Canadian grain that have gone overseas from various ports in Canada.

● (0955)

Our grain research laboratory, which is located at our national office in Winnipeg, supports quality and grain safety assurance. Our

researchers study how grain quality is measured, and they develop new ways to measure grain quality. They also evaluate grain-grading factors. They study new uses for Canadian grain. I can give you as an example the use of durum in Asian noodle products. They develop new technologies and methods for assessing end-use quality, and they also develop new methods for monitoring the safety of Canadian grain.

We take part in the Canadian Food Inspection Agency's variety registration process in which new cultivars are evaluated for disease resistance, agronomics, and quality. As part of quality evaluation, our researchers and inspection experts evaluate the end-use functionality of new cultivars. As well, we designate new wheat varieties into a class. Our work helps to ensure that all registered varieties within a class perform consistently for end-users.

When international market issues arise, we provide technical support through our grain research laboratory and our industry services. We are the official government authority with expertise in sampling, grading, grain safety, and laboratory testing processes. Again, I can give you a recent example of our market access support regarding the Triffid incident with Canadian flax. We work with the European Union, Japan, and Brazil to develop protocols for flax shipments to ensure continued access to these important markets.

A big and important part of our mandate is to protect the interests of Canadian grain producers, and we do this through several activities. Through our "subject to inspector's grade and dockage" service, we give producers a way to solve disagreements about the grade they receive at licensed primary elevators.

We also provide producers with access to producer cars to ship their grain. We work with the railways to negotiate for cars, and this gives producers control over the movement of their grain. In 2010-11, we processed applications for just over 14,000 producer cars. This crop year, and we're about halfway through it, we have processed 6,796 applications to date.

We provide payment protection. Briefly, when producers have delivered grain to a licensed primary elevator and they have not yet been paid, they can make a payment claim. We pay eligible claims out of security posted by the licensed elevator. We cannot always guarantee 100% payment for all eligible claims as liabilities may, on occasion, exceed security. However, the amendments proposed in Bill C-45 would improve producer payment protection by creating the opportunity to move to a new insurance-based system under which protection coverage may be improved.

We also provide services like the submitted sample service and the harvest sample program, which give producers important information about their grain, such as grade, dockage, moisture, and protein.

Finally, we serve a variety of clients by providing information to the grain industry. We publish quality data and statistical information, and we maintain current information on our website. I would encourage all members of the committee that if you have a moment or two—and I know you're very busy—to review our website. We think it's an excellent site that contains a lot of very useful information not only for producers and other stakeholders in the industry, but I'm sure for this committee as well.

Also, our experts are available at trade shows, and we provide a lot of tours at our national office for domestic stakeholders and international visitors.

In closing, I'd like to thank you, Mr. Chairman, for the opportunity to present to you and the standing committee members. The grains sector, as I mentioned, has entered a time of fundamental change. The Canadian Grain Commission is committed to effectively delivering grain quality and safety assurance, quantity assurance, research, and producer protection both now and in the future. We are committed to continued development of new and innovative regulations and policies to serve the interests of producers and the entire grain sector.

It is a pleasure to share that information with you briefly. We're certainly open to any questions from any of the members.

**The Chair:** Thank you.

Mr. Atamanenko.

• (1000)

**Mr. Alex Atamanenko:** Thanks very much, Elwin, and thank you very much, Mr. Miles, for being here.

I want some clarification here. According to the new rules for the Canadian Grain Commission, there will be no mandatory inward inspection; however, there will be voluntary inspection if folks want it, under contract with some private people.

Last week Mr. Otto was here. He was asked whether he felt the Canadian Grain Commission could be one of those commercial players. In other words, as I understood it, could it be one of the organizations that a farmer would turn to, to get that inward inspection?

Do you think that's possible? In previous conversations we were led to believe that would not be possible because of the organization's structure.

If farmers and farming organizations would like to have the option of using grain commission inspectors for that, do you think there might be a way of making that happen on a voluntary basis?

**Mr. Elwin Hermanson:** Mr. Atamanenko, that's an excellent question.

First of all, when it comes to inward inspection, it's very rare that producers can request an inward inspection because producers have already received settlement for the grain; the grade and price have been determined. The only exception would be producer cars, and that's where inward inspection will be required to establish a grade.

Yes, we've been asked to review the possibility of an optional inward service. That concept has been considered but it's very difficult, given the fact that we expect the amount of inward inspection to be reduced substantially because most grain flows from companies' inland facilities, their primary elevators, to their own terminals. The producer is already satisfied with grade and price, and for us to have a component of staff available on call for a service that would not be required very often doesn't fit with a government agency such as the Canadian Grain Commission. However, you're correct, in that the act does allow for us to authorize others to provide that service.

The key ingredient here is that if there is a problem, if there is a disagreement and either the shipper or the terminal is not happy with the grade assessed by either their own staff or a third party, we have the power under the act, as it's amended, to arbitrate that situation and provide a final grade and dockage in the case of there being a disagreement.

**Mr. Alex Atamanenko:** In other words, you have the ability to retain that quality control.

**Mr. Elwin Hermanson:** We do.

**Mr. Alex Atamanenko:** I have another question about something we haven't talked about a lot. From my own understanding, grading is done visually. Is it the KVD system?

**Mr. Elwin Hermanson:** No, there used to be kernel visual distinguishability in western Canada. It was about the only part of the world where it was still used, and that was discontinued back in 2008, I believe.

**Mr. Alex Atamanenko:** What is used now?

**Mr. Elwin Hermanson:** We still use a visual system. Kernel visual distinguishability was a requirement that if new varieties were brought forward for registration, particularly wheat varieties, they could only be registered if you could visually distinguish them from varieties in other classes. In other words, you had to be able to distinguish the difference between a hard red winter wheat and a hard red spring wheat, and that made it difficult for the breeders of new varieties to use all the tools. They wanted to bring the best varieties forward. That was discontinued some time ago.

In its place a declaration system was adopted by the industry, so now when a producer delivers wheat to a primary elevator they declare to which class it's going. That's a legal document. They will say that they have hard red spring wheat, or hard red winter wheat, or some other class of wheat. They will sign a written declaration at the beginning of the year and they will orally reinforce that declaration upon each delivery of grain. That has allowed wheat breeders more flexibility in bringing forward new varieties.

**Mr. Alex Atamanenko:** Has there been any problem with the new system, or is it working quite well?

**Mr. Elwin Hermanson:** It's working quite well. There's always the odd time something happens, but part of the responsibility of the Canadian Grain Commission and the grain research laboratory is to monitor that incorrect varieties are not placed into the wrong class by the grain handling system. Some of that occurred in very small amounts prior to the change. We still see that on some occasions, but there has been no sudden shift to a greater problem. It's one of the strengths of our system that we've been able to maintain.

• (1005)

**The Chair:** I have to stop you there. Time flies when you're having fun.

Joining us now from Saskatoon, we have Mr. Gust.

Thank you for being here. We've had opening comments, and I'll ask you to make yours briefly, then we'll go back to questions.

**Mr. Gerrid Gust (Chair, Western Canadian Wheat Growers Association):** I'm very sorry for being late. The roads were horrible and traffic was atrocious.

Thank you for the opportunity to provide our views on the supply chain for grains and oilseeds in western Canada. The Western Canadian Wheat Growers Association is a voluntary farm policy organization with a 43-year history of advocating open and competitive markets and a history of promoting innovation and liberalized trade. Our guiding principles are the sustainability and profitability of the entire agricultural sector.

In my presentation today, I will give you a sense of my farm and common practices in western Canadian agriculture. I will then transition to some of the challenges we face and the changes in government policy that we feel are required to achieve the profitable and sustainable ag sector we are all striving for.

On our farm we grow a standard mix of dryland crops, including wheat—spring, winter, and durum—lentils, peas, canola, and rye. We generally market about 40% to 50% off the combine and into the November shipping season. The balance we sell throughout the cropping year, matching sales to market opportunities, selling to meet cashflow requirements and generally doing what we feel is best for our specific operation.

We are very fortunate in the Davidson area to have two high-throughput elevators and a small older wooden elevator, as well as access to high-capacity roads so we can haul full weights and tether all that.

Within 100 kilometres, we have access to seven major export terminals as well as canola crush facilities in Clavet and Yorkton. We have lentil-splitting plants in Regina and Moose Jaw, an ethanol

refinery in Belle Plaine, and feedlots, both large and small, throughout the trading area.

I feel that competitive pressures keep everyone honest and it is my job as a farmer to keep abreast of the best market opportunities in my area and around the world. What keeps me awake at night are things beyond my control and more in your sphere of influence.

International trade is the lifeblood of prairie agriculture. Canada's population is too small and our land mass is too large to be dependent on supplying only our domestic market. As well, international trade brings much needed foreign dollars into our economy. For that reason, we the wheat growers have been very supportive of governments of all stripes to push forward on bilateral and multilateral trade deals.

These treaties are necessary for predictable trade and commerce for our raw and processed goods at deals that other countries enjoy. We hope to see the Canada-EU trade deal completed soon so that Canadian farmers have access to this important market, not just for grains, pulses, and oilseeds, but also for meat and meat products. Also, Canadian consumers would get access to all the EU has to offer us. Trade must be a win-win situation.

Canada's entry into the trans-Pacific partnership is also welcome news for Canadian farmers. Again, we hope the negotiations will ensure that Canada remains on equal footing with other exporting nations, such as Australia and the United States, in our ability to access some important Asian markets.

Another concern is rail transportation. As a farmer in southern Saskatchewan, which is over 1,500 kilometres and a mountain range away from Vancouver, and coincidentally less than 1,500 kilometres from Thunder Bay, it is absolutely essential that we have predictable and timely access to ports serving both the east and west coasts.

It is a common problem in Davidson and across western Canada that we have elevators fill up with grain, expecting their regularly scheduled train to arrive, yet it doesn't show. This has a ripple effect across the supply chain. Elevators are plugged, terminals can't fill, boats can't load in time, and our reputation as a reliable supplier to the world is tarnished.

As the primary supplier, all these costs and inefficiencies are pushed back to us. Added to that is the risk that buyers won't see Canada as a reliable shipper, so low expectations are built into a lower bid back to the farm.

●(1010)

To deal with these issues, the wheat growers would like to see Parliament move forward with legislation that requires railways to provide a level-of- service agreement to shippers. These service agreements must include performance-based incentives and penalties if we as shippers don't fulfill as well. Right now grain companies must pay a penalty to the railways if they do not load a train on time. Railways should face equal penalties if they fail to spot or pick up railcars on time.

Another problem we face is crippling railway work stoppages. Rail is vital to the economic prosperity of Canada. In our view, rail services should be deemed an essential service, with strikes and lockouts prohibited.

Another problem we see with the supply chain which we need to have addressed is restrictions that prevent the loading of ships in the rain at the port of Vancouver. If it rains more than five millimetres, the union shuts down its employees, citing safety concerns. This leads to costly and unnecessary delays and contributes to congestion at port. We understand that ships load in the rain in Portland, Oregon, and around the world. There is no need for Canadian farmers to be put at a competitive disadvantage.

We ask that this committee research this proposal, research the concerns around safety, so that somehow a solution can be found.

The main take-aways from my presentation are trade deals and competitive access to the international marketplace. We encourage governments to stay the course on bilateral trade deals that lower trade barriers and open new markets for our produce. Railways and shippers must be held to commercial terms, where penalties are equally applied to both sides. Railways need to be deemed an essential service.

Ports not unloading in the rain cost the Canadian economy millions in lost opportunity and productivity. If solutions have been used successfully around the world, why can't we in Canada adopt best practices?

Again, on behalf of our wheat grower membership, thank you for the opportunity to share our views. I look forward to your questions.

**The Chair:** Thank you very much.

Mr. Lemieux.

**Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC):** Thank you very much, Chair, and I thank our witnesses for their presentations.

With respect to the Canadian Grain Commission, you've done a good job outlining the essential services you provide in terms of grain quality, safety, research, etc. In fact, I visited your website. It is a good website. I was looking through the different types of research, both crop research and technology research, that you are engaged in. It's very nicely laid out.

You made a comment with respect to being in support of innovative regulations and policies to move the grain sector ahead in terms of service and competitiveness. We've heard from witnesses recently who have said that further changes are required in order to modernize the Canadian Grain Commission.

I'm wondering if you could share with the committee what legislative changes you would see would add value to the Canadian Grain Commission and help it in terms of the important and essential work it does for the grain sector here in Canada.

**Mr. Elwin Hermanson:** Thank you, Mr. Lemieux. It's an excellent question. It's one that the commission has grappled with for decades.

When I assumed my position and did some research, I found that for quite some time, committees, other professional research groups, and other stakeholders, had a lot of input into what the Canadian Grain Commission should look like and what we should be.

I don't want to get into the policy area because it's the role of parliamentarians to do that, but the minister has suggested that further changes are required to streamline the Canadian Grain Commission and to make it what it should be. In the consultation processes we've been involved with over the last couple of years, we have heard from stakeholders. Even in this last consultation, to which I referred, the response has been that the job is not yet finished. I can report that to you.

An area under consideration, which we hear a lot from our stakeholders and producers about, is that we should move from three commissioners to a president, appointed by the Governor in Council, in order to streamline the top level of the Canadian Grain Commission.

A non-binding decision review mechanism should be established to review CGC decisions. There's a debate on whether it should be something like that or whether there should be a board that makes us larger rather than more streamlined. There are complications around a board which I think a lot of stakeholders are concerned about, and they see the other process being a wiser move.

Authority should be provided to oversee the existing system of declarations in the grain handling system. I referred to that. So far, that's an industry initiative, but there's no government endorsement or authorization of that process. It could be placed within the Canada Grain Act. It seems to be the right fit and the right place because that's the kind of role we play.

The Canadian Grain Commission should be allowed to use the Administrative Monetary Penalties Act. The CFIA and the PMRA have access to that act, but we don't. It makes it very difficult for us to enforce the act. We have to be persuasive, or else we have to be heavy-handed, and there's nothing in between, and we're hearing that.

The subject to inspector's grade and dockage service should be extended. That's one of the producer protection instruments we have. That should be extended beyond not only primary elevators but also to process elevators and grain dealers. Currently, the playing field is not perceived to be level. Farmers have that right when they go to a primary elevator, but if they're hauling their canola to a process elevator or hauling their wheat to a flour mill or some other processing facility, they don't have access to that right. Grain dealers, who are particularly involved in the special crops area, aren't required to submit to that producer protection.

There are a couple of other points. Perhaps a new class of licences for operations such as container loading operations could be created. The last time the act was overhauled, no grain was shipped by container. Now, 10% to 15% of the grain exported from Canada is shipped by container. The act is silent on that, at the current time.

Also, the CGC's role in collecting and disseminating statistical information should be clarified. It's deemed very important. We've consulted with the industry, and they very much want to remain in place our statistics which are published weekly, monthly, and annually. Statistics Canada appreciates that information. Again, with some of the changes and modernization within the industry, we need to have it clearly established how we do that because things have changed a bit.

Finally, the role of the CGC with respect to grain safety should be clarified. We find that customers of Canadian grain, both domestic and foreign, are more focused on grain safety than they've ever been. That is our responsibility as part of grain quality assurance. Perhaps the act could clarify that a little more clearly.

• (1015)

**The Chair:** Thank you.

Mr. Valeriote, go ahead.

**Mr. Frank Valeriote:** Thank you, Mr. Gust, Mr. Hermanson, and Mr. Miles.

Mr. Gust, thank you for your presentation.

My question is about value-added processing. I agree with you that we need to open markets. There's no question that's important. I understand there are a lot of tariff barriers and non-tariff barriers that keep us from exporting a lot of our processed goods, with other countries preferring our unprocessed resources and produce.

My concern is that in the last six years, we have had a 10% reduction in people working on farms and a 10% reduction in farm operations. We have a migration of people from rural areas into urban areas. I think we need more processing going on in rural areas, or urban areas, frankly, supplied by farmers.

Can you tell me what opportunities exist to expand processing? What should government be doing to encourage processing and value-added processing so that we can make our rural areas more robust?

**Mr. Gerrid Gust:** Thank you for the question.

To expand processing, I think the very best thing we could do is encourage safe food. It's absolutely critical. As Elwin said, we could encourage open market access on an equal playing field with every

other competitor around the world and provide a really strong, healthy, economic climate. I don't think incentives are necessary. I think they distort the market and are not something we should do.

Farms are becoming larger and more efficient. Land has been shooting up in value throughout western Canada. In the past 18 months, the price has probably gone up three times what you would have paid back then. We really have to be aware that it's a strong, competitive market. There are young people coming back to the farm because there's now profitability in agriculture. I think that profitability is largely dependent on open markets, competitive business climates, and a real stepping back of the government to provide fair rule playing, making sure everyone plays by the rules, making sure scales are accurate. I don't see a larger role than that.

• (1020)

**Mr. Frank Valeriote:** Government doesn't have a large role, but do you believe there should be more value-added processing in the industry?

**Mr. Gerrid Gust:** Absolutely, we need more processing, even in the livestock sector. That's the original value adding. If somehow we can make that attractive and competitive to world markets, that would be a great start, as well as durum, canola, lentils. Everything helps.

**Mr. Frank Valeriote:** Thank you, Mr. Gust.

Mr. Hermanson, I understand you were a former member of Parliament.

**Mr. Elwin Hermanson:** I was. Once upon a time I even sat on this committee.

**Mr. Frank Valeriote:** That's excellent. You understand the value, then, of public good and public research. We've had a number of people express to us a concern about a decline in the investment in public research, as opposed to downloading it to private industry for profit. I understand there's a balance, but do you share that concern, that there's a reduction in the government's commitment to public research?

**Mr. Elwin Hermanson:** Thanks, Mr. Valeriote. Certainly, you're correct. It's an issue that we've heard a lot about over the time we've been consulting on the current legislation, our user fees, and even previous consultations. As a public servant, I can't comment on what my opinion or that of the commission would be. Our job is to receive that information and to provide that information to our minister and to the committee, but—

**Mr. Frank Valeriote:** Okay, if you can't comment on it, let me—



**Mr. Elwin Hermanson:** —what I can say is we have heard, as you heard from previous witnesses, that the public good is a component that needs to be evaluated. That's something the government has to do. We follow directions. In the current plan—

**Mr. Frank Valeriote:** Quickly, can I ask you another—

**Mr. Elwin Hermanson:** —there is about \$5 million of public good—

**Mr. Frank Valeriote:** Perhaps I could ask you another question, as I only have a certain amount of time.

You said that protection coverage may improve. We've talked about this before, insurance as opposed to bonding. Perhaps you could quickly explain. Is bonding required? Is it mandatory right now? Where are you headed with insurance? Will it be mandatory or will it be voluntary, in order to secure payment?

**Mr. Elwin Hermanson:** Security is mandatory now, not always in the form of bonding. There are other financial instruments. We are currently reviewing an insurance model. We haven't finalized that process, but it's our understanding that it will still be mandatory for licensees to make the system work.

**The Chair:** Thank you.

Mr. Payne.

**Mr. LaVar Payne (Medicine Hat, CPC):** Thank you, Chair.

I have so many questions, I almost don't know where to start. We have such a magnanimous chairman, maybe he'll give me an extra minute or so.

**Mr. Pierre Lemieux:** He will; I'm sure he will.

**Mr. LaVar Payne:** Thank you, gentlemen, for being here and also by video conference.

My first question is for the Canadian Grain Commission.

What synergies already exist between the CFIA and the Canadian Grain Commission when it comes to variety registrations? What would the benefits be of having the CGC play a greater role in variety registrations?

**Mr. Elwin Hermanson:** Certainly, we have a long history of cooperation working with the CFIA because, while I won't say our roles overlap, they border each other. We're involved in common phytosanitary issues and, as you mentioned, the variety registration is probably the area where we have to work most closely together.

The CFIA is responsible for the registration of new varieties, but much of the work, and almost all of the work, when it comes to determining end-use functionality and the marketability of new varieties, is under the mandate of the Canadian Grain Commission's research lab. If new varieties, particularly of wheat and barley, are approved, then it's our determination as to which class of wheat or barley those grains would fall into.

The other debate is over seed because seed is part of grain quality assurance. The CFIA is concerned about safety. They're concerned about imports of other varieties. We're concerned about Canadian production and making sure we have that grain quality assurance system in place, and that it works well.

We feel that if we have a better grain quality assurance system than other countries, it offsets somewhat our disadvantage of being farther removed from many of our markets. The Canadian Grain Commission has a greater role, I would say, in market access issues. Variety registration and making sure we monitor variety identification in our grain handling system, which is our responsibility, means we need to be aware and have the DNA maps of new varieties.

We play a significant role. I guess it's up to policy determinators, such as yourselves, as to how that moves forward, whether we play a greater role or not. If we're asked to, we can because we have the scientific expertise. Currently, we try to cooperate and work well with the CFIA.

•(1025)

**Mr. LaVar Payne:** The Canadian brand has a significant role in this whole process, I take it.

**Mr. Elwin Hermanson:** The Canadian brand is extremely important. We've been very successful in maintaining that. It's the reason many foreign customers buy Canadian grain, because they can usually get it closer. Oftentimes, they can get it cheaper, but for a lot of the blends that they need for their flour, they need the certain types of quality that we have.

Our variety registration system and our grain grading system means that they can consistently, shipment after shipment, receive exactly what they want, so that they can put it into their mills, into their bakeries, and have a product that their customers will buy.

**Mr. LaVar Payne:** Another comment we heard was about outbound shipments and the potential for private inspections. From your point of view, would that have an impact in terms of the Canadian brand?

**Mr. Elwin Hermanson:** I think we have to be very cautious in that area. There may be some possibilities to do some things along that line, but there are a couple of things.

First of all, companies may ask why they have to have the Canadian Grain Commission do outward inspection when the customer says he's happy with an SGS inspection. If there's ever a problem, it's not just companies that become involved; governments become involved. The EU becomes involved or MAF, the ministry of agriculture and forestry, in Japan becomes involved. Suddenly, they're looking at who's on record on the Canadian side. What government body do they look to in order to resolve this issue? They don't go to SGS and they don't go to Intertek. They go to the Canadian Grain Commission. If we have no role, it's very difficult for us to provide the services that we have provided in the past, that offer market access strength to Canada.

This is old news, perhaps not as relevant anymore, as it should be, but the Americans in the 1970s—I don't know the exact year—tried getting out of outbound inspections as a government agency and they had a wreck. Some shippers were adding water to corn, for instance, and it was growing by the time it got to the unload. Why that happened, I don't know. Perhaps there are other checks and balances we could put in place. But we have to be very cautious that we don't tamper with what has given us our Canada brand at the current time.

**Mr. LaVar Payne:** Well, I think—

**The Chair:** I have to stop you there. I'm sorry.

Madame Raynault.

[*Translation*]

**Ms. Francine Raynault (Joliette, NDP):** Thank you, Mr. Chair.

Thank you very much to our witnesses for being here this morning.

My question is for Mr. Gust.

You manage a number of products. We know that a lot of grain is exported around the world, that competition is stiff and that you have to have a good sense of marketing in order to sell your products. What are the greatest challenges faced by your organization?

[*English*]

**Mr. Gerrid Gust:** I think the greatest challenges for marketing and international access are knowing what's out there in the world and being very cognizant and very aware of our market advisers. I pay a lot of money to have good market advice to know what's happening around the world.

I also talk to different farmers from Australia and the United States. I talk to other farmers who talk to farmers in South America. It's a very connected world. It's something we all have to be better at, but it's also something in which information overload can happen very quickly.

We all have to be very aware that every farm is unique and so different that there's not a one-size-fits-all solution. We have to have the skill sets and the desire to learn so we can move forward in this business.

• (1030)

[*Translation*]

**Ms. Francine Raynault:** In your presentation, you talked about shipment by boat. You said that sometimes a boat can stay blocked in the port for several days and that the producers pay the price. What are your losses when a boat is idle for several days before departure?

[*English*]

**Mr. Gerrid Gust:** I guess the proper term for that is demurrage. That would probably come out of the company's bottom line, but they would try to pass those losses back to me and every other producer filling the next boat. They have to build in extra profit margin to handle uncertain risk. In any business risk certainty and business certainty are crucial. If there is any extra risk, you add that to your margin.

As a primary gross producer, I cannot pass along that margin, so we have to do our very best to get the best price, the best basis at the time.

[*Translation*]

**Ms. Francine Raynault:** Why are the boats waiting in the port? Why don't they depart as soon as they are loaded?

[*English*]

**Mr. Gerrid Gust:** I think the best reason would be grain not being in position to be loaded. Something such as a railway strike, an avalanche, or an act of God that was completely unpreventable might have happened, so we have to be aware of those things.

There are also things like the loading of the ships. If it rains in Vancouver—which it does; we checked. In Vancouver, about 20% of the days have over five millimetres of rain. It doesn't rain all day, but you have to be able to address those problems, whether it means putting tarps over the vessels or using smaller spouts. It's a problem which is being addressed around the world. It seems that the safety concern is something of a red herring. You go into work, work for 15 minutes, and it starts to rain, which it does in Vancouver every day, and then you go back to work when it stops raining. It might not stop. All of those costs are passed back to exporting farmers.

[*Translation*]

**Ms. Francine Raynault:** We know that the agrifood chain works differently depending on the sector. What are the weak links in the supply chain of your industry, where international trade is concerned for example?

[*English*]

**Mr. Gerrid Gust:** Where are the weaknesses in the supply chain? Market access is always a big one, if we can't go in at an equal or preferential trade rate.

In the case of Japan, soybeans versus canola is a great example. Soybeans have a better import tariff than canola does going in so it simply takes more off the table for an equivalent product. We can expand upon the health benefits of canola, the ease of use, the high Canadian quality, but it's all dollars and cents for these processors. They need so much vegetable oil, and we have to be able to get into those markets at equal or preferential rates.

**The Chair:** I have Mr. Richards, but I think Mr. Storseth is going to take the first minute, and that's probably all we're going to have time for.

**Mr. Brian Storseth:** Thank you very much, Mr. Chair.

I have one quick question for Mr. Hermanson. As I'm having meetings with my producers, the issue of the increase in outward inspection has come up. I do know there will be some cost savings with the elimination of inward inspection, but could you comment on that, please?

**Mr. Elwin Hermanson:** Certainly, Mr. Storseth.

The Canadian Grain Commission's fees were frozen in the mid-1990s at 1991 levels. You don't have to be a brain surgeon to realize that's going to cause some issues when you're mandated to provide services under the Canada Grain Act. In other words, it's the law of the land.

That's why there's been mounting pressure, first of all, to deal with our fee structure, and second, to deal with the act. Changes to our fee structure would help resolve the imbalance where the taxpayer has been providing an increasingly larger portion of our funding base. The regulatory changes in the act would look at our services to make sure they're relevant to the industry today.

The overall result of these two processes is that some services we are currently providing are deemed with the changes, the rationalization, the changes in marketing, not to be necessary or mandatory, the main one being inward inspection, and that would save about \$20 million for the sector. Some of the other cost savings have to do with changing our security program. We have to balance that with the fact that to maintain a grain research laboratory, which I think everyone understands plays a huge beneficial role to the industry, and to preserve the Canada brand, which is again a great asset for producers, much of our funding will come from outward inspection.

To justify having a grain research laboratory, or to pay for a grain research laboratory, and to preserve the Canada brand, we have to charge a fee that provides us with the revenue, with some amount of public good funding as well, to serve the industry. The result of that is while we're saving \$20 million, roughly, in streamlining, there is an increased cost to the industry because we can't continue at 1991 levels with taxpayer subsidies for the other services that we must provide. We're seeing an increase in outward inspection fees as being the most significant one.

● (1035)

**The Chair:** Thank you.

With that, I'll thank our guests for being here today.

Mr. Gust, thank you. We appreciate your efforts to get in. We understand the weather is a little crazy in Saskatchewan.

Thank you very much, gentlemen.

I'm going to suspend the meeting for a couple of minutes. We're going to go in camera. We have some committee business that we have to deal with.

I wish you a merry Christmas and a happy new year. Thank you.

*[Proceedings continue in camera]*

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