

Information Note

COMPONENT PRICING OF CANOLA BASED ON OIL CONTENT

Summary

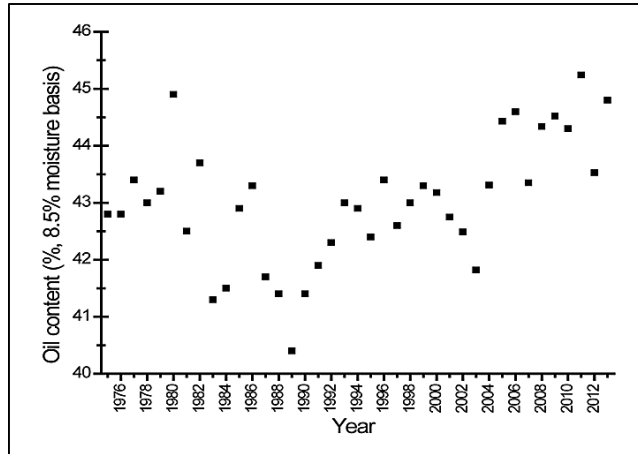
- Component pricing for canola, based on oil content, in a most basic form would likely set a base level of oil content (for example 43%) and then apply a bonus / deduction for each increment (for example 1%) above or below. Component pricing could apply to other quality parameters as well (such as moisture, admixture, etc.)
- Currently, the process for delivery and payment of Canadian canola is relatively straightforward. It is graded on delivery (e.g. No. 1 or No. 2) using largely visual / mechanical standards at a given price as per a contract. Differentials in offered price (e.g. regionally, crushers, etc.) and the basis reflect the demand for high oil.
- To date, CCGA has not taken an official policy position on the issue. The issue has been researched and discussed in 2013-14.
- To implement component pricing would require a major and coordinated shift of the entire Canadian canola value chain, with risk for all parties. Prices are reflective of a global market and it cannot be assured that in the end producers would receive more. With a structural change and more pricing “transparency”, in the end it could result in a zero sum game.

Background

Canada

- Component pricing for canola, based on oil content, received increasing levels of attention in fall 2013, in part due to consistently strong average oil % characteristics in Canadian canola.
- There is a perception / view point that producers are “giving away” or “leaving dollars on the table” under the existing contracting and pricing structure.
- Although, in general terms, average oil content trends in Canola has been incrementally increasing over the years, in any year there exists a wide range of average oil content by provinces and regions across Western Canada, largely due to agroclimatic conditions.
- As illustrated by Canadian Grain Commission data, the mean oil content from the harvest sampling varies annually and there is annual variation provincially and regionally across the Prairies as well (see below Figures 1 through 4).
- The Canadian Grain Commission publishes annual data on quality characteristics of canola. This information may be found [here](#).

**Figure 1 - Mean Oil Content from Harvest Survey
Canola No. 1 (1975-2013)**



**Figure 2 – Mean Oil Content from Harvest Survey
Canola No. 1 (2002-2012)**

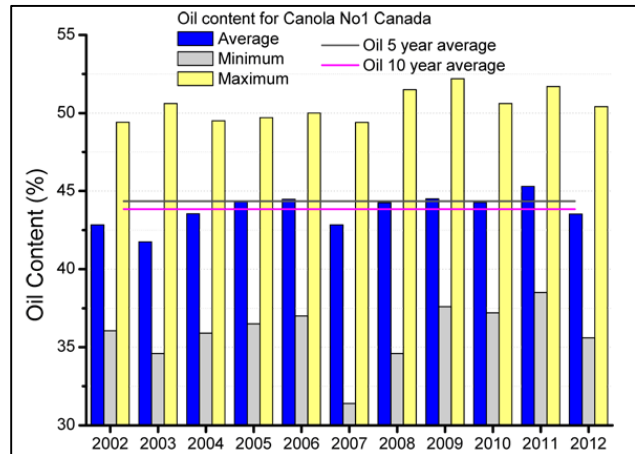


Figure 3 - No. 1 Canola – Mean Oil Content (2007-2013)

	2007	2008	2009	2010	2011	2012	5-yr Avg.	Nov 2013 Prelim
Manitoba	41.6	43.5	43.5	43.2	44.2	41.6	43.20	44.0
Saskatchewan	43.3	44.6	45.3	44.7	45.4	43.9	44.78	45.6
Alberta	44.4	44.5	44.2	44.6	45.6	43.9	44.56	45.1
Western Canada	43.4	44.3	44.5	44.3	45.2	43.5	44.36	45.2

Figure 4 – 2013 Harvest Survey Program (as of November 1, 2013)

	Mean	Low	High	Δ (range)
Manitoba	43.9	37.9	49.1	11.2
Saskatchewan	45.4	39.1	50.2	11.1
Alberta	45.0	38.3	51.0	12.7
Western Canada	45.0	37.8	51.2	13.4

International

- Under component pricing structures in Australia and the United Kingdom, producer payment is based on not only oil %, but other quality specified parameters. Australia’s base is set at 42% oil, while UK is 40%. Component pricing was introduced in Australia by the industry to improve the quality of product to better compete globally. Canada’s canola consistently viewed as being the leader in global quality.
- In Australia, their system of “bonification”, which is a commodity standard used across the country was established in the 1990’s by the Australian Oilseed Federation (an industry association) and was set at 40% oil content. This was done in part to incentivize the use of higher yielding varieties. In the early 2000’s, it was increased to 42%. The current oil content standard has a 42% base with 1.5% premium / deduction per +/- 1% from base. Free fatty acid and moisture content are graded on a bonification system as well. All quality tests are done on the truck at elevator prior to unload (3-5 minutes) and producer can

choose to accept grading parameters or deliver elsewhere. Producer receives payment 30 days following delivery. Additional information may be found [here](#).

- In the United Kingdom, component pricing has been used since the 1980's. There are four "on arrival" variables that affect the price: the base market price, oil content, moisture and admixture. The current oil content standard has a 40% base with 1.5% premium / deduction per +/- 1% from base. Moisture and admixture content are graded on a component system. Admixture and moisture are determined at unload and the producer is notified via text message / email of the result, while oil content is determined at an offsite laboratory and results are provided to merchant / crusher and producer within several days. Producer received payment 28 days following delivery.
- In the 2012-2013 crop year, canola (rapeseed) crop production was:
 - Canada 13.9 million tonnes
 - Australia 3.3 million tonnes
 - United Kingdom 2.2 million tonnes
- Oil content is generally understood to be influenced by factors such as:
 - Seed genetics
 - Environmental conditions
 - Crop management practices
- The Canola Council of Canada produced a fact sheet on producer management practices that can increase oil content. This information may be found [here](#).