

MODERNIZING THE CGC

By Janelle Whitley

The Canadian Grain Commission has a new funding model that shifts the cost of operating the organization almost entirely to farmers and the industry through increased user fees.

The Canadian Grain Commission (CGC) has been a cornerstone of Canada's grain quality system. Through its programs and services, the CGC ensures Canada's international reputation for consistent and reliable grain quality is maintained and scientific research on grain quality and safety is performed. The CGC determines Canada's official grain grading standards and related testing methods, and establishes comprehensive, workable standards for grain companies, farmers and customers.

Historically, federal government funding and industry user fees equally financed the operations of the CGC. On August 1, 2013, that longstanding formula changed when the CGC moved to a cost recovery funding model. To make up for a drop in annual government funding of nearly \$35 million, the CGC significantly increased its service and licensing fees. The federal government will now fund \$5.45 million – only nine percent of this year's projected costs of \$63 million – and user fees charged to the industry will cover the remainder. (Side note: In the U.S., the government funds 37 percent of the costs to run its quality assurance program.)

While recent legislative changes and operational cost-cutting measures generated roughly \$30 million in savings, the majority of CGC's operating revenue

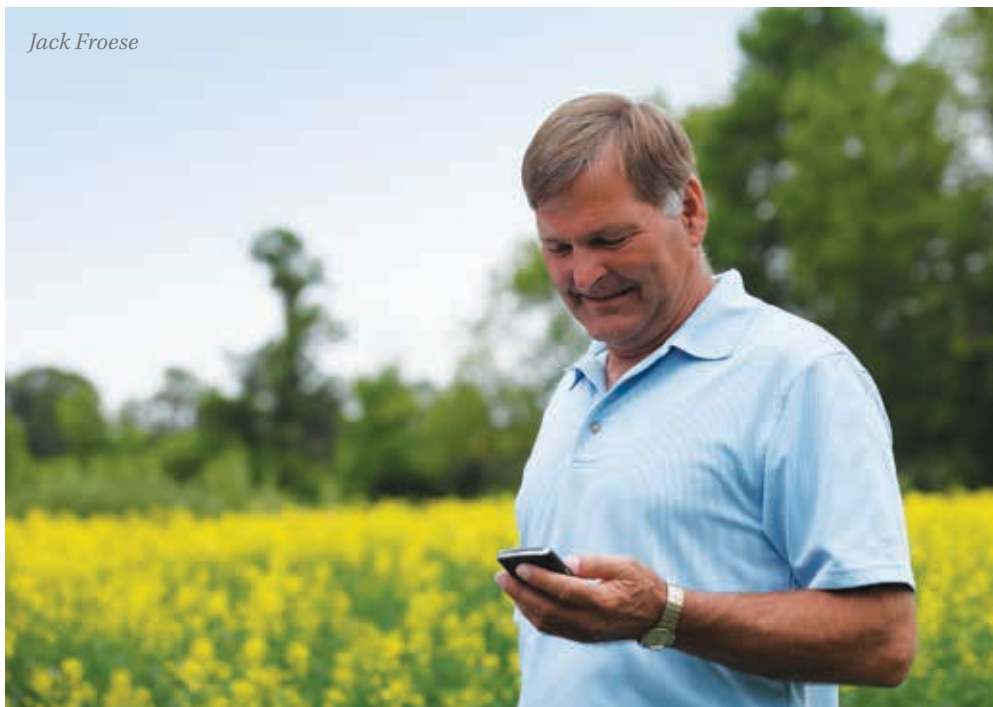
will now come from increased fees for inspection services at port. For example, mandatory outward inspection fees increased from \$0.50 to \$1.60 per tonne, more than tripling inspection costs for export shipments. Under the new funding structure, these fees will be used to fund the majority of CGC operations, including its public good activities, such as ensuring domestic grain safety functions.

While these new higher fees are being charged to exporters, they ultimately will be borne by farmers. "Grain

companies may absorb some of the fee increase but, to stay competitive, the bulk of the cost will need to be absorbed by someone else," says Jack Froese a canola farmer in Winkler, MB. "Ultimately, the increase will come out of producers' pockets, likely through the price we receive for our canola."

Essentially the increase in CGC fees means a farmer who crops 5,000 acres and delivers most of it to a local elevator will see costs jump from approximately \$5,000 in 2012-2013 to almost \$7,300 in 2013-2014.

Jack Froese



MORE CHANGE COMING

In an effort to reduce the CGC's operating costs, a more modernized organization has begun to emerge. Last year mandatory CGC inward weighing and inspection was eliminated and the CGC announced a new insurance-based model to fund the producer payment protection program. The revised protection program will be launched December 1, 2013. It will continue to ensure farmers are paid for grain deliveries in the event of a default by a grain buyer, but in a more streamlined and cost-effective manner.

"Changes to inward inspection and producer payment security are positive first steps," says Rick White, general manager of the Canadian Canola

Growers Association (CCGA). "However, additional reforms to CGC's governance structure and funding model are still required to increase the agency's effectiveness and to ensure better value for all producers."

Froese agrees. "If producers are expected to fund an increased portion of CGC activities, the CGC should be made more accountable to producers and should look at further ways to reduce its operating costs," he says.

According to White, canola farmers have called for the government to introduce legislation that would bring further changes to the CGC. This includes allowing third-party outward inspections to introduce an element of competition and help keep costs down.

Another key CCGA objective is to re-examine the CGC's governance structure to ensure an appropriate level of accountability back to the farmers who will ultimately shoulder the organization's costs.

The federal government recognizes that more reforms are required. Agriculture and Agri-Food Minister Gerry Ritz has indicated further changes to the *Canada Grain Act* are forthcoming. The CCGA will continue to work with government to ensure that changes to the CGC and the *Act* are in the best interest of farmers and the industry. ●

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