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Grain and Feed Annual

2013

Approved By:
Robin Gray

Prepared By:
Erin Danielson

Report Highlights:
The Canadian grain market has undergone major changes since August 2012, but for the most part planting intentions will continue to be guided as they always have – by weather, economics and planting rotations. Although still very early, excess moisture is a possibility in parts of Saskatchewan and Manitoba. Total production of wheat, barley, oats and corn is forecast to be 52 MMT, an increase of 2% over the previous year's total of 51 MMT.

EXECUTIVE SUMMARY:

Marketing Year 2013/2014:

No farmer surveys regarding planting intentions were published at the time of this report. The Statistics Canada planting intentions survey is expected to be available on April 26, 2013.

- Although still very early, excess moisture is a possibility in parts of Saskatchewan and Manitoba. Weather, economics and crop rotations will be the deciding factors for Canadian farmers this spring.
- Total wheat production in marketing year (MY) 2013/2014 is forecast at 28 thousand metric tons (TMT), 3% above levels in the previous period, due to an increase in area seeded. Behind the increase are strong wheat prices, relative ease of marketability and the potential that wheat has as a rotation crop.
- Oats production is forecast to decrease 11% from the previous period to 2.4 million metric tons (MMT), a near all-time low in recorded history. This decrease is largely due to competition from wheat and oilseeds, and reduced demand.
- Barley production is forecast to increase 11% over the previous period to 8.9 MMT, due to an increase in area seeded and improved yields.
- Profitability and strong demand for corn is behind the forecast for sustained high levels of corn production at 14% above the five-year average (using years 2007-2011). Corn production is forecast at 12.8 MMT.
- In MY 2013/2014, the pace of all wheat grain, seed and products exports is forecast to slow but remain positive at 1% over the previous period, with volumes increasing to 18.8 MMT.
- In MY 2013/2014, Canadian corn exports are expected to fall by 46% from the previous period's high due to an expected improvement of the U.S. supply.
- Barley exports are forecast to settle to 1.3MMT, near MY 2011/2012 levels, due to recovering world supplies.
- Exports of oats are forecast to decline to 1.5 MMT in response to reduced supply, and remain below the five-year average.

Marketing Year 2012/2013:

- Exports of all wheat grain, seed and products in MY 2012/2013 are forecast to increase 8% from the previous period to nearly 18.8 MMT, due to a good harvest, diminished output in regions like Australia, and strong demand from the United States following the country's drought in agricultural areas.
- Exports of corn from September to January of MY 2012/2013 are 220% above the same period in the previous marketing year due to increased production and strong demand from the United States following the drought. This pace is expected to slow in the remainder of the marketing year, but levels will remain high and are expected to reach 1.4 MMT.

- Imports of corn in MY 2012/2013 are forecast to decrease 31% from the previous period to 600 TMT due to increased domestic production. Although the majority of corn imports continue to come from the United States, the drought corn growing areas has led to increased imports from the Ukraine, Russia and India, accounting for 0.6 TMT of imports from September 2012 to January 2013.
- Barley exports in MY 2012/2013 are forecast to increase 8%, lifted by reduced world supplies and increased production.

Production Outlook (General):

The Canadian grain market has undergone major changes since August 2012, but for the most part planting intentions will continue to be guided as they always have – by weather, economics and planting

rotations. Up until August 2012, the Canadian Wheat Board (CWB) had been the world's biggest single wheat exporter. Now that the CWB's monopoly is gone, farmers are free to chose who they sell to. Buyers and sellers are moving forward cautiously and will use their experiences in marketing years (MY) 2012/2013 and 2013/2014 to determine how their actions impact their business. For example, buyers such as Japan's Ministry of Agriculture, Forestry and Fisheries, are hedging their bets and splitting purchases between the CWB and other grain traders. Likewise, farmers too are splitting sales. We anticipate that in MY 2014/2015 market players will be trending towards the sources that have worked best for their businesses. World market supply and demand conditions will have an important influence on wheat pricing.

While changes to the market have resulted in a business as usual environment in many respects, the open market may have somewhat of an influence on planting decisions for the 2013 crop year. First, the option to grow a mixture of higher yielding, mid-protein varieties rather than high-protein wheat, could influence wheat's competitiveness with other rotation crops, and at a time when Canada's "Cinderella" crop, canola, is experiencing slow growth in yields due to intense cultivation. High-yielding, mid-protein varieties of wheat may be seen as an attractive rotation crop.

Although not an influence on planting decisions in the coming crop year, in two or more years we could expect to see planting decisions being increasingly influenced by the needs of value-added industry. There is some expectation by industry sources that with the CWB no longer acting as sole marketer of Western Canadian wheat and barley, more processing will take place in Canada. The speculation is that companies were hesitant to invest due to the fact that there was essentially one supplier of durum wheat. The announcement of the construction of a pasta and pulse processing plant in Regina, Saskatchewan has been held up as an example of the type of processing investment that will take place now that the CWB is no longer the sole marketer. Other industry sources, however, state that the value-added processing capacity in Canada is currently underutilized and that the true determining factors of whether or not investments in processing of wheat products will be made in Canada or elsewhere will be the transportation costs of getting these products to their markets.

Although still very early, excess moisture is again a possibility in parts of Saskatchewan and Manitoba. These are the same areas that were previously flooded in 2011. For the period November 2012 to March 2013, precipitation is 150% to 200% of normal in south-central and south-eastern Saskatchewan, and 115% to 150% of normal along Manitoba's western border. Saskatchewan and Manitoba water officials are predicting above average runoff conditions and very high runoff in some agricultural areas, but state that these areas have less flooding potential than they did in MY 2011/2012. The MY 2011/2012 floods featured the highest water levels and flows in modern history across parts of Manitoba and Saskatchewan. Despite area harvested being 10% below the five-year average, strong yields pulled production nearly 2% above the five-year production levels to 25,288 TMT. Because it is still too early to determine an outcome, the outlook contained in this report is based on "normal" conditions. The rate at which snow melts and the level of precipitation to come will determine the risk of spring flooding. Weather, economics and crop rotations will be the deciding factors for Canadian farmers this spring.

ALL WHEAT:

Production:

In MY 2013/2014, area seeded to all wheat is forecast to increase 2% from the previous period due to a combination of several factors, including wheat's strong prices, relative ease of marketability and potential as a rotation crop for canola (which is experiencing decreased yields due to intense cultivation). The majority of the forecasted loss in canola acres in Canada is expected to go to wheat, with some competition from soybeans. Production of wheat is expected to increase more than 2% to 28 MMT due to increased area seeded and slightly higher yields.

Area seeded to winter wheat is up 5% over the five-year average (2008-2012) and 1% over MY 2012/2013, due primarily to increases in acreage in Ontario (+25%) and Manitoba (+3%). Area seeded to winter wheat decreased 33% in Saskatchewan due to dry planting conditions. Of course, weather in the month of April will determine what actual acreage figures look like.

Consumption:

In MY 2012/2013, domestic consumption of all wheat is forecast to be 9.6 MMT, down slightly from the previous period due to decreased use of wheat feed, but still 22% above the five-year average (MY2007/2008 to 2011/2012). Growth in food, seed and industrial (FSI) consumption tends to be small but positive from year to year. It is forecast to grow 1% from the previous period to 5.2 MMT after experiencing above-average growth of 5% in MY 2011/2012.

In MY 2013/2014, wheat feed is expected to increase marginally from the previous period, edging total domestic consumption levels back up. Growth in FSI consumption is forecast to remain flat to small.

Trade

In MY 2012/2013, exports of all wheat grain, flour, uncooked pasta and couscous are forecast to grow 8% over the previous period to 18.8 MMT. This is 7% above the five-year average and 15% above the ten-year average. Exports began MY 2012/2013 stong. During the period from August to January of MY 2012/2013, they were 9,752 MT. This is 15% above the same period in MY 2011/2012 and 17% above the same period in MY 2010/2011. The spike in exports is due to a good harvest, diminished output in regions like Australia, and strong demand from the United States following the country's drought in agricultural areas.

In MY 2013/2014, the pace of exports is forecast to slow to 1% growth, with volumes increasing to 19 MMT due to expected strong global wheat grain supplies.

Imports of all wheat grain, flour, uncooked pasta and couscous in MY 2012/2013, is forecasted at 490 TMT, similar to the previous period, as reflected in the import levels thus far in the marketing year. During the period from August to January of MY 2012/2013, imports were less than a percent above levels of the same period in MY 2011/2012. Import levels in TY 2012/2013 for the period July to January are 5% above the same period of TY 2011/2012. The trade year for wheat and wheat products is July-June.

No growth in imports is expected in MY 2013/2014, due to sufficient domestic supply.

Although the Canadian Government eliminated the CWB's function as the sole buyer and marketer of wheat, durum and barley produced in Western Canada, there are still varietal registration requirements. These requirements, administered by the Canadian Food Inspection Agency (CFIA) under the Seeds Act and Regulations, tied to the Canadian grading system operated by the Canadian Grain Commission (GCC) under the Canada Grains Act, impact the free flow of imports.

Stocks:
Stocks of all wheat in MY 2012/2013 are forecast to be driven down 12% from the previous period to 5.2 MMT. In MY 2013/2013, stocks are forecast to fall another 4% from the previous period. These forecasted decreases are largely due to the expectation that increased total supply will not offset increased exports.

All Wheat: Production, Supply and Demand

Wheat Canada	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Aug 2011		Market Year Begin: Aug 2012		Market Year Begin: Aug 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	8,553	8,553	9,500	9,497		9,645
Beginning Stocks	7,176	7,176	5,879	5,879		5,200
Production	25,288	25,288	27,200	27,205		27,970
MY Imports	488	488	475	490		490
TY Imports	496	496	475	490		490
TY Imp. from U.S.	397	397	0	0		0
Total Supply	32,952	32,952	33,554	33,574		33,660
MY Exports	17,352	17,352	18,500	18,775		19,000
TY Exports	17,603	17,603	18,500	18,775		19,000
Feed and Residual	4,621	4,621	4,200	4,400		4,450
FSI Consumption	5,100	5,100	5,150	5,199		5,200
Total Consumption	9,721	9,721	9,350	9,599		9,650
Ending Stocks	5,879	5,879	5,704	5,200		5,010
Total Distribution	32,952	32,952	33,554	33,574		33,660
1000 HA, 1000 MT, MT/HA						

Statistical notes: HS codes fore all wheat include 1001, 1101, 190219, 190230, 190240. The conversion factor used to convert wheat products to grain equivalency is 1.368.

DURUM

Production:
On average, area seeded to durum represents about 20% of the total area seeded to wheat in Canada. Durum area decreased significantly in MY 2010/2011 and MY 2011/2012 due to wet spring conditions and rebounded somewhat in MY 2012/2013 with an increase of 18% from the previous period to 1,878 thousand hectares (tHA). Area harvested remains below the ten-year average of 1,987 tHA (using periods 2002 to 2011).

In MY 2013/2014, Post forecasts area seeded to durum will increase less than a percent above the MY 2012/2013 level of 1,894 tHA. Production is forecast to increase nearly 4% to 4.8 MMT due to increased area seeded and yields of about the same as the previous period.

Growth in durum is expected to be dampened by the profitability of alternative crops, and due to lack of adequate price signals.

In 2012, Intercontinental Exchange (ICE) Future Canada in Winnipeg launched futures contracts for durum (as well as milling wheat and barley), to help farmers gain greater transparency on market prices and manage their trading risks. However, the durum futures market has not been very active, and there is a lack of price signals in the market.

Consumption:
Domestic consumption of durum in MY 2013/2014 is forecast to increase marginally to 725 TMT as it is expected that an increase in food, seed and industrial consumption will offset a slight decrease in durum use in feed. Durum for feed is anticipated to move in line with more average levels as there is less supply of feed grade durum.

Trade:
In MY 2012/2013, exports are forecast to increase 15% to 4.1 MMT. Canada remains the largest exporter of durum in the world. In MY 2013/2014, exports are expected to fall 5% to due to improved world supply.

Durum imports in MY 2012/2013 are expected to increase due to lower beginning stocks and increased domestic consumption. In MY 2013/2014, imports are forecast to increase marginally.

Stocks:
In MY 2012/2013, ending stocks of durum are forecast to decrease by 14% from the previous period to 1.3 MMT due to increased total supplies not offsetting increased exports.

In MY 2013/2014, ending stocks of durum are forecast to be about the same as the previous period, largely maintained by decreased exports and reduced supplies.

CORN

Production:

In MY 2012/2013, corn production rose to 13 MMT, 15% above the previous year's levels. In MY 2013/2014, corn production is forecast to decrease slightly on a return to trend yields and due to only slightly less area harvested. Still, production is forecast to be 15% above the five-year average (2007-2011).

In MY 2012/2013, corn yields varied greatly across the Canada's major growing provinces of Ontario and Quebec, but on average yields in these provinces were 2% and 7% above their five-year averages, respectively. In MY 2013/2014, Post forecasts lower yields in Quebec, and somewhat lower in Ontario, closer in line with trend yields.

Assuming normal conditions, Post forecasts that area harvested will remain high at 13% above the five-year average to reach 1.4 million hectares (Mha). The MY 2013/2014 forecast assumes that growth in area seeded to corn will be down marginally from the previous period in Quebec, nearly flat in Ontario and up by 9% in Manitoba.

Manitoba is not seeing the sharp rise in corn production that North and South Dakota have been experiencing. The forecasted 9% increase in harvested area in Manitoba, at a yield of 6.6 MT/hectare (typical in that province) would provide an extra 28,500 tons of corn for a total of 847 TMT, or 7% of the forecasted level of national production.

While the prairie provinces may not be major players today (in MY 2012/2013, they seeded a total of 121,400 hectares), there are several factors that may nurture the growth of corn production in these provinces in the years to come. First, the environment in the prairies has become more hospitable to corn because of the longer, warmer growing seasons in recent years. Second, strong demand for corn has prairie farmers trying to cash in on high corn prices. Further, new corn hybrids are being developed by companies like DuPont Pioneer who are developing hybrids for Prairie Provinces conditions.

Consumption:

In MY 2012/2013, domestic consumption of corn is forecast to be 2% above the previous period, in line with the ten-year average. Feed use and corn for industrial, food and seed purposes has lift from the previous year's level as a result of increased supplies.

In MY 2013/2014, domestic consumption is expected to rise 5% from MY 2012/2013 levels as supplies remain high.

Trade:

The pace of exports is expected to slow but levels will remain high and are expected to reach 1.4 MMT in MY 2012/2013. Post forecasts that Ontario will export 1 MMT of corn and Quebec will export 0.3 MMT. Exports of corn from September to January of MY 2012/2013 are 220% above the same period in the previous marketing year due to drought conditions in the United States.

In MY 2013/2014, Canadian corn exports are expected to fall 87% from the previous period due to an expectation of improved U.S. supply, which would bring the level in line with the five-year average.

In MY 2012/2013, imports are forecast to be about 600 TMT, and to remain the same in the next period due to high carry-in stocks that will offset lower production.

Stocks:

A 15% increase in production in MY 2012/2013 resulted in increase supplies that are forecast to lift ending stocks by 27% to 1.7 MMT despite a spike in exports. In MY 2013/2014, supply is expected to remain at a high level, and exports are expected to fall, driving stocks higher.

Corn: Production, Supply and Demand

Corn Canada	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Sep 2011		Market Year Begin: Sep 2012		Market Year Begin: Sep 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1,272	1,272	1,420	1,418		1,400
Beginning Stocks	1,278	1,278	1,350	1,350		1,710
Production	11,359	11,359	13,060	13,060		12,800
MY Imports	872	872	500	600		600
TY Imports	747	747	500	600		600
TY Imp. from U.S.	744	744	0	0		0
Total Supply	13,509	13,509	14,910	15,010		15,110
MY Exports	493	493	1,500	1,400		750
TY Exports	494	494	1,500	1,400		750
Feed and Residual	6,431	6,431	6,500	6,500		6,850
FSI Consumption	5,235	5,235	5,500	5,400		5,700
Total Consumption	11,666	11,666	12,000	11,900		12,550
Ending Stocks	1,350	1,350	1,410	1,710		1,810
Total Distribution	13,509	13,509	14,910	15,010		15,110
1000 HA, 1000 MT, MT/HA						

BARLEY

Production:

Area seeded to barley in MY 2012/2013 was 2,751 THA This is 15% above the previous period but still demonstrative of a longer term downward trend. Area harvested was 17% below the ten-year average of 3,303 TMT.

In MY 2013/2014, Post is forecasting flat and small positive growth in area seeded in Saskatchewan and Alberta, respectively, and 2% growth nationally. Area harvested is forecast to be 15% below the ten-year average of 3,303 TMT.

A forecasted increase in barley production of 11% from MY 2012/2013 is supported by the expected increase in area seeded and improved yields.

Alternative crops have put a squeeze on area seeded to barley, and this will continue in the period to come. One downward risk to this forecast is the possibility that farmers will be further lured away by strong soybean prices, and the fact that wheat is considered easier to market than barley. The upward risks to this forecast include weakening wheat prices and a corresponding return to barley, one of the higher returning crops in the rotation. Secondly, as with the rest of this outlook, a lot depends on the weather. If spring is slow to come, we can expect greater movement to cereals.

Harvest quality reports on Western Canadian malting barley are available from the Canada Grain Commission: http://www.grainscanada.gc.ca/barley-orge/hqbm-mqro-eng.htm

ICE Future Canada in Winnipeg launched futures contracts for barley, to help farmers gain greater transparency on market prices and manage their trading risks, but the barley futures market has not been very active, and there is a lack of price signals in the market. Better marketing information is needed.

Recently, a new marketing body, The Barley Council of Canada (BCC), was established to represent the barley industry. The Barley Council has five main priorities in its mandate: innovation and variety research, promoting crop production best practices, market development (malt, feed, food and industrial uses), improving market access, and improving understanding of the industry (with the value chain and government stakeholders). An article about the BCC was published on the web site of The Western Barley Growers Association and is available at the following URL:
http://www.wbga.org/barley_council.pdf

Domestic Consumption:
Total domestic consumption for barley in MY 2012/2013 is expected to decrease less than a percent from the previous period at 6.9 MMT due to a small decrease of barley in feed.

In MY 2013/2014, total domestic consumption is forecast to increase by less than 2% from the previous period. This increase is mainly driven by an increase of barley in feed due to an increase in supplies.

Barley for food, seed and industrial purposes is expected to remain relatively flat from MY 2011/2012 through to MY 2013/2014.

Trade:
Barley exports are forecast to increase by 8% in MY 2012/2013, and settle again near MY 2011/2012 levels in the following marketing year due to recovering world supplies. Canada, along with Australia, will continue to dominate the export market in China (malt) and Japan (feed).

Limited by supplies combined with a strong domestic demand, imports of barley in MY 2012/2013 are expected to increase 56% but remain low compared to historic averages at 25 TMT. This is 35% below the five-year average and 61% below the ten-year average. In MY 2013/2014, imports are forecast to increase another 32% over the previous period due again to low supplies combined with strong domestic demand.

Stocks:
Barley stocks in MY 2012/2013 are expected to decrease 21% from the previous period to 984 TMT. This decrease is a result of an increase in exports that was not offset by increases in production.

Barley stocks are expected to be pulled up in MY 2013/2014 due to an expected increase in production and decrease in exports.

Barley: Production, Supply and Demand

Barley Canada	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Aug 2011		Market Year Begin: Aug 2012		Market Year Begin: Aug 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2,402	2,402	2,750	2,751		2,806
Beginning Stocks	1,541	1,541	1,247	1,247		984
Production	7,892	7,892	8,010	8,012		8,870
MY Imports	16	16	25	25		33
TY Imports	6	10	25	25		33
TY Imp. from U.S.	5	5				
Total Supply	9,449	9,449	9,282	9,284		9,887
MY Exports	1,299	1,299	1,500	1,400		1,300
TY Exports	1,437	1,437	1,500	1,400		1,300
Feed and Residual	5,697	5,697	5,600	5,690		5,800
FSI Consumption	1,206	1,206	1,200	1,210		1,210
Total Consumption	6,903	6,903	6,800	6,900		7,010
Ending Stocks	1,247	1,247	982	984		1,577
Total Distribution	9,449	9,449	9,282	9,284		9,887
1000 HA, 1000 MT, MT/HA						

OATS

Production:
Oats production continued its steady decline in MY 2012/2013 at 2.7 MMT, a level 15% below the previous period.

In MY 2013/2014, production is forecast to fall another 11% to 2.4 MMT, which would be nearly an all-time low in recorded history. This decrease is due to an expected decline of 12% in area harvested. The downward spiral of oats is due to its unpopularity in feed, and the replacement of oats for more profitable alternative crops such as oilseeds and wheat.

Consumption:
Total domestic consumption of oats in MY 2012/2013 is expected to fall to 1,291 TMT, 6% below levels of the previous period, due primarily to a 10% decrease in domestic consumption of oats for feed, but also to a 2% decrease in oats for food, seed and industrial consumption. Total domestic consumption is expected to be 22% below the five-year average of 1,655 TMT.

Total domestic consumption of oats in MY 2013/2014 is forecast to fall 7.8% from the previous period to 1,190 TMT. This decrease is expected to come from a 30% decrease in feed and a 9% decrease in oats for food, seed and industrial consumption.

Trade:
In MY 2012/2013, oat exports are expected to decrease 2% to 1.7 MMT due to lower supply and downward pressure on U.S. demand. In MY 2013/2014, exports are forecast to fall another 13% from the previous period due to a continuation of the trends cited, taking them further below the five-year average of 1,794 TMT.

Oat imports in MY 2012/2013 are expected to increase 31% to 17 TMT due to decreased total supplies that were not offset by the decrease in domestic consumption. Imports are forecast to increase 29% to 22 TMT in MY 2013/2014. This would bring imports above the five-year average of 17.2 TMT.

Stocks:
In MY 2012/2013, decreased domestic consumption and exports are not expected to offset lower production, both in MY 2012/2013 and MY 2013/2014. In MY 2012/2013, ending stocks are forecast to fall 54% to 522 TMT, well below the five-year average of 1,043 TMT. In MY 2013/2014, ending stocks are expected to fall another 34% from the previous period to 344 TMT.

Oats: Production, Supply and Demand

Oats Canada	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Aug 2011		Market Year Begin: Aug 2012		Market Year Begin: Aug 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1,084	1,084	960	956		840
Beginning Stocks	753	753	812	812		522
Production	3,158	3,158	2,680	2,684		2,400
MY Imports	13	13	20	17		22
TY Imports	11	11	20	17		22
TY Imp. from U.S.	10	10	0	0		0
Total Supply	3,924	3,924	3,512	3,513		2,944
MY Exports	1,738	1,738	1,600	1,700		1,500
TY Exports	1,764	1,764	1,600	1,700		1,500
Feed and Residual	604	604	700	541		380
FSI Consumption	770	770	750	750		720
Total Consumption	1,374	1,374	1,450	1,291		1,100
Ending Stocks	812	812	462	522		344
Total Distribution	3,924	3,924	3,512	3,513		2,944
1000 HA, 1000 MT, MT/HA						

PULSE CROPS:

Production:

In MY 2013/2014, Canadian production of pulses (lentils, dry peas and dry beans) is forecast to decrease nearly 4% from MY 2012/2013 levels. The forecasted 17% decrease in lentil production and 38% decrease in dry bean production is expected to more than offset an expected 6% increase in dry pea production. Increased production in peas are being driven by higher returns expected relative to alternative crops.

Trade:
In MY 2013/2014, exports of dry peas are forecast to increase 5% from the previous period in response to higher supplies resulting from increased production. Exports of lentils are forecast to decrease marginally. Exports of dry beans are forecast to fall -13% due to the expected decrease in production and total supply.

Exports of dry beans and dry peas are expected to increase in MY 2012/2013 from the previous period. Increased total supply and strong demand from the EU and United States (in the case of dry beans) is pulling up exports. Exports of lentils in MY 2012/2013 are expected to rise marginally.

POLICY:

The Marketing Freedom for Grain Farmers Act:

The December 15, 2011 decision by Canadian legislators to pass into law the divisive Marketing Freedom for Grain Farmers Act transitioned the CWB from a state trading enterprise into a commercial enterprise over a period of five years. As previously stated, prior to the August 1, 2012 enactment date, the CWB had held the exclusive right to purchase and sell western wheat and barley for domestic food use or export for the last 68 years. With the end of the legal monopoly, the CWB will operate as a purely voluntary option; growers who wish to market their products through it may still do so. Under the new framework, if the CWB fails to become a viable commercial entity within five years, the CWB will be dissolved. For more information on the CWB, visit: http://www.cwb.ca/public/en/.

Structural Changes to the CWB:

The legislation consists of five parts which introduce legislative changes in stages. A detailed description of this legislation is available in a previous GAIN report, located at the following URL address: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Bill%20C-18%20-%20The%20Marketing%20Freedom%20for%20Grain%20Farmers%20Act_Ottawa_Canada_11-03-2011.pdf

During the period of transition, the CWB continues to retain government guarantees of its borrowing and other financing by the Canadian government. In addition, Canadian producers who contracted with the CWB will continue to receive government approved and guaranteed initial payments early in the crop year (to help with operating expenses) and will receive subsequent payments based on the crop that the CWB is able to sell on world markets. If the CWB fails to make sales to cover the initial payments, the government will cover the cost. The Marketing Freedom for Grain Farmers Act ends the government guarantees/backing of the CWB's borrowing, as well as the government-backed initial payments after a period of five years.

Commercial Practices:

Under The Marketing Freedom for Grain Farmers Act, Canadian grain farmers are now free to sell their grain through any entity they choose. The CWB is continuing to operate as a marketing option. In August, The CWB announced that it completed agreements with all Prairie grain handlers and that farmers can now deliver CWB wheat to any elevator in the West. Among the companies who signed agreements with the CWB are three of the largest grain handlers in the country: Richardson International Ltd, Viterra Inc, and Cargill Ltd. The CWB's agreements also extend to farmer-owned independent grain terminals. Farmers can also choose to deal directly with any of these entities. One of the factors driving farmers to continue to deal with the CWB is the desire for security provided by the pool. There have been some barriers to a smooth transition, including court challenges and reports of elevators refusing to accept CWB grains, citing a number of different reasons – no room in the elevator, easier to handle non-CWB grain, no basis available, no rail cars, etc. A positive market environment will increase the willingness of producers to switch from entering CWB pools to contracting with grain companies. Generally, pools are more attractive in a falling market. Post has heard varying predictions of the quantity of grain that will be handled through the CWB. Another factor affecting these predictions is whether one analyzes the amount of grain handled by the CWB or the number of farmers who sell through the CWB. Post forecasts that 10-20% of crops will be seen by the CWB in MY 2012/2013, and that 20-25% of farmers will continue to use CWB pools. At this point, it is still too early to determine how successful the CWB has been in its transition.

Recently, the CWB initiated marketing of canola, creating pools that they argue meets a demand that always existed among small farmers who lacked confidence and/or sufficient quantities to market their own crop. Time will tell if the canola pools actually succeed, but with the high canola price this year and record crop, it is an ideal year to start. The CWB also suggested that it will announce a marketing program to include pulse crops in the future. It will require significant capital to purchase assets like grain handling facilities and to make CWB viable when it goes private in a few years.

Additionally, several strategic purchase agreements have been made by Canadian grain companies since the initial December 15, 2011 decision. On June 21, 2012, grain handler Viterra Inc. and the CWB announced a commercial agreement, whereby Viterra accepts deliveries of grain that farmers commit to CWB contracts at all Viterra locations across western Canada. The agreement also includes port handling services. Subsequently, Glencore International Plc won a bid to take over Viterra for C$6.1 billion. Glencore's takeover won the approval of Canada's Competition Bureau, and on December 7, 2012 it received a nod of approval from the Ministry of Commerce of the People's Republic of China ("MOFCOM"). This was the final outstanding regulatory approval of Glencore's acquisition of Viterra pursuant to a court approved plan of arrangement. On December 17, 2012, Glencore announced that it has completed the acquisition of Viterra and made key management appointments. Glencore had agreed to sell C$2.6 billion in assets to Agrium Inc (a Canadian company with a U.S. subsidiary) and Richardson International Ltd (a privately-owned Canadian company). CF Industries Holdings, Inc (an American fertilizer giant) entered an agreement with Glencore to buy a minority 34% interest in a nitrogen facility in Medicine Hat, Alberta, for C$911 million. CF Industries was nominated by Agrium as the buyer of the facility under the support and purchase agreement between Glencore and Agrium. CF Industries is the second largest nitrogen fertilizer producer in the world.

Since the dissolution of the CWB monopoly, millers in Japan have expressed concerns about grain quality, which is largely driven by negative experiences after the dissolution of the Australian wheat board's monopoly. In response to the concerns, the CGC offered their assurance that the Canadian experience will be different. Unlike in Canada, in Australia the marketing board not only marketed the wheat, but it also acted as the quality control agency and looked after varietal registration issues. In Canada, The Canadian Grain Commission deals with these issues, and their ability to control quality won't be impaired. Japan's Ministry of Agriculture, Forestry and Fisheries agreed to split their purchases between the CWB and other grain traders, and do their own quality and protein level comparisons.

Not only do recent reforms change the way that Western Canadian wheat and barley producers contract their grain, but there have also been changes to infrastructure, services, and transportation services that were previously handled by the CWB.

Revision of the Canada Grain Act: Inward Weighing

On October 18, 2012, legislation was tabled by the House of Commons, within the federal government's omnibus budget bill, Bill C-45, to make changes to the Canada Grain Act. One of the changes included in this bill, is the removal of the mandatory requirement for the Canadian Grain Commission (CGC) to conduct inward weighing and inspection. Since the dissolution of the CWB's monopoly, some of the CGC's inspection services have become redundant; Prairie grain elevators are often shipping grain to a terminal or transfer elevator owned by the same company. Where this is not the case, a shipper or an elevator can request an inspection, to be handled by a service provider authorized by the CGC. The federal government says that this amendment will eliminate about C$20 million annually in costs from the grain-handling system. The CGC will retain responsibility for outward inspection of vessel cargo.

Revision of the Canada Grain Act: CGC Insurance-Based Producer Payments

Another important change tabled in Bill C-45 is a movement towards an insurance-based producer payment security program and away from the single option of bonding, which is currently found in the Canada Grain Act. The bonding option is considered to be costly and to provide only weak coverage.

CGC: User Fee Changes

On November 1, 2012, the Canadian Grain Commission released its User Fees Consultation and Pre-proposal Notification document, which outlined proposed individual fees, service standards and performance measures. Stakeholders had until November 30, 2012 to provide written submissions regarding the document. The Canadian Grain Commission is proposing to implement a new fee schedule for August 1, 2013, the start of the new crop year.

A summary of the feedback can be found at the following URL:
https://www.grainscanada.gc.ca/consultations/2012/summary-resume/feess-sfrais-eng.htm

CGC: Changes to Other Services and Cost Recovery

New, higher user fees are expected to form the basis of a cost recovery structure that will maintain the Canadian Grain Commission's role in grain quality, quantity and safety assurance, producer protection and the integrity of grain transactions. The CGC plans to move to 91% cost recovery instead of the current 50-50 split between government and industry.

The Canada Grain Commission is continuing its exercise of determining which services should be mandatory and which should be voluntary.

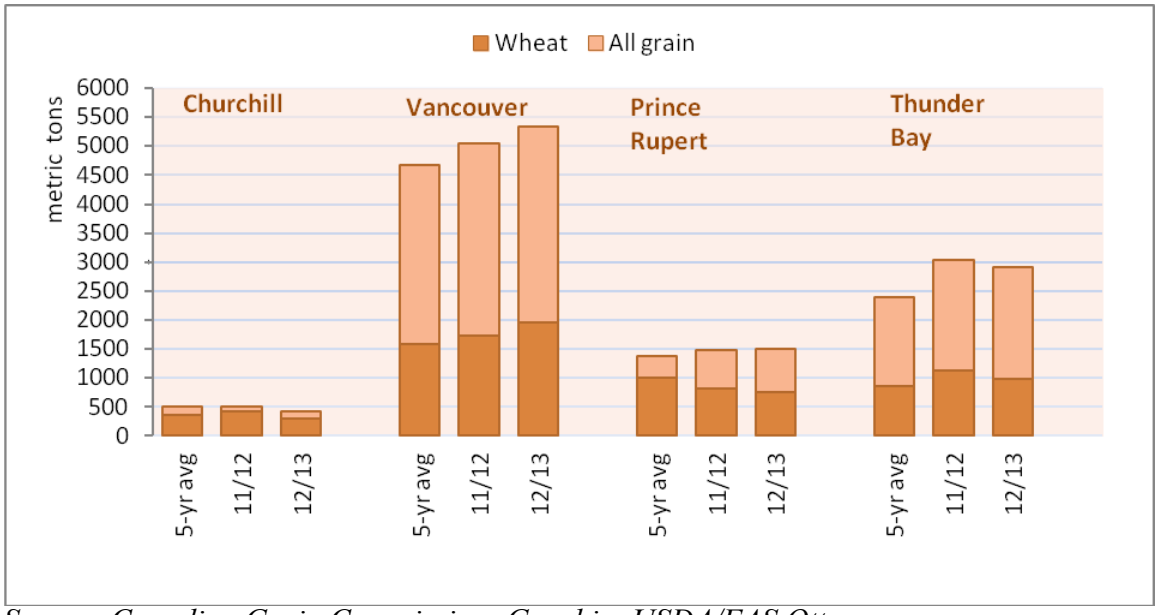
Support for Port of Churchill

Manitoba's Port of Churchill, on Hudson Bay, part of the Arctic Ocean, is also being affected by the new grain marketing environment. Prior to passage of The Marketing Freedom for Grain Farmers Act, the CWB had been the primary shipper (90 to 95% of total grain volumes each year) through the Port of Churchill. Concerns have arisen whether the port can remain economically viable, especially since its operating season is limited due to weather. In reaction to this concern, in April 2012 the federal government announced the Churchill Port Utilization Program (CPUP), which includes a subsidy for grain handlers for shipping grain through the port. In 2012, the subsidy was valued at about C$9 per ton. The subsidy is available to legal entities on a first-come-first-serve basis, and to a maximum total of C$5 million. CPUP is a five-year program.

Three entities were awarded the subsidy for the 2012 shipping season, Richardson International, Nearco Transportation Consulting, and the CWB. Richardson loaded its first wheat vessel out of the Port of Churchill on August 25, 2012. The vessel set out for Colombia with 27,500 MT of No. 2 Canadian Western Spring Wheat originating from Richardson Pioneer elevators in Manitoba, Saskatchewan and Alberta. As part of the CPUP, Richardson has thus far been awarded two grants valued at C$2,346,750.00 and C$355,689.00, Nearco Transportation Consulting has been awarded a grant of C$225,000.00, and the CWB has been awarded two grants for C$102,060.00 and C$1,470,501.00. The "economic incentive rate" for 2013 will be published in spring 2013.

In 2012, use of the port was down 19% from a historic average. During the 2011/2012 shipping season (late July to November), 416,930 tons of grain went through Churchill, compared to the five-year average of 513,050 tons.

Graph 1: Receipt of Canadian Grain at Ports from August to November of Each Marketing Year



Source: Canadian Grain Commission; Graphic: USDA/FAS Ottawa

Whether grain will continue to flow through the Port without the push of a subsidy remains to be seen.

CPUP is part of a comprehensive package of government initiatives to support economic development in Churchill that, in addition to the subsidy, includes:

- providing up to C$4.1 million over three years through Transport Canada for Port maintenance;
- extending the project completion date from 2013 to 2015 for infrastructure improvements funded through Western Economic Diversification Canada; and
- exploring options for the development of the community of Churchill.

Rail Transport Reform

CWB monopoly or not, the performance of the railways continues to be a contentious issue and there have been calls for the government to reconsider the Rail Service Legislation.

On December 11, 2012, the government announced the introduction of the Fair Rail Freight Service Act, which will establish service agreements with railways. The bill would create an arbitration process when commercial negotiations fail. An administrative monetary penalty of up to C$100,000 could be issued by the Canadian Transportation Agency for each violation of an arbitrated service level agreement. This is in addition to other existing remedies in the Act (e.g. Level of Service Complaint) to ensure railways meet their service obligations. Further details about the bill can be found at the following URL: http://www.tc.gc.ca/eng/mediaroom/releases-2012-h134e-6990.htm

Under the current Rail Service Agreement, railroads have the right to charge companies for failure to perform (i.e., not load within specified timelines, failure to provide adequate documentation, etc.) However, shippers did not have the ability to charge for poor performance by the railroads. Under the new legislation, both parties (i.e., railroads and shippers) are allowed to negotiate service level agreements and go to arbitration if there is a failure to perform.

There remain serious limits to rail capacity. While there are two rail lines, each operates on separate rails. So an elevator is limited to the company which operates the rail line located next to their facility, unless they choose to truck to a different rail line. Moreover, rail rates are set via a revenue cap which is established in the Transportation Act. The revenue caps are on the overall revenues received by the railroads from the transport of grain.

Movement of Grain

The shift to a new grain marketing environment does not appear to be the source of any significant problems related to the movement of grain by rail or by shipments from port. However, Canadian media have reported that some companies have allegedly faced challenges managing their sales and supply lines. *The Western Producer* newspaper cited reports of grain ships being partially loaded and then sent to anchor for up to a month before getting fully loaded, something that rarely happened when CWB's monopoly was intact. Whether this is indeed happening is still uncertain at this point. The rational is that formerly the CWB had access to wheat from all port terminals and could send a vessel to be filled at any terminal.

Varietal Registration Requirements and The Grain Classification System

An on-going issue is the challenge posed by Canada's varietal registration requirement for seed wheat, as well as the issue posed by the variety-based wheat grading system. Canadian officials have indicated a willingness to discuss these concerns further. Canadian officials and Canadian industry representatives understand the U.S. objection to unequal treatment for U.S. grains which might move to Canada. The Canadian government acknowledges that non-Canadian-origin wheat and barley is only eligible for the lowest official statutory Canadian Grain Commission grade in the particular class (e.g., Feed Wheat or # 5 Amber Durum). They have agreed to look into eventual changes. In the meantime, the United States and the Canadian industry representatives have worked together to develop contracts based on specification that will give U.S. wheat and barley access to the Canadian market at fair prices. Clearly, sales based on specifications are only a temporary solution to U.S. concerns as it does not address access to the Canadian grain handling system.

On the week of February 28, 2013, Federal Agriculture Minister Gerry Ritz requested input from committees (four committees that form the Prairie Grain Development Committee) on ways to speed up the time it takes to approve new prairie grain varieties. Ritz's request to the Prairie Grain Development Committee comes ahead of planned consultations with industry over the next several months.

Further, on March 25, 2013, The Western Canadian Wheat Growers Association proposed a new wheat classification model that is patterned after the wheat classification system that was implemented in Australia in 2011. An outline of the proposed model is available at the following URL: http://www.wheatgrowers.ca/images/E0334801/Mar_22_13_WGProposeWheatClassificationModel.pdf

Sanitary and Phytosanitary Issues

The Canadian Food Inspection Agency (CFIA) continues to seek and review comments to its draft directive, "D-12-05 Phytosanitary import requirements for grain of field crops including pulses, oilseeds, cereals (other than barley, oats, rye, triticale, and wheat), forages, and other special crops from the continental United States." The objective of D-12-05 is to prevent the importation and dissemination of viable weed seeds and plant pathogens that present environmental and commercial risk to Canadian agriculture. Due to a significant amount of feedback from industry and stakeholders, the 30-day comment period was extended until February 15, 2013, and the original adoption date of December 1, 2012 was dropped. No new enforcement date was established. On December 5, 2012, the CFIA removed the deadline entirely and stated it would continue dialogue with industry and stakeholders.

The CFIA has been actively engaging stakeholders in Canada and the United States since suspending the implementation date. The CFIA plans to continue with implementation although no new date has been established.

Trans Pacific Partnership

The Trans Pacific Partnership (TPP) represents an opportunity for Canada and the United States to address SPS and Technical Barriers to Trade (TBT) issues by providing an effective platform for implementing enforceable measures, creating harmonized, science-based regulations and generally facilitating trade.

Canada-U.S. Grain Industry Task Group

A number of Canadian and U.S. grain industry organizations have formed a Task Group to address and resolve current and foreseen impediments to Canada-U.S. bilateral grain trade. They established a website to provide answers to important questions on cross-border trade. The website includes updated information on the regulatory requirements in both Canada and the United States for cross-border grain and seed trade, including differences in varietal registration, labeling and phytosanitary requirements. As part of a new commercial module that is expected to be published on the Task Group's website this year, the group has distributed a questionnaire to industry in order to assemble some baseline information about the importation and end-uses of commodities from the United States that will be subject to the aforementioned D-12-05 proposed by the CFIA. Preliminary results of this survey are expected to be available in March, 2013.

The Task Group's website, http://canada-usgrainandseedtrade.info, provides a detailed frequently asked questions section. Visitors can also submit comments and additional questions through the website.

Growing Forward 2 – The New Farm Bill

In Canada, agricultural policy is coordinated through a joint five-year initiative among the Federal Provincial and Territorial (FPT) governments called Growing Forward (GF1), which replaced Canada's original agricultural policy, the Agricultural Policy Framework, in July 2008.

Growing Forward 2 (GF2) is the successor to the GF1 and will guide Canada's agricultural policy between 2013 and 2018. Agricultural policy under the Growing Forward programs consists of two

branches – first, a suite of Business Risk Management (BRM) programs designed to protect Canadian farmers from severe market volatility and disasters; and second, a set of strategic initiatives intended to advance policy goals, agreed upon in the Saint Andrews Statement, related to innovation, competitiveness and market development.

To better understand the changes to GF2, it's helpful to have an understanding of the political framework. Agriculture Agri-Food Canada's (AAFC) budget constraints, dictated by the federal budget, were to be met in GF2. The federal budget indicated that AAFC needs to find C$310 million in savings by 2014-2015. Budget restrictions for AAFC will begin in 2013-2014, the first year of GF2, with savings of C$168.5 million.

While the federal budget gave no details on where the reductions would come from, the BRM portfolio was considered to be the only area that could provide that level of savings. The AgriStability program was a prime potential source of savings. Grain and oilseed producers had built up large margins, while livestock margins were beginning to recover. There was concern that increasing reference margins in the grains and oilseeds sector had created a significant unfunded liability for governments. AgriStability has been difficult for governments to budget. The design of the program is such that a loss is generally not compensated until 18 months after the disaster has occurred. Producer feedback has been that the program is complex, unpredictable and not bankable.

On September 14, 2012, federal, provincial and territorial (FPT) Ministers of Agriculture reached an agreement on the content of the GF2 policy framework for the sector. The policy framework is Canada's equivalent of the U.S. Farm Bill. The new five-year agreement represents a fundamental restructuring of farm support programs. Governments will continue to deliver a suite of Business Risk Management (BRM) programs to help protect farmers against severe market volatility and disasters, only now they will rebalance the management of risk between government and industry, giving greater responsibility to the latter. GF2 includes changes to AgriStability, AgriInvest and AgriRecovery.

Growing Forward 2: Detailed Changes to BRM Programs

AgriStability is a margin-based program where payments are triggered when the program year margin falls below a percentage of the reference year margin (where the reference year margin is an Olympic average of historic margins). To trigger the AgriStability benefit, the required 15% drop in margin will increase to a 30% drop. Further, producers will no longer be paid for the first 30% of their margin decline. The remaining 70% of the margin decline will be paid out, however coverage will be reduced from 80% to 70%. AgriStability fees for program participation will be reduced accordingly. A further change is that the reference margin will be restricted to the lower of actual or "prior year's allowable expenses."

Changes were also made to AgriInvest, a program that aims to help producers manage small income declines, and provides support for investments to mitigate risks. Up to and including the 2012 program (fiscal) year, producers are able to contribute a matchable deposit based on 1.5 % of their allowable net sales (ANS), meaning gross commodity sales less qualifying purchases, such as seed and plant expenses. The ANS is currently limited to C$1,500,000 at 1.5% for a maximum AgriInvest benefit of C$22,500.

Effective 2013, this rate will be reduced to 1%, which has the effect of reducing maximum benefit to C$15,000.

Finally, AgriRecovery guidelines have been tightened to limit the frequency of payouts given to producers who have been impacted by catastrophic events.

Growing Forward 2: Strategic Initiatives and a Push for Innovation

Aside from the changes to the BRM branch of GF2, changes were also made to the set of strategic initiatives intended to advance policy goals, including a significant push for innovation. The three strategic initiatives of focus are innovation, competitiveness and market development. GF2 includes new investments in strategic initiatives of over C$3 billion in innovation, competitiveness and market development, including a 50% increase in governments' cost-shared initiatives.

Information on three new programs, AgriInnovation, AgriCompetitiveness, and AgriMarketing, is available at the following URL: http://www4.agr.gc.ca/AAFC-AAC/display-afficher.do?id=1294780620963&lang=eng