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Canada

Grain and Feed Update

Grain and Feed Update

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Executive Summary:

The grain and feed sector in Canada has been experiencing ongoing changes, including reforms to the way that Western Canadian wheat and barley producers contract their grain, and subsequent changes to infrastructure, services and transportation. The open market for western Canadian wheat and barley began August 1, 2012, with the implantation of the Marketing Freedom for Grain Farmers Act. Another factor that makes marketing year (MY) 2012/2013 [1] unusual includes the ongoing poor growing conditions in the midwestern United States. With so many variables at play, it is still too early to predict how the flow of grain may adjust to policy changes. However, many observers describe the present marketing environment as “business as usual.”

Other highlights:

- Total production of wheat, barley, corn and oats in Canada increased 7% in MY 2012/2013 to about 51 million metric tons (MMT).
- Total carry-out stocks of the same group of commodities are expected to reach a low of 7,748 MMT, about 29% below the average of the previous five years.
- Imports are expected to fall to 945 TMT, about 58% lower than the average of the previous five years and 32% lower than MY 2011/2012.
- Exports are expected to rise slightly above the average of the previous five years.
- The price spread between high protein and feed is tight and offers no direction for planting intentions.
- Wheat planting is expected to be on the rise in MY 2013/2014, at the expense of canola.
- Consumers of feed will feel the effects of an integrated North American feed grain market.

^[1] The Marketing Year is the 12-month period beginning with the onset of the bulk of harvest and is always expressed as a split year (eg. 2012/2013).

Wheat:

Production

MY 2012/2013 saw an increase in wheat production of 8% over MY 2011/2012 production, driven by increased wheat acreage. Production was up 10% over the five-year average of 24,736 TMT.

There is much speculation on how recent regulatory and structural changes to the Canadian Wheat Board -- which has recently remarketed itself as simply "CWB" -- will affect planting decisions for wheat in the 2013 production year. 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. 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.

It may be premature to attribute any market fluctuations as reflective of a trend in the new open market environment due to several factors. When farmers made their planting decisions for the 2013 production year, CWB changes were in effect for only several months. Additionally, there are a number of logistical factors (transportation, infrastructure, and services) that have yet to be ironed-out. Some of the changes are directly related to the loss of the CWB's monopoly, while other changes have more to do with industry adjustment to the new grain marketing environment. The latter includes, for example, some of the changes that have been made to services once provided by the Canadian Grain Commission. These factors will have an impact on the market environment, but this impact won't be quantifiable until infrastructure is finalized and the market has fully adjusted. In many respects the market is currently operating like "business as usual." Drought conditions in the United States have also contributed to the atypical nature of the current market environment. 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.

In production year 2013 (MY 2013/2014), wheat plantings are expected to increase from a year ago. A Reuters poll of 15 analysts shows that spring wheat planting is expected to go up 4%. Other analysts have predicted that planting could go up 5-10%. Statistics Canada will come out in late April with their planting intention estimates. Attractive prices are expected to lure producers to wheat, perhaps at the expense of canola, a crop that disappointed in yield in the last production year. In the 2013 production year we expect to see a diversion from the longer term trend where wheat acreage follows upon canola planting decisions. In recent years, wheat has been rotated with canola approximately every two to three years, or as often as producers feel that they can push the limits.

Currently, the price spread between high protein and feed wheat is tight. If any premium on high protein wheat arises, it may not occur until the summer, too late for producers to change their planting decisions. Livestock herds are being rebuilt, which will put upward pressure on demand for feed going forward.

Trade

Wheat imports in MY 2012/2013 are forecast to decrease by 19% to 400 TMT. Regulatory changes to the CWB are not anticipated to result in an increase in wheat imports in MY 2012/2013. 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.

Wheat exports in MY 2012/2013 are forecast to reach 18,500 TMT, a 7% increase over MY 2011/2012 estimated levels and above the five-year average of 18,000 TMT. An increase in supply resulting from an increase in production, positions Canadian exports to meet growing demand and production deficiencies in North Africa and the EU.

Domestic Consumption

Post forecasts domestic consumption of wheat in MY 2012/2013 at 8,662 TMT, which represents a decrease of 11% from the domestic consumption levels in MY 2011/2012. Wheat for feed use is forecast to fall 24% to 3,700 TMT from year MY 2011/2012 estimated levels. Wheat for food, seed, and industrial use is forecast at 5,150 TMT in MY 2012/2013, similar to year MY 2011/2012 levels. No increase in wheat for biofuel usage is expected at this time as there are no new wheat-feedstock biofuel plants scheduled to go on-line in MY 2012/2013.

Stocks and Supply

Stocks in MY 2012/2013 are forecast to increase 4% as production will not be high enough to offset exports and domestic feed consumption.

Wheat Canada	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Aug 2010		Market Year Begin: Aug 2011		Market Year Begin: Aug 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	8,296	8,296	8,553	8,553	9,500	9,500
Beginning Stocks	7,829	7,829	7,176	7,176	5,879	5,879
Production	23,300	23,300	25,288	25,288	27,200	27,200
MY Imports	444	444	488	488	400	400
TY Imports	429	429	496	496	400	400
TY Imp. from U.S.	330	330	397	397	0	0
Total Supply	31,573	31,573	32,952	32,952	33,479	33,479
MY Exports	16,575	16,575	17,352	17,352	18,500	18,500
TY Exports	16,768	16,768	17,603	17,603	18,500	18,500
Feed and Residual	2,972	2,972	4,621	4,621	3,700	3,700
FSI Consumption	4,850	4,850	5,100	5,100	5,150	5,150
Total Consumption	7,822	7,822	9,721	9,721	8,850	8,850
Ending Stocks	7,176	7,176	5,879	5,879	6,129	6,129
Total Distribution	31,573	31,573	32,952	32,952	33,479	33,479
1000 HA, 1000 MT, MT/HA						

Barley:

Production

Supply is expected to be down about 2% in MY 2012/2013 as stocks remained low going into the year and production increased by only 1.5%, well below the five-year average of 9,700 TMT. Weather and depressed prices limited barley production in recent years.

Post projects that Canadian barley planting in production year 2013 (MY 2013/2014) will remain unchanged from a year ago. The trend of planting wheat, oilseeds and pulses at the expense of barley is expected to continue. Downward pressure on barley planting may be offset by expectations of a new price dynamic, following the integration of the North American feed grain market.

Changes to the CWB may result in changes to the types of barley that Canadian producers plant as Canadian maltsters will be able to have more direct relationships with the Western Canadian barley producers. In recent years, there has been a significant increase in artisanal beer production in Canada. Along with the "Buy Local" movement, has been a movement for the artisanal breweries to source their hops locally.

Trade

Demand for barley imports has been relatively small and stable over time. Barley imports are forecast to reach 25 TMT in MY 2012/2013. Generally, nearly all barley imported into Canada comes from the United States.

Low supplies resulting from low production has limited barley exports in recent years and kept barley exports well below the five-year average of 1,655 TMT. Post forecasts exports in MY 2012/2013 to remain close to flat. Despite the increase in production in MY 2012/2013, barley exports remain limited by low supplies.

Domestic Consumption

Domestic consumption has been limited by supply in recent years. Total domestic consumption for barley in 2012/2013 is forecast to increase only slightly above year MY 2011/2012 levels of 6,903 TMT, remaining below the five year average of 8,225 TMT. Nearly 85% of the domestic usage of barley is for feed purposes. Domestic consumption for feed use in MY 2012/2013 is forecast to edge up only slightly over MY 2011/2012 levels of 5,697 TMT. Barley for food, seed, and industrial use is forecast to remain near MY 2011/2012 levels of 1,206 TMT.

Supply and Stocks

Lower supplies in recent years caused by low production levels and steady domestic demand resulted in extremely low carry-out stocks for MY 2012/2013, about 20% lower than beginning stocks of 1,247 TMT.

Barley Canada	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Aug 2010		Market Year Begin: Aug 2011		Market Year Begin: Aug 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2,394	2,394	2,402	2,402	2,750	2,997
Beginning Stocks	2,583	2,583	1,541	1,541	1,247	1,247
Production	7,627	7,627	7,892	7,892	8,010	8,012
MY Imports	44	44	16	16	25	25

TY Imports	53	53	10	10	25	25
TY Imp. from U.S.	53	53	5	5	0	0
Total Supply	10,254	10,254	9,449	9,449	9,282	9,284
MY Exports	1,207	1,207	1,299	1,299	1,300	1,300
TY Exports	1,052	1,052	1,437	1,437	1,300	1,300
Feed and Residual	6,310	6,310	5,697	5,697	5,600	5,784
FSI Consumption	1,196	1,196	1,206	1,206	1,200	1,200
Total Consumption	7,506	7,506	6,903	6,903	6,800	6,984
Ending Stocks	1,541	1,541	1,247	1,247	1,182	1,000
Total Distribution	10,254	10,254	9,449	9,449	9,282	9,284
1000 HA, 1000 MT, MT/HA						

Corn:

Production

Corn production in MY 2012/2013 increased 15% over the previous marketing year to 13,060 TMT.

Biotech corn plantings have been steadily increasing, and biotech corn currently accounts for 71% of all corn planted in Canada. Traditionally, Quebec and Ontario are the primary corn-growing regions, accounting for 86% of total Canadian corn acreage. The adoption of biotech varieties in 2012 totaled 335,000 hectares for Quebec and 755,000 hectares for Ontario. Quebec has 74% of their total crop as biotech, up from 47% in 2007. In Ontario in 2012, about 75% of total corn planted was biotech, up from 41% in 2007. In 2012, Post started including Manitoba in the calculation of the estimate for the total biotech corn seeded in Canada, given the upward recent trend in corn seeding intentions in the province (a 67% increase in overall corn acreage in 2012 compared to 2011). The main biotech crops in Canada remain canola, corn and soybeans, with small amounts of sugar beets added recently. More information is available in Post's Agricultural Biotechnology Annual (2012) report:

http://gain.fas.usda.gov/RecentGAINPublications/AgriculturalBiotechnologyAnnual_Ottawa_Canada_07-20-2012.pdf

Trade

Corn imports are expected to fall somewhat in MY 2012/2013, down from an already low 2011/2012 level of 872 TMT. This decrease is in part due to high domestic supply due to increased production in Canada. The five-year corn import average (2005/2006 to 2009/2010) is approximately 2,236 TMT. MY 2011/2012 corn imports were 872 TMT, well below historical trends. Nearly all corn imports come into Canada from the United States.

MY 2012/2013 exports are forecast to increase about 185% over MY 2011/2012 levels of 493 TMT. The expected increase is driven by higher demand in the United States coupled with increased production in Canada. Exports in MY 2012/2011 fell after historical high corn exports in MY 2010/2011 of 1,709 TMT. The MY 2010/2011 jump in exports was due to high domestic supplies resulting from a bumper corn crop, as well as strong demand from the United States. The five-year average for corn exports (2005/2006 to 2009/2010) is 396 TMT.

Domestic Consumption

Domestic consumption has remained relatively steady, although there has been an increasing usage of corn for industrial purposes due to the use of corn as a feedstock for biofuel production. This trend is forecast to continue in MY 2012/2013 as domestic consumption is forecast to increase about 3% to 12,000 TMT.

Supply and Stocks

Corn ending stocks in MY 2012/2013 are forecast to increase due to increased production.

Corn Canada	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Sep 2010		Market Year Begin: Sep 2011		Market Year Begin: Sep 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1,235	1,235	1,272	1,272	1,420	1,418
Beginning Stocks	1,738	1,738	1,278	1,278	1,350	1,350
Production	12,043	12,043	11,359	11,359	13,060	13,060
MY Imports	959	959	872	872	500	790
TY Imports	984	984	747	747	500	700
TY Imp. from U.S.	983	983	744	744	0	0
Total Supply	14,740	14,740	13,509	13,509	14,910	15,200
MY Exports	1,709	1,709	493	493	1,500	1,400
TY Exports	1,658	1,658	494	494	1,500	1,400
Feed and Residual	6,788	6,788	6,431	6,431	6,500	6,500
FSI Consumption	4,965	4,965	5,235	5,235	5,500	5,500
Total Consumption	11,753	11,753	11,666	11,666	12,000	12,000
Ending Stocks	1,278	1,278	1,350	1,350	1,410	1,800
Total Distribution	14,740	14,740	13,509	13,509	14,910	15,200

1000 HA, 1000 MT, MT/HA

Oats:

Production

Oat planting pulled back, and area harvested to fell from 1,084 TMT in MY 2011/2012 to 956 TMT in MY 2012/2013. Production fell 15% from MY 2011/2012 levels to 2,684 TMT, well below the five-year average of 3,802 TMT.

In production year 2013, oat plantings rates are expected to remain flat or go down slightly. Oats continue to be priced as a feed grain and net returns continue to be lower than wheat, corn and barley. Oat supplies are expected to continue to tighten.

Trade

Imports are expected to rebound to 20 TMT in MY 2012/2013, above the five-year average of 18 TMT. Generally, nearly all oats imports into Canada are from the United States.

Oats exports in 2012/2013 are forecast to remain nearly flat due to sufficient supplies, supported by increased beginning stocks, to meet sustained demand from the United States. Exports for MY 2012/2013 are forecast at 1,700 TMT and remain below the five-year average of 1,827 TMT, but above

the MY 2010/2011 export levels that resulted in part from wet planting conditions and low supplies which limited exports. Oat exports in 2010/2011 were 1,375 TMT.

Domestic Consumption

Reduced domestic demand, in part due to large amount of feed wheat available coupled with low supplies of oats, has resulted in domestic consumption falling in recent years and remaining well below the five-year average of 1,902 TMT. In MY 2011/2012, total consumption hit a six-year low of 1,374 TMT. MY 2012/2013 is expected to show a continuation of the downward trend, with domestic consumption forecasted to fall about 7%.

Supply and Stocks

Lower than average stock levels combined with low production levels in the last three years have limited oats exports and domestic consumption usage. Carry-out stocks in 2012/2013 are forecast to decrease as a forecasted decrease in production will not be offset by carry-in stocks. Stocks in MY 2012/1013 are expected to fall to 600 TMT.

Oats Canada	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Aug 2010		Market Year Begin: Aug 2011		Market Year Begin: Aug 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	892	892	1,084	1,084	960	956
Beginning Stocks	1,175	1,175	753	753	812	812
Production	2,451	2,451	3,158	3,158	2,680	2,684
MY Imports	24	24	13	13	20	20
TY Imports	18	18	11	11	20	20
TY Imp. from U.S.	18	18	10	10	0	0
Total Supply	3,650	3,650	3,924	3,924	3,512	3,516
MY Exports	1,374	1,374	1,738	1,738	1,700	1,700
TY Exports	1,497	1,497	1,764	1,764	1,700	1,700
Feed and Residual	753	753	604	604	525	525
FSI Consumption	770	770	770	770	750	750
Total Consumption	1,523	1,523	1,374	1,374	1,275	1,275
Ending Stocks	753	753	812	812	537	541
Total Distribution	3,650	3,650	3,924	3,924	3,512	3,516
1000 HA, 1000 MT, MT/HA						

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.

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 take 50% of CWB offering and 50% from other Canadian companies, 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-sfraais-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.

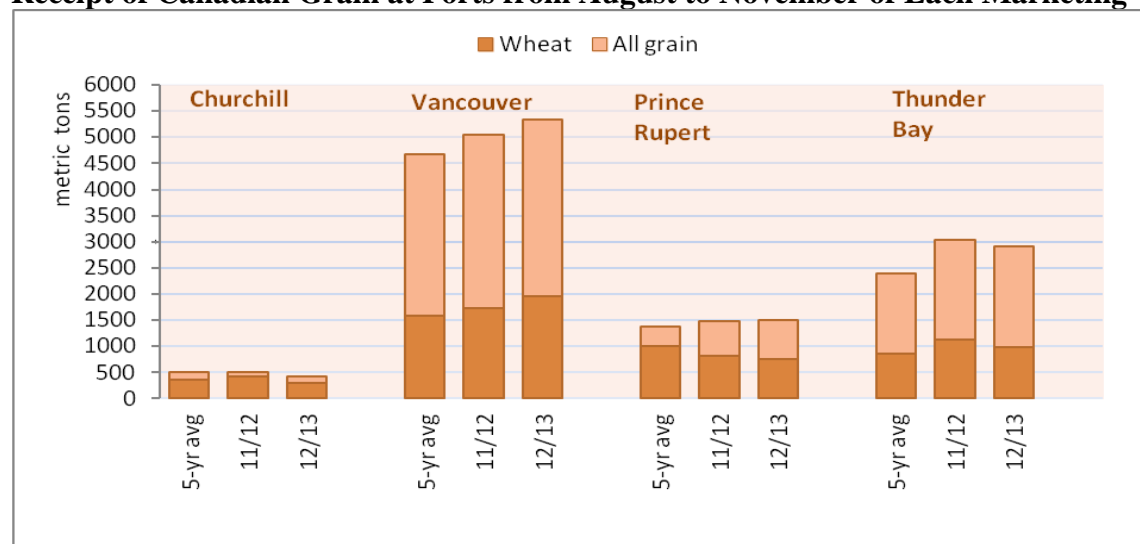
Support for Port of Churchill

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.

As of publication date, three companies have been awarded the subsidy, 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 CPUP is now closed for the 2012 shipping season. The “economic incentive rate” for 2013 will be published in spring 2013.

In 2012, use of the port was down 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.

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.

In January, Canada National Railway (CN) announced that its grain and fertilizer handle

Varietal Registration Requirements

An additional, on-going issue, independent of the end of the CWB monopoly, is 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 not eligible for any Canadian grade other than feed grade. 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.

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.

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. The group has also prepared a questionnaire 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.

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>