



►► Canada Grain Act Review and Industry Goods: Lessons from Australia

Dr. Monika Çale, Associate Professor and Head, Department of Economics, University of Regina; and Dr. Richard Gray, Professor, Department of Agriculture and Resource Economics, University of Saskatchewan

April 8, 2021

Canada's grain industry continues to innovate at a breakneck pace, with grain exports growing by five per cent a year during the past decade. At the farm level, improved crop genetics, precision seeders, zero tillage, and diverse crop rotations have led to an intensification of production. Continued growth in global population and income have expanded markets. In addition, significant investments in rail capacity, inland and port terminals have increased capacity to move grain through growing multinational supply chains. These innovations raise the question whether Canada's grain quality management system continues to meet the end-to-end needs of the grain supply chain.

In an effort to modernise the regulatory framework of the Canadian grain industry the Canada Grain Act is currently under review, most recently entering the industry consultation phase (AAFC, 2021). During the last decade, grain industry and marketing channels have undergone significant changes including the removal of single-desk marketing powers of the Canadian Wheat Board (CWB) in 2012 and the implementation of Plant Breeders Rights in 2014. In addition, Canada faces increasing competition from both traditional exporters

and emerging new players like Black Sea states. All these changes raise the issue of how regulations could be amended to meet current industry needs effectively and efficiently in a highly competitive environment. This Policy Brief examines whether there are lessons to be learned from how Australia ensured industry-related public goods in its domestic grains sector as it transitioned to a more de-regulated market from the single-desk marketing regime of the Australian Wheat Board.

One critical consideration of the review is its effect on the perceived quality of Canadian grains. The Canada Grain Act gives the Canadian Grain Commission (CGC) the authority and the resources that enable it to provide a number of industry goods related to grain quality. The CGC plays a direct role in variety registration and in management and enforcement of grading standards. Additionally, CGC interacts regularly with other organizations and industry stakeholders that impact grain quality. Until 2012, the CWB also played a central role in quality management, not only through direct activities in marketing, logistics and customer service, but also through its funding for the Western Grains Research Foundation and for the Canadian

International Grains Institute (Cigi), thus supporting research for developing new varieties and technical training for domestic and international end-users of Canadian grains.

With elimination of the CWB, many of these activities are now performed by other industry players, including the private grain trade, the newly established provincial wheat commissions, and new funding model for Cigi. Therefore, this review takes place in a context with very different industry players and incentive structures from the last review of 1985.

In its discussion document initiating the review, Agriculture and Agri-Food Canada (AAAF) identified four main issues: access to binding determination of grade and dockage; producer payment protection; CGC licencing; and official inspection and weighting (AAAF, 2021). As Weisensel (2020) notes, the private trade in Canada has been critical of the CGC outward inspection in terms of service levels and fees which are typically higher than those charged by the third-party private inspections. The reason for higher CGC inspection fees is that they include the overhead costs of providing other industry services with public good characteristics such as classification, grade administration and impartial grade dispute resolution.

Recent funding surpluses of the CGC, combined with the general thrust towards deregulation within the industry, has resulted in grain marketing firms advocating for a smaller role for the CGC in quality assurance system. If regulatory changes would limit CGC's role in inspection activities, that could in turn curtail its ability to fund the provision of other industry related services. In this Policy Brief, we bring attention to the critical importance that other industry goods play in achieving a well-functioning quality assurance system. We draw some lessons from the Australian Wheat Quality Management System, since Australia followed the deregulation path earlier than Canada and had to redevelop new organizations to carry out valuable industry functions (Çule et al., 2021).

►► The Australian case

Until 2008, the Australian Wheat Board (AWB) played a central role in quality assurance and provision of numerous industry goods. In addition to administering the classification system and variety registration and publishing the trading standards, the AWB was deeply involved in market development and analysis, market intelligence and feedback to breeders to target certain functionalities, technical training of end-users to work with Australian wheat, all of which are industry functions that enhance the quality. Given the single-desk marketing powers of AWB, the adequate provision and funding of these complementary industry functions were easily achieved within its centralized structure.

After the elimination of AWB, new organizational and institutional

arrangements were needed to fill the void of providing industry goods pertaining to quality. They were relatively fast to emerge for industry goods, such as preserving the integrity of classification or the grading/trading standards, which were deemed critically valuable by all industry players. Since 2012, the Wheat Quality Australia (WQA) has administered the wheat classification system. Additionally, without any governmental directive, publication and administration of the Trading Standards was taken over by Grain Trade Australia (GTA), whose core mission is to facilitate grain trade. While GTA membership is open to all firms operating in the grain industry, membership tiers would place bulk grain handling and marketing companies as significant players.

Other industry goods, such as market intelligence, generic promotion and technical training for using Australian wheat, complement the quality assurance, and their adequate provision enhances the performance of the quality management system. However, being more prone to free riding, un-fragmented organizations for these services were much slower to emerge. Overcoming some initial challenges, the Australian Export Grain Innovation Center (AEGIC) established itself as the chief provider in this space in the last few years. In addition, market intelligence regarding the desired functionality attributes, and the end-user willingness to pay for them in various markets is very important for breeding programs in a market-based classification system. In Australia this information feedback is facilitated to some degree in the WQA Council through the participation of representatives from breeding, grain trade, farmer organizations and AEGIC.

As a result of lengthy negotiations among major industry stakeholders such as Grain Growers, Grain Producers Australia, Grain Trade Australia and Grains Research and Development Corporation (GRDC), a major industry development took place in March 2020, with the founding of Grains Australia (GA). As an independent company, GA aims to consolidate and streamline industry services. The scope of industry functions and the extent of transition of services from other organizations into the new model has yet to be determined and operationalized (GRDC, 2020).

During the transitional period of deregulation, Grains Research and Development Corporation has continuously played a central, albeit less direct role in leading the provision of industry goods primarily through funding. For instance, GRDC has financed the operation of Wheat Quality Australia from its creation, eventually becoming its sole funder. In addition, the GRDC has provided a significant portion of the Australian Export Grain Innovation Center financing in partnership with West Australian State Government. Understandably, given the diverse and often competing interest of industry stakeholders, new organizations face many challenges to credibly establish themselves. GRDC financing facilitated their operation amid many uncertainties, something that afforded them the time and opportunity to evolve, mature and establish themselves as organizations that add value for the industry. It

is not surprising to also see Grains Research and Development Corporation playing a critical role in founding of Grains Australia not only in negotiations among stakeholders, but also providing the entire funding for its operations.

▶▶ Lessons from Australia

Given the particularly central role that CGC plays in the quality assurance, what lessons from the Australian case can we draw regarding its activities? Understanding that any institutional evolution is highly dependent on local context, we offer a number of general observations expressed with a degree of caution. Despite the similarities pertaining to the removal of single-desk marketing powers of Wheat Boards and the similar global competitive pressures faced by both Canada and Australia, important differences exist in the structure of providing industry functions and in the key industry players, some of which derive directly from regulations.

First, unlike Canada where the Canada Grain Commission has historically administered wheat classification and the grade management, in Australia both these functions were provided by the Australian Wheat Board before deregulation of 2008. Deemed critical for the quality system and strongly supported by the industry, they nevertheless had to be transitioned to new funding arrangements and organizations like Wheat Quality Australia and Grain Trade Australia. Although in Canada these activities were not directly affected by the marketing deregulation and elimination of the Canadian Wheat Board, there is a valuable lesson from the Australian case. The transaction costs of interruption, reorganization and coordination are real and non-negligible, even for functions that are considered valuable by the entire industry. These costs should not be ignored when contemplating any changes in the way these functions are provided. Their complementarity with other industry services and the enhanced benefits from joint provision should be given a careful consideration. If the Grain Act review would result in any changes in CGC activities, the long-term funding models for carrying out these functions should be agreed upon before transition.

Second, unlike Canada, the grain trade (handling and marketing) in Australia has more proactively organized itself with an industry association like Grain Trade Australia. Despite the competitive positions of grain companies with one another, GTA is a reflection of their successful collective actions to ensure a common voice and representation in various industry organizations. However, regarding operational support, GTA's contribution is limited mostly to in-kind contributions, while the Grains Research and Development Corporation has been the primary funder of industry goods. In Canada grain trade comes together under Cereals Canada (CC). With the 2020 merger of CC and the levy funded Canadian International Grains Institute (Cigi), Canada is creating an industry

organisation that can play a role in market development. While the whole industry could benefit from a more coordinated and unified representation, it is unlikely that the grain companies will voluntarily fund the provision of these industry goods.

In Australia, the Australian Export Grain Innovation Center, Wheat Quality Australia, and Grain Trade Australia to some extent, provide breeders with important information about current and future buyer demand for wheat quality attributes. In Canada, Cigi and the Canadian Grain Commission work with domestic and international customers and provide important feedback through the quality committee of the variety approval process. If revisions to the Grain Act scale back activities of the CGC, it is important to assess how this would impact the quality feedback to the breeding community.

Closely related is the technical training of international customers, activities that in Australia were transitioned to AEGIC only in the last few years. Such interruption in the post single-desk era in the Australian context should bring about appreciation for Cigi's continued work in carrying out these activities in Canada. This should also serve as a useful reminder for the industry to maintain a sustainable funding model for such activities in the future.

The most recent development of Grains Australia to consolidate the provision of industry goods provides perhaps the most important lesson for Canada.

The most recent development of Grains Australia to consolidate the provision of industry goods provides perhaps the most important lesson for Canada. After more than a decade of organizational and institutional changes in Australia, the industry has come full circle. The prevailing model for providing industry goods was undeniably an element of centralization that was present in the single-desk era. The "one-stop shop" model implied within the core functions of GA clearly demonstrates the need for coordination and joint provision of industry goods that are complementary in nature, which can be achieved more effectively in a centralized structure. As the Canadian Grain Act review contemplates any changes to the activities that are centrally provided by Canadian Grain Commission, close attention should be paid to the complementary nature of these activities and whether their funding can be viably sustained if these activities are decentralized, separated or delegated to third parties.

Both Canada and Australia currently have few organisations that play a dominant role in grain quality management. In Canada the Canadian Grain Commission is responsible for the classification, development and enforcement of grading system, while the

recently merged CC and Cigi take on the functions of market development and customer relations. In Australia, Wheat Quality Australia, Grain Trade Australia and the Australian Export Grain Innovation Center play a role in quality management system. Specifically, WQA administers classification, GTA manages the grades and ongoing customer relations, while AEGIC provides strategic market development and customer training found in Cigi. Canada may have a better mix of functions for resolving grain quality disputes because Cereals Canada and Cigi can call on the Canadian Grain Commission as an independent third-party quality verification, to adjudicate on trade disputes. While GTA provides trade resolution services through certified arbitrators, the disputes pertain violations of non-quality terms of contract.

Grains Research and Development Corporation, the national grower levy and government-funded corporation, has evidently played a critical role in funding and facilitating industry organizations to fill the AWB void after the deregulation. Currently, there is no similar entity to GRDC in Canada that could step in to single-handedly address industry wide concerns during transitional times. Hence, contemplating any changes in the CGC activities regarding quality assurance should be approached with awareness on how likely it is in the current Canadian context to achieve successful industry collective actions.

As for funding the industry functions, in Australia, AEGIC, WQA and the newly formed GA are all funded via GRDC levies. In Canada, the revenue from the required inspection fees of the CGC is used to support many of the other industry good-related activities of the CGC. If this revenue source is eliminated or significantly reduced, then the current CGC industry good activities must be funded in some other way. Eventually they may have to be funded by provincial Wheat Commissions, which have access only to refundable levies. This funding model could not only increase the scope for free-riding but would also reduce the Commissions'

ability to support other activities, such as research and breeding. Perhaps more importantly, an elimination or reduction of CGC activities would likely result in shifting these activities under the control of the Cereals Canada – Cigi partnership. Such shift, in turn, could jeopardize resolution of buyers disputes by a third-party and impartial entity, a role currently performed by the CGC.

Another stark difference that we need to highlight is the level of funding in Australia. Endpoint royalties, which flow back to largely GRDC (producer) controlled breeding companies, InterGrain and AGT, are in the neighborhood of \$60 million per year. With the one percent levy, plus the half per cent Commonwealth Contribution, the GRDC raises another \$200 million per year. In sharp contrast, the royalties for the public wheat varieties released in Canada, amount to slightly more than \$5 million a year. Additionally, the \$1 per tonne refundable check-off on wheat amounts to another \$40 million. Although the wheat sector is smaller in Australia, producers have roughly four times as much money in their control, which can provide funding for industry related goods. If the industry related public goods provided by the Canadian Grain Commission have to be funded by producers, this will considerably jeopardize the system, which perhaps, is already significantly underfunded relative to Australia.

In closing, perhaps the greatest lesson to be learned from Australia, is that while the industry explored a number of options, in the end, it evidently redeveloped an effective quality management system that provides many of the same functions as we currently see in Canada.

Please view the online version of this brief for additional information, including tables that list and describe the various agricultural entities in Australia and Canada, and references.

ISSN 2369-0224 (Print) ISSN 2369-0232 (Online)



Monika Çule

Dr. Çule is an associate professor and Head of the Economics Department at the University of Regina. Dr. Çule holds a PhD from the University of Saskatchewan, Agricultural Economics Department and completed a Postdoctoral Fellowship with the Center for Studies in Agriculture Law and Environment at the University of Saskatchewan in 2004.



Richard Gray

Dr. Gray is a professor in the Agriculture and Resource Economics Department at the University of Saskatchewan. Dr. Gray is the Canadian Grain Policy Research Chair and is on the board of directors for the Canadian Agriculture Policy Institute. Since 2003 has led the Canadian Agricultural Innovation Research Network.

The Johnson Shoyama Graduate School welcomes submissions for Policy Briefs from our readers. If you have a subject idea that is current, topical and relevant to the public policy debate, please contact Policy Briefs editor Dale Eisler at dale.eisler@uregina.ca.

People who are passionate about public policy know that the Province of Saskatchewan has pioneered some of Canada's major policy innovations. The two distinguished public servants after whom the school is named, Albert W. Johnson and Thomas K. Shoyama, used their practical and theoretical knowledge to challenge existing policies and practices, as well as to explore new policies and organizational forms. Earning the label, "the Greatest Generation," they and their colleagues became part of a group of modernizers who saw government as a positive catalyst of change in post-war Canada. They created a legacy of achievement in public administration and professionalism in public service that remains a continuing inspiration for public servants in Saskatchewan and across the country. The Johnson Shoyama Graduate School of Public Policy is proud to carry on the tradition by educating students interested in and devoted to advancing public value.

For more information on the Johnson Shoyama Graduate School, visit www.schoolofpublicpolicy.sk.ca