



THE CANADIAN CHAMBER OF COMMERCE
LA CHAMBRE DE COMMERCE DU CANADA

2004 Proposed Resolutions

Finance and Taxation

Reforming the Canadian Wheat Board to Promote Economic Growth in Western Canada

The Canadian Wheat Board (CWB) has a monopoly over the sale and use of Prairie wheat and barley for Canadian consumption and for export.

It does not exert the same market control over these grains in other parts of Canada. Nor are similar controls in place for other products like corn, soybeans, and canola. Instead, they operate in a voluntary, free-market system. As a result, growth in value-added processing in commodities outside of the CWB has been much stronger than for those products and areas controlled by the CWB.

For example, in the 2002-03 crop year, 76% of soybean production and 53% of canola production was absorbed by domestic food and industrial uses. The Ontario Wheat Producers Marketing Board indicates that approximately 55% of its crop is processed in the province. Western Canada, however, processes less than 6% of the wheat produced in the Prairie region controlled by the CWB.

This lack of value-added grain processing in Western Canada has been largely caused by the CWB monopoly. It extracts a price premium for domestic processors of wheat and barley resulting in a complex regulated system that increases costs, reduces competitiveness, and creates a disincentive to value-added investment. It creates a system where Western farmers producing the same crop as their Eastern counterparts earn significantly less. The CWB also establishes barriers through its significant influence over the transportation system and transportation policy, grain variety licensing, and other grain regulations.

These monopoly restrictions are being exerted in a marketplace that is rapidly shifting from a commodity-based system to one of differentiated products. These developments fundamentally alter the market needs of many farmers.

In the grain industry there is a movement toward creation of differentiated products otherwise known as identity preservation (IP). Those who are involved in differentiation currently realise less value from CWB price pooling. A free market system would enable farmers to respond to market demand for IP products and earn a premium return in recognition of their innovation. That return is as significant for the individual farmers as it is to Canada as a whole. The Grain Growers of Canada estimate that every dollar earned by agriculture will generate another six dollars in the general economy.

Changes are also occurring in other ways: from the size, complexity and sophistication of modern farms to the ease with which individuals can obtain current and accurate

information on markets all over the world. Greatly improved access to information, through the use of computers and the Internet, puts many individuals in a very different bargaining position than previously.

As the needs and capability of the farmers change, so too do the needs for Western Canadian economic development.

A voluntary CWB – eliminating the monopoly but not necessarily the organization – would benefit both producers and the Western Canadian grains based value-added industry. Producers would realise lower costs and higher returns. The value-added industry would realise greater investment that, in-turn, would create a significant number of new jobs.

A 2002 study on the CWB's effect on Western Canadian value-added development was conducted by the George Morris Centre. It concluded that limitations created by the CWB have restricted Western Canada's economic growth by \$300 million to \$1 billion per year. In addition, it estimated that removing the monopoly could stimulate grains-based value-added industry worth between \$1.4 billion and \$2.87 billion. In addition, employment in the value-added industry would grow from 7,600 people to between 12,800 and 25,000 people.

Increases in value-added processing in Eastern Canada and for crops outside of the CWB's mandate exceed the level of processing for Western Canadian wheat and barley. The George Morris study clearly defines similar exciting opportunities exist for wheat and barley. This development would benefit farmers while adding jobs and much needed encouragement to our young people in rural communities who have been leaving an increasingly challenging, competitive and uncertain agricultural economy.

The Agriculture Policy Framework also supports this type of economic development. It calls for innovation throughout the agri-food value chain so that investors and customers can be confident in Canada's ability to succeed today and into the future.

Further, the potential for economic growth and job creation signals that CWB operations and elimination of the CWB monopoly should be key Canadian economic policy. This will ensure our farmers and rural communities assume their position as the prime, prosperous, economic driver that they can be.

The CWB's one size fits all monopoly model no longer fits the marketplace. The vast economic benefits and opportunities presented by IP grains and the ability to quickly respond to market demands will go to the producing nation that can move first. That means Canada must address CWB shortfalls immediately.

Recommendations

That the federal government stimulate grain-based value-added business development in Western Canada by:

1. Immediately adjusting legislation to provide Western Canadian farmers and value-added processors the voluntary option to participate in the CWB; and
2. Immediately introducing Canada's free market principles in Western Canada's wheat and barley industry.

**SUBMITTED BY THE RED DEER CHAMBER OF COMMERCE, CO-SPONSORED BY THE
CALGARY CHAMBER OF COMMERCE AND THE REGINA CHAMBER OF COMMERCE
THE ECONOMIC POLICY COMMITTEE SUPPORTS THIS RESOLUTION**