



## **Canadian Grain Commission Licensing Function Review 2004-2005**

### **Executive Summary**

#### **Background**

Under the Canada Grain Act, the Canadian Grain Commission (CGC) is responsible for regulating grain handling in Canada. As part of meeting its responsibilities, CGC undertakes a licensing process whereby the Commission establishes certain requirements of those handling Canadian grain and monitors them for compliance with those requirements. The objective of the licensing function is to make grain companies financially accountable to producers as well as ensuring that producers are paid promptly if a licensee fails to meet its obligations.

#### **Review Objectives and Evaluation Methods**

The objectives of this Review were to:

- Identify issues surrounding the data used and methodology in the calculation of security required for the liability of licensees;
- Assess the appropriateness of controls related to security requirements and monitoring activities;
- Recommend any opportunities to improve ongoing sufficiency of security levels and monitoring activities.

We based our Review on information gathered from three basic activities:

- A review of documentation related to existing protocols and processes in functions related to licensees;
- In-person interviews of CGC program managers who work in support of functions related to licensees;
- Phone interviews of selected licensees including Grain Dealers and operators of Primary and Process Elevators (Licensee Questionnaire).

#### **Licensee Views of the Licensing Function**

Respondents to the Licensee Questionnaire stated that the main advantage their company has in being licensed was the general sense of security producers felt in dealing with them. Licensees noticed that many producers outside of their immediate catchment area were particularly interested if the grain company was licensed or not. Being a licensed company provided some immediate credibility.

Disadvantages to being licensed tended to centre around three main issues: cost of garnering security; time needed to prepare monthly reporting and the yearly renewal process; and, licensees perception of an uneven playing field when competing with

unlicensed companies. There is an overwhelming belief among licensees that the CGC needs to be provided with “teeth” under the Canada Grain Act in enforcing the licensing provision.

Licensees were asked about the CGC’s clarity in providing instructions on preparing forms and clarity and timeliness in responding to written and verbal communications. Overall, licensees believe the CGC does a credible job in providing instruction on the completion of application and reporting forms, but was lacking in the timeliness of responding to written and verbal communications.

### **Reporting Function**

For the most part, licensees did not have specific suggestions to lessen the paperwork involved with the reporting process. However, through interviews with CGC managers, suggestions were offered as to how the internal reporting and monitoring functions could be enhanced.

**1) Web-based Reporting Capabilities:** The CGC currently has web-based reporting for grain statistical reports and weigh-over reports. However, the CGC does not provide licensees with the opportunity to submit their monthly reports through a web-based system.

**2) Update of Internal Database Capabilities:** A database already does exist, however an enhancement of the current system to allow the CGC to run various reports such as logs that show which licensees are delinquent in submitting various reports, and which licensees are over their security, would provide for a more internally streamlined system.

**3) Audit Capacity:** In order for the CGC to continue to determine, maintain, and audit the accuracy of licensee’s reports, consideration must be given to enhance the existing audit capacity whether it be through re-organization, hiring, or sub-contracting.

### **Security Function**

It was made explicit through licensee interviews that the considerable cost of the security function was the most important issue facing licensees. Suggestions were made as to how licensees would amend the present security function. It is the desire of licensees that the system is more efficient, lessening the time and cost to themselves and the CGC. Their suggestions for modification to the existing security function were fourfold:

**1) Graduated Licensing:** The CGC had previously used a graduated licensing system where licensees were required to provide security in accordance with a Security Level Ratio system. Many of the licensees would support a return to this system and suggest that the number of insolvencies over the last number of years

does not warrant the existing requirement to have 100% of producer liabilities covered.

**2) Debt-Rating Services:** A requirement to have all grain licensees evaluated by a debt rating service to obtain the benefits of reduced security requirements could be a more economical alternative. Those companies in strong financial health receiving a better debt rating would require less security, while those in a more tenuous state would require up to 100% security. Those licensees opting out of paying for the debt rating service would continue to acquire security for 100% of their liabilities.

**3) Third-Party Insurance Provider:** It is the licensees' belief that the costs of providing security through a third-party insurance provider will initially be lower and that over time the costs will continue to decline. It is also thought that the reporting process will be more efficient for both the licensee and the CGC due to the ability to report electronically on a daily basis. Nonetheless, licensees understand that they will continue to be expected to post security (insurance) based on a 100% requirement to cover producer liabilities.

**4) Single Limit Policy:** Licensees believe that the estimated \$300 million in security currently posted by the industry is unnecessarily high. Since 1998 there have been six licensed companies that have gone into receivership, totaling \$5.6 million in liabilities to producers. The suggestion was made that a single limit policy be put in place where all 110 licensees are secured under an umbrella policy.

The cost of the premiums could be taken on by either the CGC at a rate possibly less than present administration costs or the premiums can be covered by licensees on a pro-rata basis.

### **Key Review Findings**

- The advantages of being licensed are seen as minimal;
- The licensing advantages listed on CGC promotional materials, including their website, are not considered by licensees as being of significant benefit to their operations;
- Licensees maintain the disadvantages of being licensed are many, including the time needed to satisfy the CGC's reporting requirements and the considerable costs of ensuring security;
- Licensees believe they are over secured as an industry and want to see significant changes to lessen the financial burden;
- Licensees want to see the CGC streamline the reporting system, including less paperwork and including the provision of a web based reporting system;
- More opportunities need to be provided by the CGC to encourage dialogue with licensees. Licensees want to be provided with a forum where they have some ability to provide input to CGC licensing policy;
- Licensees have stated that the very legitimacy of the CGC rests upon their ability to ensure all grain companies abide by the Canadian Grain Act and are licensed;

- The basic premise that licensees need to provide security for producers was considered to be fundamentally flawed;
- It is with frustration that licensees see the CGC as having unilateral rights under the Canadian Grain Act in setting security requirements and in modifying licenses.

## **Major Recommendations/Overall Program Considerations**

The following presents an overview of the major program recommendations contained within this Review.

*Consider options presented in this Review respecting alternatives to the existing security function.* Licensees made clear that the need for security is their greatest expense. They consider the entire industry to be unnecessarily over secured. The alternatives suggested in this Review may also work to lessen the financial burden of the CGC in their administration of the security function.

*Enhance enforcement of the licensing provision under the Canada Grain Act.* After the cost of security, licensees believed this to be the second most important issue facing licensed operations in western Canada. Some licensees even went as far as to say that the very legitimacy of the CGC rests upon this issue. In order to develop a level playing field grain operations need to be provided with a deterrent from operating without a license.

*Provide greater opportunities for licensees to provide input to CGC licensing policy.* Licensees clearly expressed that they do not believe they have sufficient opportunity to influence CGC policy. A committee of representatives including licensees, community and licensee consultations and licensee focus groups were some of the ideas articulated. These communicative vehicles could act as reporting instruments to the licensees on on-going policy issues, and ultimately as forums of resolution.

## **Organizational Issues**

- *Review the CGC's current standards in responding to written and verbal correspondence.* Licensees suggested that the CGC did not always respond to their correspondence in a timely manner. Consideration should also be given in ensuring that acknowledgements of receipt of correspondence are quickly issued.
- *Examine the present database system in order to improve the processes used to monitor licensees.* A database already does exist, however an enhancement of the existing system would prove useful in allowing the CGC to run various reports it presently cannot. Reports such as logs showing which licensees are delinquent in submitting reports or which licensees are over their security would contribute to the efficiencies of the reporting and audit functions.
- *Make web-based reporting of liabilities a priority for the Executive Management Committee.* The CGC currently has web-based reporting for grain statistical

reports and weigh-over reports. However, the CGC does not provide licensees with the opportunity to transmit their monthly reports through a web-based system.

- *Look for means to provide greater audit capacity, whether it is through re-organization of the existing Auditing Unit, the hiring of more full-time staff, or through sub-contracting.* In order for the CGC to continue to determine, maintain, and audit the accuracy of licensee's reports, consideration must be given to enhance the existing audit capacity.