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March 31st, 2010

Producer Payment Security Steering Committee
c/o Mr. Rod Scarlett
Project Manager, Producer Payment Security Project
Executive Director, Wild Rose Agricultural Producers
#102, 115 Portage Close
Sherwood Park, AB
T8H 2R5

Dear Mr. Scarlett:

**Re: Evaluation of Producer Payment Security Mechanisms,
Phase II: More Detailed Assessment of Insurance and Fund-based Approaches**

Scott Wolfe Management Inc. is pleased to provide the Steering Committee with our Final Report in the further evaluation of insurance and fund-based mechanisms for producer payment security in Canada.

This document offers analyses and some considerations for the possibilities for expanded use of payables insurance, and for the further understanding of the potential for a fund-based approach. We understand the producer groups will be using this document as a basis for discussions and as possible input to the policy development process regarding producer payment security. This is an important contributor to the ongoing improvement of the risk management strategies of grain farmers in western Canada.

The reader Is encouraged to refer to the report of Phase I: Evaluation of Producer Payment Security Mechanisms, dated March, 2009 for overview and options for producer payment risk management.

Scott Wolfe has appreciated the opportunity to further assist the pulse, special crop, oilseed and grain industry in this important initiative, and for the opportunity of working with the Steering Committee.

Sincerely,
SCOTT WOLFE MANAGEMENT INC.
Per:

Robert S. Hyde, CAC, CMC
President

EVALUATION OF PRODUCER PAYMENT SECURITY MECHANISMS

Phase II: More Detailed Assessment of Insurance and Fund-based Approaches

FINAL REPORT

on behalf of the
Producer Payment Security Steering Committee

Submitted by
SCOTT WOLFE MANAGEMENT INC.

March 31, 2010

TABLE OF CONTENTS

I. INTRODUCTION

BACKGROUND

Farmers can be at risk for not being paid for the grain they sell to licensed primary elevators, process elevators and grain dealers. In some situations, a grain company goes out of business due to financial failure. At other times, a grain buying company is unwilling or unable to pay a farmer. Producer payment security is a major risk for Western Canadian farmers. Mitigating the risk of payment to producers is a highly desired goal among producers. The magnitude of the prospective losses, while historically not large under the scope of the current system, could be significant. The current system offers payment security to producers within the scope of the Canada Grain Act and has mitigated risk to the producer; the level of risk is intrinsic in the industry now. However, changes have been proposed to federal legislation on several occasions that would result in non-payment risk within the grain industry. Producers have expressed a need for cost-effective strategies, investigation of options, and development of appropriate tools for guaranteeing payment. The current security-based system has been a subject for debate and evaluation for many years; producers, industry and government should continue to define and evaluate viable alternatives to offer a level of payment security to producers.

In late 2008, the cereals, pulses, oilseeds and special crops sectors, in co-ordination with the western Canadian provincial based producer organizations formed a Steering Committee to further assess the options for future management of producer payment security. The Steering Committee engaged Scott Wolfe Management Inc. to examine all potential options that could replace bonding of grain buyers as required under the current Canada Grains Act, and provide payment security to growers once they have delivered their grain. The Phase I Report was finalized in March 2009. Part of the output from the Phase I was identifying the next steps to consider in moving forward in this complex industry challenge. The next steps were identified:

- government and regulators should confirm and define the future authority and operating environment;
- producers and grain buyers should request input from prospective risk management product suppliers (insurance brokers, underwriters, financial institutions) for product / service solutions for the industry to consider; and,
- producers and grain buyers should develop a proposed business case for a fund-based alternative approach to payment risk management; more detailed definition and assessment of operations and administration is required to determine its potential application to producer payment security.

This project, Phase II: More Detailed Assessment of Insurance and Fund-based Approaches, continues from the initial project. Notwithstanding that there is considerable support for the current security-based system, it has been proposed that Phase II activities be undertaken to identify and assess the potential expanded utilization of insurance (payables and receivables) and/or fund-based approaches to provide payment security to growers once they have delivered their product.

CONSULTING OBJECTIVES

The overall objective of this project was to identify and assess the potential utilization of insurance (payables and receivables) and/or a fund-based approach to provide payment security to growers once they have delivered their product.

Due to timing and funding constraints for Phase II, the project ultimately focused more narrowly on defining and assessing a likely scenario of producer payment security mechanisms available to farmers if the current system were to change. The objective became:

- to outline and assess the producer payment security mechanisms which could be available to, and utilized by, farmers and industry, if the current system were to be changed.

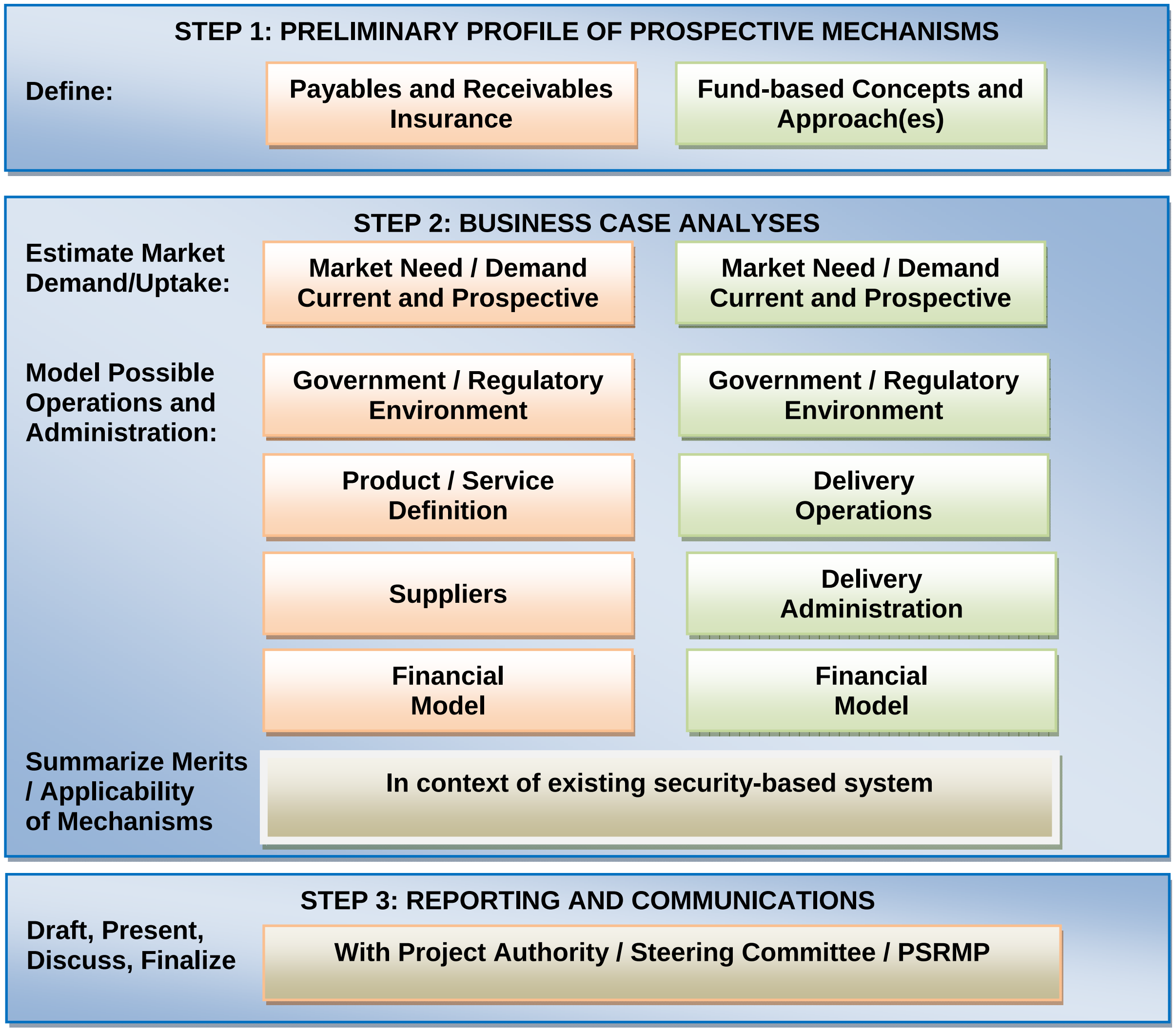
The Phase II project considered the following key issues of scope:

- continue to consider grains, oilseeds and specialty crops covered currently under the Canada Grain Act;
- insurance is currently used as a component of security within the current security-based system. This project is to consider alternative applications of insurance;
- in addition, potential uses of a fund-based approach will be defined and modelled;
- potential impacts to the farming and grain industry will be outlined;
- will not result in detailed business case assessment of any option, nor will there be a recommendation for a preferred producer payment risk management solution; and,
- the results of the project will be reported in a succinct and pragmatic style to illustrate:
    - identification of opportunities for the expanded use of insurance in providing payment security to growers of grains, oilseeds, pulses and special crops in Canada;
    - model(s) of potential fund-based approach(es), including key operating requirements, which could offer an alternative approach to providing payment security to growers of grains, oilseeds, pulses and special crops in Canada; and,
    - consolidation of the assessment in the context of the full range of possible solutions, including the current security-based model.

The clearinghouse model, where a third party guarantor provides settlement services and ensures that both buyers and producers (the sellers) are able to meet their contractual obligations, was considered in the Phase I analyses. Mechanics of clearinghouse operations could assist in payment guarantee to the producer. However, in recent months the development efforts for a clearinghouse model have been discontinued due primarily to the lack of industry commitment to the concept. Consequently, this Phase II has not considered potential utlization of any aspects of the clearinghouse model.

This project has been funded by the Private Sector Risk Management Partnerships Program of Agriculture and Agri-food Canada. An overview of the work plan of the project is illustrated in Figure 1.

Figure 1. Overview of Workplan



This report will assist each representative group on the Steering Committee to conduct follow-on consultations with their respective participating organizations and stakeholders. This will further develop awareness and understanding of viable mechanisms and tactics to assist in the management of producer payment risk.

II. PAYABLES AND RECEIVABLES INSURANCE

As outlined in Phase I, an insurance based concept is typically characterized by the following attributes:

- issuance of a license to purchase grain;
- payment of an insurance premium, based upon individual risk assessment, either by buyers (payables) or by farmers (receivables);
- the risk assessment determines the premium levels – it is risk rated;
- actuarial computations determine the features of the product, i.e. level of coverage, deductible;
- the product requires underwriter(s), and a distribution system;
- there are considerable reporting requirements of the buyer to a regulatory, or an alternative monitoring / enforcement, body;
- the costs of the risk mitigation are paid by a buyer and/or by the farmer / seller; and,
- the documented policy defines what is covered by the insurance.

Examples of this concept include:

- Special Crops Insurance Plan (SCIP), which was proposed in the 1990's, subsequently further evaluated, and ultimately not supported for implementation[1];
- the Insurance Payables tool for exports, underwritten by the Export Development Canada (EDC)[2]. The EDC typically provides a Financial Services Guarantee to the grain buyer's financial institution;
- the Insurance Payables tool, brokered by AON Reed Stenhouse, underwritten by Atradius, and currently utilized by grain buyers; As most grains, oilseeds, and special crops are exported, the EDC also provides support by sharing the risk by reinsuring the product on the back end. In addition and in response to the worldwide credit crisis, the EDC's mandate has been expanded from strictly support to export sales, to also enabling some support to domestic sales (currently extends to March 2011); and,
- the recently developed and proposed Canadian Wheat Board (CWB) Insurance Trust (pending approval by the CWB Board of Directors).

Insurance is available as a means of providing security within the current system; it is referred to as credit insurance where grain buyers pay a premium for an insurance product to cover the risk of failure to pay producers for product delivered. Credit insurance is

[1] as a voluntary program, the projected level of producer participation was insufficient to make the insurance instrument actuarially sound.

[2] The EDC provides a wide range of financial service products related to payment risk mitigation for export markets: including Insurance solutions (accounts receivable insurance, single buyer insurance, contract frustration insurance, EXPORT*Check* (credit profiles), documentary credit insurance, political risk insurance, bank factoring insurance, EXPORT*Protect*); Financing solutions (EXPORT*ExpressCredit*, export guarantee program, Canadian direct investment abroad, foreign buyer financing, bank guarantee program, lines of credit, note purchases, project finance, equity investments, security compliance loan; Bonding solutions (performance security guarantee, performance security insurance, surety bond (re) insurance, financial security guarantee, foreign exchange facility guarantee); and Knowledge tools (export market / country information). Many of these products are offered in collaboration with private industry.

increasingly being used by grain companies within the current security-based system. It is now utilized by approximately 45 of the 166 licensed grain buyers.

Credit insurance enables tailored solutions where premium costs can be defined basis the risk within a set timeframe. For example, risk may be variable throughout the buying cycle, and/or the buying may be for only variable periods throughout the year. The level of coverage needed may vary and the product may be priced accordingly.

For credit insurance, volume is critical to pricing. Risk assessment typically results in relatively lower premiums for the larger grain companies, due to their size and capital strength. The smaller, less capitalized companies usually are characterized by having a higher rate, but a smaller overall premium, due to the smaller security limit needed. The more grain companies utilize insurance, the stronger and more cost effective the program becomes. Mandatory utilization of credit insurance is not a current program feature; the grain buyers'options include letters of credit, cash deposited, and / or bonds placed.

The current use of insurance in the existing security-based system is viewed as simple and as cost effective as it can be at this time for any grain company to participate. Yet, there is not 100% uptake due to:

- buyers not meeting criteria and/or risk assessment;
- for cash rich buyers: tying up cash may not an issue, or considered a considerable cost;
- some lack of awareness of some grain buyers; and / or,
- the diversification of some grain buyers may enable the security required for purchasing to be supported by capital from other parts of their business.

The possible future utilization of payables insurance is described as follows:

PROSPECTIVE UPTAKE	COMMENTS
Within current security-based system	Increasing use of payables insurance: by over 45 buyers in replacement of letters of credit and security bonds. It is consdered more flexible and less expensive by users; it may not be the best solution for all buyers.
Insurance payables tool for export	EDC has supported in the past, currently, and will continue to consider for the future.

PROSPECTIVE UPTAKE (Continued)	COMMENTS

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Prospective CWB Insurance Trust Concept	Pending use for board grains; continues to be considered by the CWB for additional risk management feature for buyers of Board grains. Needed / would only be considered with a change to the current system?
Buyers responsibility to provide payment security	Is there need for a regulator to define the need for buyers to provide payment security?, or will the market determine the need? Is the industry seeking free market principles and buyer/seller beware, or is regulation preferred? The market opportunity will determine the prospective uptake of payables insurance product(s).
Quantify the product need	There is an estimated average of 2% to 4% of farm cash receipts (fcr) outstanding to producers at a point in time; with the higher percentage for lower volume / higher per unit value crops. The need is variable across grain buyers as a result of the individual grain buyer risk assessments. The total outstanding producer payments obviously varies by commodity value; it is estimated to be from $200 million to a recent high in 2009 of over $400 million.

REGULATORY ENVIRONMENT	**COMMENTS**
Canada Grain Act	There may be a need for re-defining the role of the CGC with changes to the Act, vis-à-vis licensing, risk assessment, and compliance and enforcement functions. There is risk of overlap of functions in the industry.
Opportunity for insurance industry	The considerable product development effort and related product development costs may limit the interest of underwriters / suppliers. The EDC would be interested in working with / partnering in some way with any insurer.
Role of provincial-based agencies	These entities are not likely to develop a receivables insurance product, but there may be possible interest / a role for distribution. All three provincial agencies are looking for alternative product delivery concepts to supplement current products as the “farmers’ insurer”. Possible synergies exist for cross provincial border collaboration.

REGULATORY ENVIRONMENT (Continued)	**COMMENTS**

Mandatory versus voluntary	Continues to be a contentious issue; mandatory inclusion forces possible efficiency gains. Can stability of the grain industry sector be a feature with voluntary participation in producer payment security? Could stability be enhanced with mandatory offering of insurance by the buyer to the seller, but optional acceptance by the seller/farmer?

PRODUCT / SERVICE DEFINITION	COMMENTS
Payment of premium	Paybles insurance premium is paid by grain companies based on risk assessments and ability to stay in business, rate ranges exist from 0.5% to 2% of working capital needs.
Comprehensiveness	Need for more comprehensive coverage? Beyond current licensed buyers (165) and crops (21) within the Canada Grain Act? Payables insurance outside of the CGA could, in theory, enable coverage beyond the 21 crops and currently licensing criteria.
Level of coverage	Loss limits below 100% would reduce costs; 80% loss limits may provide base of coverage necessary. There is a need to define loss limits for payables insurance; the limit could vary by crop, and / or by grain buyer.
Use of a deductible to reduce cost Use of riders to extend coverage	Insurance industry product concepts could be further developed and utilized as necessary to assist in appropriate pricing levels and to implement more efficient coverage levels throughout the buying cycle.

SUPPLIERS / ADMINISTRATION	COMMENTS
Multiple versus individual supplier(s) of insurance product	The costs of product development may prohibit additional suppliers / underwriters. The market opportunity will determine the number of suppliers.
Data management	There is the opportunity for possible sharing of risk assessment / analyses. Other industries utilize disclosure of risk ratings, i.e. early warning system? Investment in information management and disclosure may reduce costs in producer payment security.
SUPPLIERS / ADMINISTRATION (Continued)	**COMMENTS**

Need for third party risk assessment	Currently, there are multiple players undertaking risk assessments: the CGC as it pertains to the current producer payment security system under the Act, by the CWB in the management of their accredited industry selling agents, by Ontario's Agricorp in the Business Risk Management Sector's responsibilities for the operations of the funds, and by individual sellers (farmers, primary elevators, agents/brokers) in everyday transactions. The risk of having, and potentially increasing, the multiple risk assessments completed would continue without third party risk assessors.

FINANCIAL MODEL / ESTIMATED COST CONSIDERATIONS	COMMENTS
Does not require indemnification or collateral; free of encumbrances	Offers possibilities for alternative uses of collateral to grain buyers.
Risk assessments	A centralized, third party service could promote efficiency. Information disclosure could promote efficiency. Undertaking assessments as required (level of risk deterimines frequency), could promote further efficiency. (estimated annual costs from $1.5 million to $2.0 million).
Compliance and enforcement activities	Third party service. Base costs, plus variable claims dependent portion. Should continue to consider other licensing and quality monitoring and enforcement activities of the CGC, minimize overlap of resources. (estimated annual costs dfrom $0.5 million to $1.0 million).
Annual licensing fees to cover risk assessment, compliance and enforcement activities.	If cost recovery from buyers is a goal, could be from $12,000 to $15,000 per buyer (total annual operational cost estimates of $2.0 million to $2.5 million annually / estimated 166 licensed grain buyers). If cost recovery from producers is a goal, could be from $30 to $40 per producer (estimated 60,000 farmers).
Estimated insurance costs	Insurance premiums: .5% to 2% of working capital needs; Order of magnitude insurance cost estimate: $300 million x 1.25% (average) rating = $2.5 million
Summary of estimated annual costs	Risk assessment: $1.5 million to $2.0 million; Compliance and Enforcement: $0.5 million to $1.0 million; Insurance: $2.0 million to $3.0 million; Total: $4.0 million to $6.0 million

An alternative product for risk management could be receivables insurance, where farmers would pay a premium directly to a distributor for an insurance product to cover the risk of failure of receipt of payment for product delivered. Provincial crop insurance agencies cold be the distrbutor for such a product concept; these organizations currently work with private company re-insurers now in the design and delivery of other insurance-based product. However, there is no body of knowledge of this product concept in the agencies at this time. Further, it would likely take an estimated two years for the provincial agencies to investigate the feasibility, design the product, and to potentially have it available to farmers-sellers.

The development and distribution of receivables insurance has a number of prospective complications:

- there is a large number of farmers / individual sellers, involving risk assessment and an individual insurance policy for each buyer for every farmer-seller;
- the insurance would likely be based upon a profile of prospective buyers for the farmer-seller. However, there will be required changes to the risk assessment as the farmer-seller will often change grain buyer(s) that the commodity is ultimately sold to. The grain buyer involved may not have been considered in the initial risk assessment and insurance product initially designed;
- depending on market signals, availability of required inputs, and weather conditions, the commodity that is ultimately grown, particularly for late-seeded crops, can vary. Possible variation to risk assessments late in the season could be required;
- the weather dependency on what is ultimately sold, in terms of the quality/grade of crop harvested could also alter the risk assessment of the buyers for the farmer-seller;
- there can be changes in the risk assessment of buyers throughout the year, due to their financial stability;
- the agencies have provincial boundary authority, whereas producer payment security is a prairie-wide issue (buyers buy commodities prairie-wide); and,
- if it were voluntary for the farmer to use such a product and variable uptake of the insurance product resulted, there may not be actuarial soundness.

Each of the complications adds increased administration; increased administration results in higher costs.

The design of the product could be simplified by pooling areas of risk that is to be considered, i.e. by region, by crop, and/or by grain buyer. This concept may reduce the anticipated significant costs of administration. However, there are views in the industry that receivables insurance would be too costly to be a practical option.

III. FUND BASED APPROACH

A fund-base producer payment security mechanism is the accumulation of contributed dollars by producers, buyers, or both, to cover risk. Such a fund can be referred to as a "producer assurance fund" as it is not an insurance fund – rather it provides assurance to producers that payment will be made. Fund based mechanisms can involve varying models for the control of these funds including control by a board, or by a government agency. The fund typically involves having a financial backstop (*e.g.* government or bank). Fund contributions start at a particular level and are expected to decrease over time, unless significant failures and payouts occur. They become self-sufficient over time in meeting their operating costs, as well as any liability from claims of non-payment. A recently completed actuarial review of Ontario's Grain Financial Protection Program concluded that the four funds continue to be actuarially sound; these four funds were established in 1984 (corn and soybeans), 1989 (canola), and 2004 (wheat).

Possible fund based approach features include:

PROSPECTIVE UPTAKE	COMMENTS
Fund needs to be commodity specific?	Cross subsidization would likely occur if it is not commodity-specific; may be acceptable for some grouping of commodities (would be determined by degree of same buyers by commodities).
Quantify the need by commodity	Fund levels accumulate to "at risk level" commerce / trade; it is actuarially determined, defined, and challenged for sustainability.[3] In total, the current security in place by grain buyers for the 21 crops within the scope of the Canada Grain Act is estimated to be from $250 million to $400 million, approximatley 4% of the fcr. Levels may lower for some commodities than others.
Possible supplement to a base level of coverage defined by public policy	It is possible that the fund is designed to be a "top-up" strategy for those commodities that wish to implement, or for those buyers, who are determined to be higher risk.
Buyer participation	By approved license, however, what is the criteria for a grain buyer to participate; to meet thte licensing requirement?

[3] Current fund levels in Ontario: exceed $2.0 million for wheat [less than 1% of annual fcr); canola exceeds $800,000 [approximately 9% of annual fcr; corn is close to $5.8 million [approximately 1% of annual fcr]; and for soybeans, $3.3 million [less than .5% of annual fcr].

REGULATORY ENVIRONMENT	COMMENTS
Canada Grain Act	There would be a need to define the role of the CGC with changes to the Act if the CGC was to have any role in a fund-based approach.
Commodity groups / associations	Each producer group's own constitution and by-laws could govern the management of their respective commodity funds.
Over-seeing Board / body	Would likely be public sector and industry complement; could be multiple commodity for efficient governance. Would also likely be responsible for claims' review and administration.
Scope of the crops, need for 21 crops?	Could be considered for all crops under the CGAct, additional, or fewer crops.
Loss limit / coverage	This would need to be defined, i.e. 80%? 90%? 100%? Loss limits below 100% would reduce costs; 80% loss limits may provide base of coverage necessary.
Mandatory versus voluntary	Need for mandatory participation of farmers-sellers to ensure fairness in design and to ensure sustainability. Current farmer-sellers could contribute higher rates than future farmer-sellers. A rebate policy could possibly exist for farmer-sellers exiting the business; however could be more complex than worthy.
Scope of the buy-sell transactions	Funds could be used as a potential tool for incremental payment security to a base level of security, i.e. 50%, where the base level is provided by an alternative approach. Could be considered for selected commodities, or for selected buyers. All transactions could be made possible if ability to track and trace transactions were in place. Farm to farm sales not likely included.

DELIVERY OPERATIONS	COMMENTS
Commodity-specific	Producers make contributions in proportion to their sales. The contributions are deductions made by the buyer and submitted to the fund (the flow of funds can be to a commodity association for a series of check-offs and then the payment security deduction is made by the association and sent to the fund) Check off to administrator, i.e. respective Grower Associations?; part of broader funding approach which may currently exist, (i.e. research, market development, quality management)

DELIVERY OPERATIONS (Continued)	COMMENTS
Cross-subsidization?	Is likely to exist without commodity-specific funds.
Claims Processing	Claims are made if payment is not received within a defined period of time after shipping grain, i.e. 10 days, or 2 days if grain is in storage in the elevator. Late payment may be defined as soon as 3 days after the sale is made when funds are transferred electronically. If there is payment default, the program contributes loss limit % of product value (settlement price) or estimate of market value on day of default when price is not known. Financial risk increases as the time between product delivery and actual payment increases. Limits need to be placed on when a claim can be made.
Licensing function	Buyers must be licensed. A purchase cannot be made unless the buyer is licensed, and / or, the program does not cover sales to unlicensed buyers (such as in grain to unlicensed buyers or through farm to farm sales). The CGC would still require a licensing function for other safe-guarding functions. It may be important to utilize these resources / expertise.
Risk Assessment function	Multiple resources / overlap will likely continue. Opportunity to consolidate?
Possible "Top up" to security levels provided by the fund(s) of higher risk buyers	Licensing would typically be an annual process and requires a review of audited financial statements, as well as other data requested by the program administration. If the applicant (the buyer) passes a financial test (based on some financial ratios, etc), then no additional security may be required. However, if the applicant does not get a pass on the financial test, then some type of security may be taken to "top-up the security. This can range from letters of credit to taking security on an asset to posting shareholder loans to the administrator. Letters of credit could be based on the monthly volume of purchases by a buyer.

DELIVERY ADMINISTRATION	COMMENTS
Single versus multiple administrators	There is opportunity for centralized administration for efficiency; the trade-off being flexibility in design to accommodate unique requirements for some commodities. Would each Grower Association be interested in such levels of administration?
Education and awareness	A key program success factor is having producers aware of the fund design, and their responsibility (e.g. knowing the timeframe for payment, when to advise the program administrators of default, ensuring that buyers are licensed, and knowing deferred payment programs are higher risk exposure).
Data management	Potential cost savings with centralized / consolidated approach. Should be designed as electronic transfer only. Ambiguity arises when payment is through the mail versus electronic transfer, as the producer may believe the cheque is in the mail. There is the opportunity for possible sharing of risk assessment / analyses. Other industries utilize disclosure of risk ratings, i.e. early warning system? Investment in information management and disclosure may reduce costs in producer payment security.
Adjudication of claims	Should likely be completed by a centralized function, overseen by a responsible Board, to enable efficiencies.
Risk assessment – completed by 3rd party	Also should likely be completed by a centralized function, overseen by a responsible Board, to enable efficiencies.

FINANCIAL MODEL / ESTIMATED COST CONSIDERATIONS	COMMENTS
Need for seed money	Guarantee level of coverage at the outset is needed; by farmer-sellers? by buyers? by governments? cost shared? Start-up costs will be incurred. Repayment of start-up costs could be considered as the funds mature.
Funds build to a desired level	Contribution rates would be low compared to product value (e.g., Ontario's Grain Financial Protection Program Fund rates are .05 cent per tonne of wheat, .05 cent per tonne of oats, 2 cents per tonne of canola, 20 cents per tonne of edible beans). Need to consider the opportunity costs of the $ when invested in funds, when defining the level of rates. Rates should decrease over time as fund levels reach actuarial sound levels. A portion of the future funds could be considered refundable, depending upon the determined actuarial soundness of the funds.
Who pays?	Producers direct versus producers indirect versus buyers direct? It is possible that a payment could be made more than once on the tonnage, with more than one sale possible (i.e. to primary elevator and to processor).
User pay for administrative costs	User pay for all costs of administration could be a principal from the start of the fund.
Annual license fees	If cost recovery from buyers is a goal, could be from $12,000 to $15,000 per buyer (total annual operational cost estimates of $2.0 million to $2.5 million annually / estimated 166 licensed grain buyers). If cost recovery from producers is a goal, could be from $30 to $40 per producer (estimated 60,000 farmers).
Summary of estimated annual costs (per commodity fund)	Start-up "seed" money (assurance of coverage by farmers, buyers, government) Board goverance: $50,000 to $75,000. Board, claim administration (dependent per claim): from $0 to $100,000. Fund management (professional fees, actuarial testing, and reporting): $25,000 to $50,000 incurred by Grower Groups / Associations. Risk assessment, compliance and enforcement (based on 4 to 6 FTE, plus capital needs, plus support functions): $250,000 to $400,000. Total: $325,000 to $625,000 (Centralized Board, licencing, risk assessment, compliance could reduce to $50,000 to $100,000 per fund)[4].

[4] For 21 individual commodity funds, total annual costs could range from $5.0 million to $8.0 million

IV. SUMMARY

In a scenario with the elimination of the current security-based system, payables or credit insurance would likely continue. However, this risk management tool would require a delivery structure / organization for centralized administration, risk assessment and enforcement and compliance. Possibilities could include continued administration and delivery through the CGC, the CWB for board grains, commodity associations with an umbrella organization for co-ordinating the required services, provincial production insurance agencies, and (a) possible emerging private organization(s). It is believed that this risk management mechanism would not likely continue if producer payment risk was voluntary and if it was the grain buyers' responsibility to provide to the marketplace.

With the elimination of the current security-based system, farmers would unlikely see much cost saving coming back to them from the grain companies. Payment security is considered a minor cost to most grain companies, recognizing that it is relatively a more significant cost to individual small grain companies participating in large transactions. Differences in costs between the varying tools and mechanisms to be considered would be not significant. Cost is not likely to be the key decision factor in determining viable options.

However, operating efficiencies may be gained if unique solutions are defined for the differing needs / segments of the industry – the differing needs as determined by risk assessment. Solutions and the related costs could be aligned with payment risk.

Higher risk elements may require more than one mechanism. There may not be one solution to manage all producer payment risk - there may be a range of risk management tools available to mitigate producer payment risk. There can be multiple tools and solutions for different sectors / components of the industry.

There are multiple enterprises who would be interested in potential participation in the development of solutions. These range from financial institutions, EDC, provincial insurance agencies, private inspection-related bodies, insurance underwriters, and the CWB. Producer commodity groups are cautious of the fund approach due to foreseen increases in costs and administrative resources. Producers are also cautious of evolving to a risk mitigation environment outside of the current regulated regime, where there is a minimal number of suppliers. Many industry participants continue to support the current security-based system with ongoing refinement and improvement.

For any risk management strategy and option to be developed and used effectively, there is need for public policy / regulatory authority to enable market stability through the use of the tools and mechanisms available, both for any possible transition period to the development and implementation of alternative mechansims and for ongoing operations of the current system.