

Testimony by Terry Tyson, Grain Procurement Manager, Grain Millers Canada Corp.

Good Morning Mr. Chair and honorable members of the committee. Thank you for the opportunity to present our thoughts to you today regarding the opportunities and challenges facing the organic agriculture sector. Other people addressing you today will discuss other important topics, including data collection, the organic principles and standard, the threat posed to the sector by GMO alfalfa, and transportation issues. As such, I will focus my thoughts on the state of the market, the opportunities that are present for the Canadian organic sector, and how the Canadian government can help build supply capacity in the sector such that we can capitalize on those opportunities.

Grain Millers, Inc. is a food ingredient manufacturer headquartered in Eden Prairie, MN. We operate in 11 locations out of 4 countries, and employ over 900 uniquely talented people committed to providing safe, high-quality food products. Our Canadian operations are based in Yorkton, SK, and we have facilities and partnerships across the prairies, including in Saskatoon, SK and Rycroft, AB. Our core business is the manufacture of oat food products, but we also provide multi-grain blends, corn products, flax products, and other specialty grains and food ingredients.

Across all segments of our business we participate in both the conventional and organic sectors, and we have done so since our company's inception over 30 years ago. While conventional markets still underpin the majority of our volumes, growth in most conventional sectors has been slow or flat over the past several years. During that time, the organic sector has provided a significant contrast. We have experienced double-digit annual growth year-over-year for the past fifteen years in the organic sector, with the exception of a small period of flatness during the teeth of the financial recession of 2008.

More recently, it has become increasingly apparent that the marketplace for organic and specialty food ingredients will continue to grow. Respected market participants are projecting that organic food could comprise as much as 25% of the US food market by 2025 (that stands at around 4% today). Virtually every major food company – and many smaller ones – are looking for ways to differentiate their products. Our customers and their customers – consumers – are increasingly demanding healthy, nutritious food that is produced in a transparent, sustainable way, and many of them are equating that choice with organic products.

While the demand for these products continues to grow, the supply chain has not kept up. As a result, varying crop interests vie for production within the acreage base available each year in highly competitive fashion. Inevitably, each year there are shortages of some commodities that lead to prohibitive commodity price runs, and complete stock drawdowns. This has led to the rationing of demand in some cases, and to high-priced imports displacing Canadian production in others. Depending on origin, the organic integrity of imported product can also be suspect, which poses a threat to the credibility of the entire sector.

Ultimately, it is this supply uncertainty that presents the largest challenge and stifles growth in the sector. Counterintuitively, adding supply-side production does not pose a significant threat to organic commodity prices. Increasing supply in Canada would first serve to displace imports, and would also serve to embolden food companies wishing to join the sector to do so. Over the past few years we have

had multiple major food companies approach us with interest to enter the organic sector, either by transitioning existing product streams into organics, or by developing new streams within their companies. Many of those companies have not taken that step because of concern over supply. We have not been in a position to assuage those concerns. In fact, we have spent a lot of time and effort working with some of them on strategies to transition supply from conventional to organic so that they could eventually take that step.

For that reason, we have taken a very active role in the development of the Prairie Organic Development Fund (PODF). I am President of PODF, which is an industry-funded entity designed to help build capacity in the organic sector by providing financial support to the provincial organizations, as well as to innovation through research, development, and extension initiatives. The provincial organizations fill the vital role of providing a recognizable and respected voice for advocacy and government relations, as well as a delivery mechanism for extension programs. The innovation funding will provide support for specific projects designed to better the sector. Currently, all innovation funding is being directed to the Prairie Organic Grain Initiative, which Becky Lipton just described previously. It is worth noting that as we developed PODF and started to seek industry funding, the level of support forthcoming from stakeholders was pleasantly surprising. Getting money from industry participants can be very difficult. It speaks to these supply-side issues that virtually everyone we approached was a willing listener, and most listeners became cheque-writers. When multi-national companies such as Grain Millers, General Mills, Nature's Path, Dave's Killer Bread, and Clif Bar aren't just willing, but actually excited to have a place they can put money into an organized effort to strengthen the sector, it again speaks volumes about the situation, and those companies' perception about where their money can make an impact. Their investments in PODF are investments directly into western Canada's organic agriculture sector.

Perhaps no one is better positioned than Canada to capitalize on this organic demand. While developing countries can bring dormant acres into organic production immediately, Canada's agricultural infrastructure and support, our long history of agricultural innovation, and our proximity to the largest organic market in the world offer Canadian producers – and the Canadian economy – an extremely exciting opportunity. Unlike much of the US, Canadian agriculture has not been reduced to a one- or two-crop game. Canadian farmers generally still take pride in fostering biodiversity, and in shepherding their land and their resources – qualities that fit so well with the organic sector. As well, while land values in western Canada have climbed significantly over the last decade, they remain relatively affordable, which makes land accessible to smaller farmers. Not to say that large farms can't thrive in an organic system – many do, and more and more view transitioning some acres into organics as a diversification strategy – but there is no question that the stewardship involved with organic farming, as well as the returns, offers ways to keep more western Canadians on the land, and slow the gradual stagnation of rural economies.

Having said all of that, making the transition from conventional to organic can be a daunting step for farmers. The transition process, with the exception of freshly cleared or broken land, takes three years, during which yields inevitably suffer, while returns remain at conventional prices. Eventually, yields often start to come back closer to conventional yields, but that usually doesn't happen until several years of organic production have improved soil health. While organic commodity prices offer a strong

incentive for farmers to consider transition, the current reality of highly leveraged farming operations and tight cash flows, make taking that step a very significant and risky leap of faith. As a result, I've had several farmers tell me that they can't transition acres because of their debt structure, and others that have made the transition explain that the first person they had to get on side was their banker.

Besides the economic risks of the decision, cultural factors also play a huge role. In many areas, there is still a stigma associated with organic farming (one of unpaid bills and dirty fields). In addition to that peer pressure, there is also the uncertainty of departing from long-held (and relatively easy) practices and embracing new methods. Concerns about what their fields will look like, and what their yields will be, keep many farmers from taking the leap.

As a result, I would urge the government to consider taking steps to reduce the impediments farmers face with transitioning acres to organic production. To address cultural impediments and doubt-related inaction, that could mean increasing investments in organic breeding and agronomy research. Through the development of genetics uniquely adapted to flourish under organic production systems, and the continuous improvement in production practices through scientifically executed trial-and-error, the gap between conventional and organic agronomic performance can continue to be closed, while employing more environmentally friendly and sustainable systems.

To address the financial impediments, the development of programs to assist farmers in "weathering the storm" could have significant long term payoff for Canada's agriculture and agri-food sector, and for the economy as a whole. In many other jurisdictions, such assistance programs exist. There could be any number of ways to provide assistance, ranging from outright grants or cost reimbursements to some form of premium stabilization program, whereby organic premiums that will be realized could be borrowed against during transition.

While the sector faces some significant hurdles, it is worth stressing that they are the good kind of hurdles – those borne of growth. Consumer demand for specialty products continues to increase, meaning that this growth opportunity will persist. I thank you for taking the interest in learning more about our sector today, and I hope I have helped illuminate some of the ways you may be able to assist Canadian organic stakeholders in meeting their challenges and capitalizing on voracious consumer demand.

Respectfully,

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