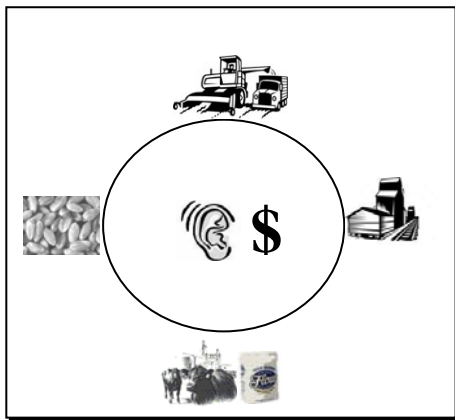


**Fostering Innovation and Sharing the Costs
 A Certified Seed Tax Incentive
 By
 The Canadian Seed Trade Association
 December, 2007**

The Canadian Seed Trade Association appreciates the opportunity to respond to the request of the Chair of the Committee for more information on certified seed and the proposal to develop a tax incentive for farmers who purchase certified seed.

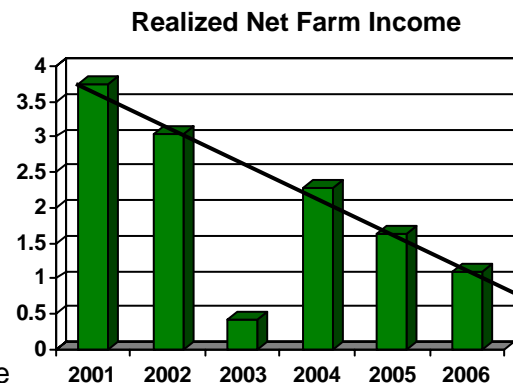
The Value Circle



It is often said that the agriculture and agri-food sector operates on a value chain, where each stakeholder is linked to a supplier and a customer.

CSTA believes that in order for the entire sector to benefit, it should operate as a value circle, where each stakeholder around the circle can see and must listen to the other; should understand that everyone around the circle is affected by everyone else around the circle; and understand that all around the circle must profit in order for the circle to stay whole.

In 2003 and 2004, stakeholders around the value circle could see that the circle was breaking. Farmers were experiencing the worst farm income crisis in decades, as they were forced to compete against bulk producers in emerging agricultural producing countries and against the subsidies of the European Union and the United States. It was against this backdrop that the circle turned to the long term advantages that can be created for farmers through innovation.



Innovation Starts with the Seed

Innovation increases productivity – seed driven innovation is a proven contributor to increased productivity. For example: over the last 15 years corn yield has increased by 59%; canola yield has grown by 27% and Ontario wheat yields have increased 62%. New varieties that yield in lower moisture conditions or in saline areas can deliver more production for farmers.

Innovation increases returns – in addition to higher yields, seed driven innovation has allowed producers to use fewer herbicides and pesticides. Combined with new varieties that make better use of fertilizers, these innovations can reduce input costs. New varieties that produce more oil; better protein; have higher starch content can deliver premium prices.

Innovation creates opportunities – current and future seed driven innovation are currently and can continue to fill emerging demands for specific quality end products. Already seed developers have created soybean and canola varieties that help to eliminate trans fats in food; barley varieties that can lower cholesterol; and flax varieties that deliver cancer fighting antioxidants. The future is unlimited in food, non-food and medicine.

Investing in Innovation

Canada’s total investment in plant breeding and research in 2007 was almost \$165 million. This includes investments by federal and provincial governments and of some producer check-off funds as well as by the private sector. The private sector was the single largest investor at \$56.7 million, and it plans to almost double that investment by 2012.

The main source of funds for investment in innovation for the private sector is the sale of certified seed. Certified seed sales are also a generator of funds for Government investors. There is a very clear link between the level of private sector investment and the sale of certified seed, as shown in the table below:

Certified Seed Use and Private Sector Investment

	% of Seed used that is certified	% Investment 2007	% Investment 2012
Canola	92	74	75
Corn	98	9	9
Soybeans	75	7	12
Cereals	19	6	2.5

In 2007 90% of private sector investment was in three crop kinds, Canola, Corn and Soybeans. In 2012, that will reach 98%. Canadian private sector investment in cereals, Canada’s largest acreage crops will decline to 2.5% of total investment.

Investment in other crop kinds, like forages, turf species, fruits and vegetables will virtually disappear.

Note the correlation between certified seed use and private sector investment. Where certified seed use is high, private sector investment is high. The conclusion can be drawn, therefore, that if certified seed use increased, research and development investments would also increase.

Kernel Visual Distinguishability

Another very significant barrier to investment in western Canada is the requirement for wheat varieties of different classes to be visually distinguishable from each other. Kernel Visual Distinguishability (KVD) requirements have resulted in 6 full years with no new winter wheat varieties developed in western Canada.

That compares to Ontario where KVD was removed as a requirement for registration of red wheat classes in 1989. Ontario farmers now have a choice of over 20 different varieties of red winter wheat which are commercially available. These varieties account for over 80% of the wheat acreage in the province. Few, if any of these varieties would be eligible for registration under KVD constraints. In addition, over 15 different spring wheat varieties are now available in Ontario, including several which are well adapted to western Canada. Because of KVD requirements in western Canada these new varieties are not eligible for registration there.

CSTA welcomes the determination of the government of Canada to fast track the elimination of KVD requirements for western wheat. It is long overdue and will result in new and exciting innovation in the wheat industry in Canada.

We do, however, recognize and accept the concerns that have been expressed around a replacement for KVD that will ensure that Canada can continue to assure its customers that they are receiving the grain product they are demanding. We believe that there is a tried and true solution: Canada's seed certification system.

Certified Seed in the Plan to Replace KVD

Established through regulations under the Seeds Act, Canada's public/private sector partnership system of seed certification is the most sophisticated centrally managed system in the world.

Certification ensures varietal identity and increases assurance of varietal purity in a cost effective and reliable manner which includes checks and verifications throughout the system. Here's how it works:

- The variety developer provides to a regulatory authority a description of the variety and a sample of the seed.
- Seed is grown in fields approved by the Canadian Seed Growers Association under the authority of the Canadian Food Inspection Agency (CFIA).
- The fields are inspected by CFIA inspectors against variety purity standards and against the variety description provided by the developer. If the fields meet the standards, they receive a crop certificate from the CSGA stating that the seed from those fields are eligible to be certified.
- Once harvested, seed from these fields is conditioned in plants that are audited against strict quality assurance protocols by the Canadian Seed Institute (CSI) under the authority of the CFIA, and sealed in bags or clean bulk storage.
- The seed is sampled by a CSI accredited sampler for testing in a CSI accredited laboratory against standards established in the seeds regulations. If it meets the standards, it is issued a certificate of analysis.
- Only after all of this information, including the crop certificate and the certificate of analysis is reviewed and approved by a CSI accredited grader, can the seed carry the "blue tag" that identifies it as certified seed.
- There is one additional process verification check built into this system. Regulations require that some of the original samples provided by the developer be planted out in the following year to verify variety identity. Problems identified can be traced through the system and action taken to rectify them.

This system has been in operation for over 100 years in Canada, a long track record of ensuring varietal identity, varietal purity and quality assurance.

CSTA is confident that producer affidavits provided at time of delivery of grain, based on the use of certified seed would be a very reliable system to replace current KVD requirements.

A Tax Incentive for Certified Seed

Surveys indicate that most farmers believe that certified seed delivers benefits and is a contributor to success. They also recognize that sales of certified seed generate funds for investments in future innovation, and in the long term the value of innovation that is created far outweighs the cost of certified seed. However, in an effort to control short term costs, many producers of Canada's largest crops like wheat choose not to purchase certified seed.

Certified seed plays a central role in the KVD replacement plan described above. The seed certification system provides the checks and assurances required to ensure that customers receive the product they expect to receive.

Given that cost is the biggest concern for most farmers who choose not to use certified seed, some form of financial incentive is in order, both to assist with the plan to replace KVD for wheat, but also to provide an incentive to investment in innovation in all crop kinds.

CSTA proposes that the government implement a broad based tax incentive for farmers who purchase certified seed. In order to be equitable, and generally available, the incentive should be provided on sales of all certified seed. The added benefit of a tax incentive is that the costs of new innovation in agriculture and food are shared amongst those who benefit from the innovation, not just by the farmers who purchase certified seed.

How It Would Work

An amendment to the income tax act would be required to permit a tax incentive for certified seed purchases, and add a certified seed multiplier line to the Statement of Farming Activities form. The producer would enter the amount spent on purchases of certified seed on line 9664 of the form, and subject that amount to the multiplier.

The George Morris Centre has calculated that the multiplier required to offset the additional cost of certified seed is 1.55. That means that farmers would claim 155% of the cost of certified seed as an expense for income tax purposes, lowering taxable income and increasing tax refunds.

What It Would Cost

A tax incentive is not a direct transfer of funds from government to producers, but would result in the government foregoing some tax revenue.

The George Morris Centre estimates that if all seed planted was certified seed and all the farmers who purchased certified seed received the tax incentive, the annual cost would be \$179 million.

However, that would be offset by tax claw backs on both the increased economic activity of the seed trade, and through additional taxes collected as the result of increased income resulting from the innovation delivered by the certified seed.

For example:

- 25R47, a new soft red wheat variety produces a yield increase of 10 bushels per acre. It was seeded on 150,000 acres in 2007. At an average price of \$6.00 per bushel, this variety generated an additional \$ 9 million for Canadian farmers. The income tax paid on that brought \$2.79 million to governments. The additional handle by the elevator system generated another \$97,000 in taxes for government.
- 5602, a hard red spring wheat increased yield by 3.4 bushels per acre and was seeded on 216,000 acres. At \$6.00 per bushel, it generated an additional \$4.4 million for farmers. The additional tax collected on that extra income was \$1.54 million. The additional tax collected from the elevator system was just over \$42,000.

These two new varieties alone, representing less than 2.5% of the Canadian wheat crop acres, generated at least \$3.4 million in additional tax in one year.

Conclusion

CSTA applauds the commitment of the House Standing Committee on Agriculture and Agri-Food to innovation in Canadian agriculture. We encourage the committee to continue to advocate an environment that will foster innovation and create wealth for the entire value circle.

We welcomed the committee's recommendation that Kernel Visual Distinguishability requirements be eliminated, and are very pleased to respond to your request for information on what we believe can serve as a strong and effective system to replace it.

We look forward to working with the committee and its members in the future to advance Canada agriculture, agri-food and agri-products industry.