



CANADIAN SEED TRADE ASSOCIATION

L'ASSOCIATION CANADIENNE DU COMMERCE DES SEMENCES

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National Cattle Feeders Association
C/O Alberta Cattle Feeders Association
Suite 201, 2816 - 11 Street NE
Calgary, Alberta T2E
Email: bwalton@cattlefeeders.ca

Dear Mr. Walton:

On behalf of the CSTA, I thank you and the National Cattle Feeders Association for the opportunity to discuss the role of seed innovation in the health of the cattle feeding industry in Canada. I look forward to continuing these discussions with you and others in your organization at your convenience.

CSTA is the national association representing companies that are involved in all aspects of seed, from research and development through wholesale, retail and trade. Our members are strong investors in research and development, over \$56 million in 2007, with plans to almost double that investment over the next five years. However, the private sector can only invest where there is a regulatory environment that enables the introduction of new varieties, and where there is potential for return on investment.

The Regulatory Environment - CSTA is very pleased that the government of Canada has removed Kernel Visual Distinguishability (KVD) as a requirement for the registration of all new varieties of all classes of wheat in western Canada. In the past, attempts to register the high yielding types of wheat required by your industry, have been blocked because these varieties were not visually distinguishable from Canadian Red Spring Wheat. In 2007, it was announced that a new General Purpose class would be created. Varieties within this class would not have to be visually distinguishable from each other. That announcement alone brought the number of wheat lines entered to registration trials from 0 the year before to 23 in 2007. The most recent announcement which will remove the requirement for varieties to be distinguishable from CWRS and CWAD will increase the number of new varieties even further.

However, other regulatory impediments, such as an outdated, cumbersome variety registration system still exist, despite over 20 years of work to improve it.

A Return on Investment - The other important factor is the ability to generate a return on investment, to have the funds available to reinvest. The private sector is a substantial investor in research and development as highlighted above. In 2007, CSTA's members invested 26% of the total operating budget in research and development. However, a closer look at the investment plans of our member companies shows that well over 90% of the investment by 2012 will be in three crop kinds: canola, corn and soybeans. Investment in cereal research and development will decline to just over 2% of total private sector investment, and private sector research in forages will be less than 1%. This is directly related to the ability of companies to generate a return through the sale of certified seed.

This is very clearly demonstrated in the following table which compares certified seed sales as a % of total seed sales, with the level of investment as a percentage of total private sector investment projected for 2012.

Crop Kind	Certified Seed Sales as % of Total Seed Used	% of total Investment (projected 2012)
Canola	92%	74%
Corn	98%	12%
Soybeans	75%	10%
Cereals	19%	2%

Another example of the relationship between the sale of seed and investment can be found in the case of corn. CSTA member companies have substantial plans for future development of early varieties of corn for both silage and grain in western Canada. The plans are being made for corn, because of the ability to protect intellectual property and realize a return.

A Certified Seed Tax Incentive – CSTA appreciates that the NCFCA recognizes the role of seed driven innovation in the future competitiveness of the cattle feeding industry in Canada. We also appreciate that the association has considered the use of tax incentives to help to fund that innovation.

As we discussed on the phone, CSTA has developed and is seeking support for the concept of a tax incentive for producers who purchase certified seed. Research has identified that the majority of farmers recognize the value of certified seed as a generator of funds for research and development, and also for the success of their operations because it delivers new traits and assures varietal identity and purity. However, many producers choose to use farm saved seed as a method to control costs on the farm. CSTA's tax incentive concept is designed to bring the cost of using certified seed to a level equal to the use of farm saved seed. The tax incentive will allow producers to make their seeding decisions based on the value brought by certified seed, and not solely on cost.

CSTA has commissioned a number of economic and trade analyses of the certified seed tax incentive proposal and has the following results:

1. In order to level the costs across a number of crop kinds and regions, the tax incentive level would have to be 55%. That means that producers would claim 155% of their expenditures on certified seed as expenses for income tax purposes.
2. If all of the seed planted in Canada was certified seed, the cost of the incentive to government, in terms of income tax not collected would be \$179 million. If 30% of the seed used was certified, the cost would be about \$54 million, and if half of the seed used was certified, the cost would be just over \$89 million. (it is a linear relationship). However, government would also gain revenue from the tax system if certified seed use increased, and innovation was improved. CSTA has commissioned a study on the value of innovation to government, and will be pleased to provide the results once they are complete.

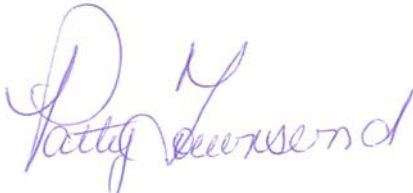
3. A tax incentive provided to producers would be classified as a subsidy under the World Trade Organization (WTO) agreement on subsidies and countervailing measures, but it is unlikely that it would be countervailable. The subsidy, would however, fall into the “amber” or trade distorting category in the WTO Agreement on Agriculture.

It is important to note, however, that in its most recent notification to the WTO Canada indicated that it spent \$1.36 billion on trade distorting support, and it is allowed to spend up to \$4.3 billion annually. Even with the 50% reduction being proposed in the current negotiations, in simple terms, Canada’s total allowable spending would accommodate the certified seed tax incentive.

We do appreciate your interest in seed innovation, and are pleased to provide this brief summary.

CSTA would be very pleased to further discuss seed driven innovation and what will be required to advance that innovation, including the certified seed tax incentive, at any time that is convenient to you.

Sincerely,



Patty Townsend
Vice-President