



The Benefits and Dangers of High Flax Prices

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Old market maxims stick around for a reason: they're tried and tested. One of the most reliable is "the best cure for high prices is high prices" and it could certainly apply to the flax market next year. Spot bids haven't quite reached record highs this spring, but they're certainly in some pretty rare air.

There are a couple of reasons for the recent rally. Smaller Canadian flax crops for three straight years kept supplies from rebuilding and set the stage for a decent export year to draw down inventories. In 2012/13, demand from both China and the US has been solid, but shipments heading to Europe again were the extra piece that gave the market a real boost.

So the lofty bids raise the question: will the maxim about high prices be proved true this year? Older and wiser marketers than me will say that any time you get the opportunity to price in the top third, you should take advantage of it, for two reasons. First, it's profitable – in this case, very profitable. Second, and more important, is that from these heights, the downside risk is far greater than the potential for more gains.

Let's start with the downside risk. Whenever prices are at extreme highs, it's almost certain that production will try to respond. StatsCan reported 2013 planting intentions at 1.24 million acres, 27% more than last year. Keep in mind the survey was taken before prices really spiked. Old-crop bids of \$16 to \$17 since then have raised a few eyebrows and even the new-crop bids around \$14 to \$14.50 per bushel are high enough to encourage more planting. Flax acres may not get as much of a boost from planting delays as it looked earlier, but flax is still an attractive option and seeded area could easily surpass 1.3 million acres.

And the acreage response won't just happen in Canada or the US either; farmers in Russia and Kazakhstan are getting the same signals to plant more flax. A recovery in Black Sea production would cut back into European demand for Canadian flax. In the 2012/13 crop year, Europe will buy an estimated 65,000 tonnes from Canada. That's not a huge

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SaskFlax

amount, but if it's removed from the 2013/14 export outlook, the Canadian balance sheet will look heavier.

The other risk caused by high prices is that some buyers will back away from the market. So far in 2012/13, the US and China have each taken 39% of Canadian export volumes while Europe has taken another 15%. Some of these buyers are committed to using linseed, but the widespread idea that buyers use only linseed oil regardless of the price isn't true. Most processors have some flexibility to include other oils in their products if they need to, meaning the sky is not the limit for flax prices. And if other oil prices decline, linseed oil prices can face spillover pressure too.

But the outlook isn't only negative; there's always a possibility of upside potential. The problem is that the weather is the main source of optimism for the flax market. Global supplies are low enough that a weather-related problem in Canada, Russia or Kazakhstan could give the market a lift. There are some concerns about late planting in Canada and dryness in Russia, but nothing serious enough yet to bet the whole marketing plan on.

I've been told that I'm mostly bearish; I prefer to think of it as cautious. The bottom line is that the flax market is buoyant right now, but that positive situation is also setting up the potential conditions for declines down the road. And if the outlook for Canadian and Black Sea production remains positive, those declines will occur as soon as buyers have enough coverage to carry them through to new-crop supplies. Following another market maxim – you never lose money taking a profit – could provide big benefits for farmers marketing both old-crop and new-crop flax. 🐦

Average flax bids have been trending upward lately. Canada and countries in the Black Sea region are planting more flax in response.

The Need for an International Low-Level Presence Policy

William Hill Flax Council of Canada

The world is actively seeking ways to increase agricultural productivity and as a result, it is likely that the number and variety of genetically modified (GM) products will continue to increase. GM products must undergo stringent science-based health and safety assessments before the products are authorized for commercialization and consumption in individual countries. Although the scientific basis for these assessments is the same in all countries, the process can vary substantially, which leads to approvals occurring at different times in each country. This lack of synchronization can sometimes lead to the presence, at low levels, of unauthorized GM crops in imported grain, food or feed where the GM crop is authorized for use in one or more countries, but is not authorized for use in the country of import. This is known as Low-Level Presence or LLP.

Once a GM crop is authorized for commercial use in a country, trace amounts of that crop may become mixed with other varieties or other crops. This can happen during cultivation, harvest, transportation and/or storage of the GM crop. Even when best management practices are strictly followed, it is often difficult to prevent this from occurring. As a result, a GM crop may be unintentionally present at low levels in the grain, food, seed, or feed products that are exported.

Today, all countries have a zero tolerance for GM events that have not been approved by their regulatory authority and as a result, when an

unapproved GM event is detected – even at trace amounts – the product must be removed from the value chain and the environment. This has the potential to disrupt trade and increase costs for both the importing and exporting country, despite the fact that the unauthorized GM event, present at low levels, is unlikely to pose a risk to human or animal health or to the environment.

Food, feed and environmental safety are of concern in all jurisdictions. However, it is important to remember that within the context of LLP, the event will already have been determined safe for human and animal health and the environment at a level of 100% in one or more countries using an accepted scientific safety assessment process. Yet at a much lower level, in some cases in trace amounts, it will be prohibited from entry into the country of import that has not yet approved the product. It is hard to imagine how something that is safe in one country at 100% could pose a risk at 0.01% in another.

The ultimate goal is to have approvals for GM events occur simultaneously (synchronized approvals), but we know this is not possible as long as jurisdictions want to maintain absolute sovereignty over their approval process. Therefore, the need for an international LLP policy with workable threshold levels is necessary to ensure that trade disruptions and threats to global food security do not occur.

The bulk handling and transportation system is efficient and complex and is not designed to operate on zero tolerances. In fact very few, if any, industries operate on zero tolerance and zero risk. In the bulk handling system, this means exponentially increasing costs as the tolerance level is decreased to the point where trade stops. This is what happened to flax exports to the EU with the discovery of CDC Triffid (an unapproved event in the EU) in shipments from Canada (where it is approved at 100% for food, feed and the environment). Exports of Canadian flax stopped. Canadian flax exports to the EU food industry have not fully resumed and the costs of risk mitigation (sampling, testing, special binning etc.) on shipments to the EU crushing industry have reduced shipments from 400,000 tonnes annually to less than 50,000 tonnes last year. The zero tolerance policy of the EU for CDC Triffid has inflicted substantial financial harm on growers, importers and exporters, raised the cost to consumers and caused a major shift in trade flows.

The Canadian government has taken a leadership role in the development of an international LLP policy by proposing a domestic LLP policy for Canada which can serve as a model for countries globally.

The policy consists of a two-step process: an Action Level for all grains and Threshold Levels for individual grain types. Under the policy, LLP detected at levels below the Action Level (expected to be 0.1 or 0.2% plus a level of uncertainty) will not trigger an enforcement action. This will address potential trace amounts of LLP resulting from dust or other sources. Since the GM product has passed a safety assessment consistent with Codex Guidelines, LLP below the Action Level is unlikely to pose a risk.

Crop-specific threshold levels will be set for individual crop types and will be higher than the Action Level. The threshold levels will be set to reflect achievable levels for unintentional presence based on best management grain handling practices for each crop type while respecting the realities of the grain handling and transportation systems in place around the world. These threshold levels will only be applicable for an individual GM crop after a Canadian LLP risk assessment has determined that the presence of the GM crop at the proposed threshold level is unlikely to pose a risk to food, feed or environmental safety.

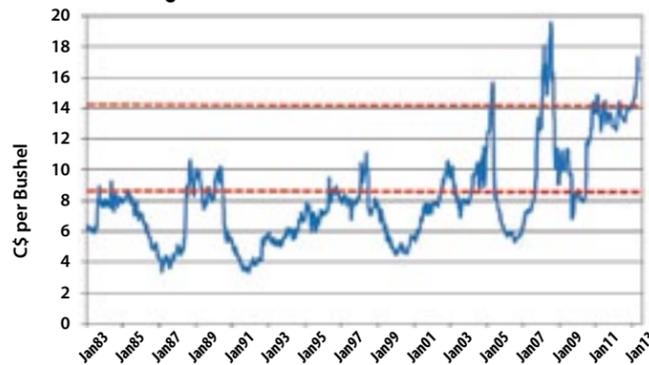
The proposed thresholds have yet to be determined, but we do know that threshold levels and costs are inversely and geometrically related. The consensus view in the industry is that threshold levels in the mid-single digits are required to be cost neutral for the international bulk handling and transportation system.

For flax growers, an Action Level in the EU of 0.2% (plus an allowance for a level of uncertainty) would mean the current testing regime under the Farm Stewardship Program and EU protocol would no longer be required and would be a big step in returning the flax trade between Canada and the EU to pre-Triffid levels. For exporters and importers around the world, workable threshold levels would allow the bulk grain system to continue to move products from areas of surplus to areas where it is needed in the most efficient and cost effective way, while at the same time ensuring the safety of food, feed and the environment. 🐦

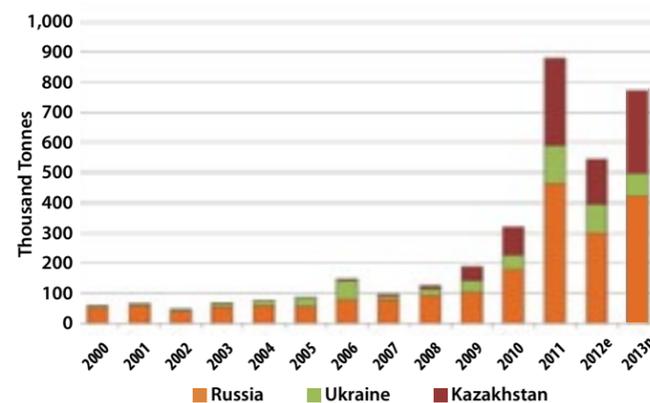


A new LLP policy would be a big step in resuming trade levels between Canada and the EU.

Average Flax Bid - Saskatoon



Black Sea Linseed Production



Protocol on Sampling and Testing Changes

The EU and its member states have agreed to allow changes to the Sampling and Testing Protocol for Canadian Flaxseed Exported to the European Union (EU Protocol). This is in response to upcoming changes to the Canadian Grain Commission's role with regard to inward weighing and inspection. As of August 1, 2013, the Canadian Grain Commission will not provide inward inspection or inward weighing services at Canadian export terminals and the responsibility for inward inspection and weighing will move to the private sector. As a result, the Flax Council of Canada, along with representatives from the Canadian Grain Commission and Agriculture and Agri-Food Canada began the process of reviewing the existing EU Protocol. These discussions led to changes in the EU Protocol where the terminal elevator companies in Thunder Bay will assume responsibilities for sampling and binning of flaxseed destined for export to the EU. These changes will result in increased efficiency and cost reductions while maintaining the integrity of the EU Protocol for the shipment of Canadian flaxseed to the EU. 🐦

The SaskFlax Crop Tour on July 25 will provide growers an opportunity to view the latest flax varieties.

Farm Stewardship Program for Flax

The Farm Stewardship Program involves the testing of pedigreed seed, farm-saved seed and farm production, with the objective of reducing the level of Triffid (a genetically modified variety) in the crop by ensuring only Triffid-free seed is planted and that production containing Triffid delivered to the commercial system can be segregated. Since the beginning of the program, the incidence of production samples testing positive has dropped dramatically from 10% in 2009 to around 4% today.

Also important to note is that while we have had no positive tests for certified seed in the past three years, we continue to see test results of farm-saved planting seed at around 4%, which is similar to the levels found in production. Although seed that tests positive for Triffid is not planted, it does point to the fact that flax intended to be used as farm-saved seed is still testing positive at low levels.

More importantly, the level of Triffid in the positive tests has declined to near the detection limit of the test of 0.01%. This is a very low level, but these levels are still considered positive for shipments to the EU, which is the largest market for flax exports in the world. In order for trade with the EU to be normalized, we need to bring the incidence of positive tests even lower by reducing the level to under 0.01%.

The only way to achieve this is through a rejuvenation of the seed supply by a widespread adoption of certified seed and the clearing out of all pre-2013 seed. SaskFlax, the Flax Council of Canada and partners throughout the industry are asking all producers to plant certified flax seed in 2014. 🐦



Rebooting the Industry – From a Processor's Perspective

Canada's flax industry continues to work together to eliminate traces of the genetically modified flaxseed Triffid from the flax supply. Processor stakeholders are working closely with their producer clients as well as implementing best management practices at their facilities with the goal of maintaining Canadian flax as a quality product in the global marketplace, including Europe.

For many processors involved in exporting food products, there are numerous steps involved in receiving and preparing flax for shipment to customers. Brian Johnson, CEO of S.S. Johnson Seeds Ltd. and Chair of the Flax Council of Canada's Value Added Processing Committee, stresses the importance of the producer-processor relationship for quality flax products for the marketplace. "As a supplier of flax for human consumption, attention to detail is vital for repeat business," says Johnson. His company now requests producers provide more information on the flax being purchased (what was stored in the bin previously, for example).

He shared the following practices which can mitigate the risk of unintended Triffid entering/leaving the processing facility:

- Request the GMO test certificate from producers
- Inspect a sample before purchasing
- Encourage producer clients to take proper flax samples (see the Canadian Grain Commission's guidelines for taking a representative sample: www.grainscanada.gc.ca/guides-guides/rs-er/trs-per-eng.htm)
- Have truckers sign affidavits identifying previous cargo
- Retest the product for GMO detection as required
- Run other products through the system between lots of flax
- Clean plant regularly and periodically shut down for overall cleaning and repair
- Implement identity preservation practices and carefully follow them
- Maintain segregated storage for flax that is awaiting test results
- Build and maintain solid relationships with producer clients
- Communicate with end-use clients about quality products and practices

Here in Saskatchewan, we spoke to CanMar Grain Products Ltd. in Regina which produces golden roasted flax seed products for human consumption for customers around the world. "Our process involves pre-approving flax for purchase and rechecking at delivery to ensure that the product meets the requirements that apply to that specific product," explains Jeff Hart, Director of Operations at CanMar Grain.

Flax is received into bins which log all inventory movement in order to ensure tracking of the flax throughout its time at CanMar. Each time a bin is emptied, it is opened and physically cleaned out to ensure that there is no remaining residue. "Throughout our process, each handling step (cleaning, roasting, packaging, etc.) is documented to provide complete traceability for our system and the ingredients in it," Hart says. "All finished products are assigned a lot number so that even after leaving our facility, all products can be fully traced through our system and right back to the original incoming load."

Hart goes on to report that cleanouts performed between products are full physical cleanouts. All equipment is opened to manually ensure that all remaining residue from the previous production or cleaning run has been removed. Their sanitation program has its own documentation system where cleanouts are documented by the time of cleanout and the staff member who performed the sanitation. After cleaning but prior to operation, all system components are inspected to ensure that they meet the required standards. In addition, to ensure that sanitation activities are performed correctly, all staff are trained separately on each component of the system and retraining is performed annually. 🐦



Above: Plant Gene Resources of Canada identifies, collects and preserves flax and other varieties grown in Canada.



Re-constituted flax seed is ready to launch in Fall 2013

Todd Hyra SeCan

After an unprecedented cooperative effort between the Crop Development Centre, the Flax Council of Canada, SaskFlax, Manitoba Flax Growers, Canadian Seed Growers Association (CSGA) and SeCan, supplies of re-constituted flax seed are ready to launch for the fall of 2013.

CDC Bethune and CDC Sorrel have been the mainstays of western Canadian flax production for many years. The new certified seed will be marketed under the names CDC Bethune-14 and CDC Sorrel-14. To allow the industry a fresh start, all SeCan members with inventory of previous seed sources have

agreed to cease production and dispose of any existing inventory.

In addition to disposing of past inventory of these varieties, SeCan growers, in cooperation with the CSGA, have agreed to additional certification requirements, including extended crop rotations and restricted use of seeding, harvesting and processing equipment.

"The level of cooperation at all levels has been exceptional," reports Todd Hyra, SeCan Business Manager for western Canada. "Literally every link in the seed production chain believes in the process and is doing their part to move the industry forward." SeCan has over 100 seed grower members in western Canada with production and seed from the previous stocks. All were contacted and have agreed to dispose of their past inventory.

The next step is for flax growers to carry the ball the rest of the way to the goal. By adopting the new seed stocks and disposing of past inventory, all traces of Triffid will be flushed from the Canadian crop. It will be important for all flax growers to participate - so be sure to tell your neighbours!

One of the most frequently asked questions is what will the new seed cost? Seed should not cost more than other certified varieties. Partners have tried very hard to ensure there is an adequate supply of seed to meet demand, so prices will remain in balance with other products in the market.

In addition to CDC Bethune-14 and CDC Sorrel-14, SeCan will launch two new products that have also been through the same rigorous seed re-constitution process and multiplication. CDC Glas is seen as a replacement for CDC Bethune-14. CDC Glas offers improved standability and a 105% yield advantage in the black soil zone (103% average of CDC Bethune-14 over all zones). CDC Sanctuary is viewed as a replacement for CDC Bethune-14 in the brown soil zones, averaging 105% of CDC Bethune-14 in the dryer areas of the Prairies.

For more detailed information on these or other SeCan flax varieties, visit www.secan.com or call 1-800-665-7333. Growers interested in finding certified flax seed are advised to use the Pedigreed Seed Locator operated on Canadian Seed Growers Association website: www.seedlocator.net.

University of Saskatchewan

CDC NEELA

CDC Neela, a medium-late maturing oilseed flax was released in 2013 by the Crop Development Centre at the University of Saskatchewan. 'Neela' is Sanskrit for the colour blue. This cultivar has medium oil content, high oil quality, large seed size, good lodging resistance and high seed yield in all the soil zones of the prairies. It is immune to North American races of rust caused by *Melampsora lini*, and moderately resistant to Fusarium wilt. Exclusive rights for sale and production of CDC Neela were awarded to Canterra Seeds and pedigreed seed will be available in 2016.

CDC SANCTUARY

CDC Sanctuary, a medium-late maturing oilseed flax was released in 2009 by the CDC. It has medium oil content, medium oil quality, medium seed size, good lodging resistance and high seed yield in all the soil zones of the prairies. It is immune to North American races of rust caused by *Melampsora lini*, and moderately resistant to Fusarium wilt. Exclusive rights for sale and production of CDC Glas were awarded to SeCan and pedigreed seed will be available in the fall of 2013.

FLAX VARIETIES IN THE PIPELINE

Three flax breeding programs in Canada are actively working on developing new flax varieties for western Canada. Dr. Helen Booker of the University of Saskatchewan, Michelle Beath of Viterra and Dr. Scott Duguid of Agriculture and Agri-Food Canada have several flax varieties under development which are or will be available to growers within the next few years.



CDC GLAS

CDC Glas, a medium-late maturing oilseed flax was released in 2012 by the CDC. 'Glas' is Welsh for the colour blue. This cultivar has medium oil content, medium oil quality, medium seed size, good lodging resistance and high seed yield in all the soil zones of the prairies. It is immune to North American races of rust caused by *Melampsora lini*, moderately resistant to Fusarium wilt and moderately resistant to powdery mildew. Exclusive rights for sale and production of CDC Glas were awarded to SeCan and pedigreed seed will be available in the fall of 2013.

Viterra

WESTLIN 70*

WestLin 70 (FP2325) has been submitted for registration by Viterra in 2013. It yields similarly to CDC Bethune across all western Canadian flax growing zones and has similar maturity, lodging resistance, oil content and oil-free protein content to Flanders. It has significantly larger seed size, significantly higher iodine number, and significantly higher ALA content compared to Flanders and is 100% resistant to Rust race

371 and moderately resistant to Fusarium wilt. Seed is expected to be commercially available in 2014. (*pending registration)

WESTLIN 71

WestLin 71 (FP2347) was registered in 2013 by Viterra. It is a high oil content variety with similar maturity, lodging resistance and resistance to Fusarium wilt as Flanders. Its seed size is significantly larger than Flanders, although somewhat smaller than WestLin 70*. This cultivar yields similarly to CDC Bethune and WestLin 70*. However, it is higher in iodine, ALA content and oil-free protein content than Flanders. It is also 100% immune to Rust race 371. Commercial seed is expected to be available in spring 2014.

FP2344

Viterra plans to submit this variety for registration in 2014. This is another high oil content variety that is similar in seed size to Flanders. It is similar (although slightly lower) in yield to CDC Bethune and similar in maturity, lodging resistance and oil-free protein content to

Flanders. It has a high ALA content compared with Flanders and a very high iodine number. It is 100% immune to Rust race 371 and has significantly improved resistance to Fusarium compared with Flanders. Seed of FP2344 will be commercially available in 2015.

Agriculture and Agri-Food Canada

Varietal information was not available as of press time.



GUY LAFOND
(1953 – 2013)

Saskatchewan Flax Development Commission was deeply saddened to learn of the passing of researcher and longtime friend to agriculture, Dr. Guy Lafond on April 26. For more than 30 years, he worked for Agriculture and Agri-Food Canada on the research farm at Indian Head. He was instrumental in the establishment of the Indian Head Research Foundation and believed strongly in soil conservation, the pursuit of knowledge and the training of young agronomists. He will be missed.



SaskFlax was established in 1996 and represents almost 6,000 registered flax producers in Saskatchewan. Directed by flax growers, SaskFlax operates via a mandatory but refundable producer levy on flaxseed and straw. These dollars are leveraged whenever possible to execute programs ultimately geared to increase net returns to its grower members and advance Saskatchewan’s flax industry.

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