

THE CWB MONITOR

TELLING IT LIKE IT IS

THE FIRST 100

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Winnipeg, MB

2012

The CWB Monitor

The CWB Monitor was established in October 2010 with the intent of enhancing the debate over the future of the CWB Single Desk. With the 2010 Canadian Wheat Board election of farmer-directors centred on this debate, there was a need for independent analysis of CWB marketing activities, processes and systems, so that farmers could cast an informed vote.

Generally speaking, the CWB does not provide its farmer stakeholders with a clear and open presentation of its marketing performance and benefit to farmers, or the cost of the CWB Single Desk system. Analysis using public information, particularly information from the CWB itself, time and time again shows that farmers are being short-changed by the CWB marketing structure and its marketing efforts.

Primarily through the use of email and social media, the CWB Monitor began providing short and succinct assessments of current and emerging CWB issues that directly impact the financial returns of Western Canadian farmers – even those that do not sell wheat or barley through the CWB – and the Western Canadian economy in general.

Many of those that receive these commentaries forward them on to others; the commentaries can also be found on the internet at www.cwbmonitor.blogspot.com. It is estimated that the CWB Monitor has reached over 20,000 Western Canadian grain industry stakeholders and other interested parties.

Bill C-18, the Bill to take give Western Canadian farmers marketing and entrepreneurial freedom has been passed and the CWB is going through a transition period leading up to Aug 1, 2012 – market freedom day.

This document presents the first 100 CWB Monitor articles, published in the period from October 2010 to December 2011, grouped in relevant categories.

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Expenses

#6 CWB Expenses (Oct 6, 2010)

Did you know?

Since the CWB board of directors was installed...

- Total administration costs of the CWB have risen by 47%, now sitting at \$78.7 million annually
- Advertising and promotion expenses have risen 314%, now sitting at \$2.1 million in 08-09 (the year before the board of directors was in place, the CWB spent \$514,400)
- Human resource costs (salaries and benefits) at the CWB have risen 60%, now sitting at \$43 million in 08-09.
- Outside consulting fees have risen 79%, now sitting at \$17.5 million in 08-09
- The CWB has spent about \$88 million for “computer systems” as a “capital asset”, not as an “expense” (this is software development, not desk top computers and printers)

Isn't it ironic? Hard-core CWB supporters applaud the CWB for demanding a review of railway rates and figure its good business, but a suggestion to look critically at the CWB and its impact on farm gate returns is “CWB bashing”.

Don't shoot the messenger – fix the problem (if you think there is one).

#8 More on CWB Expenses (Oct 8, 2010)

I was asked if I had any more insights into CWB expenses. How about this?

A while back I mentioned that since the CWB board of directors have been in charge, CWB human resource expenses (salaries and benefits) have risen 60%, now sitting at \$43 million in 08-09. That's quite a jump over the years. Another way to look at this is to consider these expenses on a per employee basis.

Since 97-98, the number of CWB full time employees has dropped from 576 to 458. So, on the basis of cost per employee, human resource expenses have risen from \$50,978 per employee to \$94,576 per employee.

This is a 101% increase since the board of directors took over. This works out to an annual compound rate of 6.6% per year.

I don't begrudge anyone a good salary and I believe in rewarding performance. But - is it just me, or does this look like something more than that?

And since we're talking about employee expenses, I should also note that the amount paid in outsourcing (employing professionals for their service but not on the payroll) has also increased considerably. This includes what the CWB has called "management consulting", "professional fees" and "computer services". The Annual Reports don't report these items consistently over the years so I just lump them together. Since the directors have been in charge, outsourcing has gone up from \$9.8 million per year to \$17.5 million – an increase of 78%.

So the number of employees goes down by 20% but the cost of consultants goes up by 78%. A question comes to mind but I don't think I need to even ask it.

#9 Rail Cost Review? How About a CWB Cost Review? (Oct 11, 2010)

The CWB recently has been advocating for a rail cost review because a study by Travacon Research Ltd. showed that "farmers paid \$8.81 per tonne (\$275 million overall), more than what was considered fair and reasonable compensation for moving grain under the former Western Grain Transportation Act." To put this in perspective, I looked at all the costs involved in marketing and moving wheat as reported by the Federal Grain Monitor.

Over the last eight years:

- the average "applicable" rail freight rate for spring wheat has gone up about 21%
- CWB costs on wheat have gone up about 56% (including "transportation savings")
- Grain company handling charges (elevation and cleaning, including trucking premiums paid to farmers) have risen about 9%

The cost of handling and moving grain has indeed increased over the years. I can't comment on the Travacon study results, but if it's true, perhaps a review is in order. Regardless of the rail rate situation, farmers need to know the CWB is being managed and directed with their interests in mind; CWB costs are farmers' costs and the approach to costs at the CWB should mirror the approach to costs on the farm.

Why is the CWB focusing on rail rates when its own costs are rising at more than double the increase of the rail rates? Regardless of your view of the CWB, it's simply good business to reduce costs as much as possible.

Much of the CWB transportation savings come from tendering and are indicative of what competition between the grain companies would do to handling charges for CWB grains. If the CWB bought grain at the port – if it became a FOB buyer – we would see a significant drop in the cost of moving and handling export wheat.

The CWB has effectively become a FOB buyer of barley – both malt (CashPlus) and feed (GDCs); if it works for barley, shouldn't it work for wheat as well?

#16 More on Expenses (Oct 22, 2010)

The CWB has taken note of some of my comments about the increase in administration costs since the board of directors was installed. Their response can be found on the CWB website at <http://www.cwb.ca/public/en/hot/record/commentary/>. I appreciate the CWB engaging in this discussion as it's important for farmers to know how their money is being spent.

The CWB response, entitled "Change costs less than doing nothing", supposedly written by Bill Nicholson, elected-director of District 9, is a fair description of increased spending but without the detail that you'd expect from an organization that says it is open and accountable to farmers. It includes a high level description of what the money was spent on, but with the notable omission of any financial details.

For example, Mr. Nicholson did not explain to my satisfaction why the human resource expense on a per-employee basis doubled since the board took over. He suggests that the employment "benefits" are costing more, but I find going from \$47,000 per employee to \$95,000 per employee a bit extreme. That one needs more explanation.

(Maybe it's none of my business, but I'm left wondering why Bill Nicholson is the author on this rebuttal. The last time they responded to something someone said that they didn't like it was by Larry Hill, who was Chairman at the time. Just a thought, but if it's inappropriate for Allan Oberg, the current Chairman, to respond because he's in the middle of running for re-election, how appropriate is it for Bill Nicholson?)

Mr. Nicholson mentions the growth in advertising spending is to communicate to farmers about new programs. But that explanation doesn't explain the months-long WTO-fighting campaign around the slogan "Is this the deal you want?" I don't know the extent of the campaign but I know it included full page ads in the Western Producer (check page 17 of the May 20 edition), some smaller ads, internet banner ads on various sites, a dedicated internet domain (www.isthisthedealyouwant.com), as well as dedicated pages on the CWB website (<http://www.cwb.ca/public/en/hot/trade/deal/>) where you can send an email postcard to the Minister of Agriculture through an automated internet system. This all costs money too.

This campaign didn't promote a farm program or service. In my view, it was aimed at lobbying the federal government in an effort to protect the single desk, something expressly prohibited by a federal order-in-council.

I know a lot of farmers wonder how much is spent on promoting the CWB itself (or deflecting criticism) as opposed to communicating farmer programs. I'd like to see that split, too.

And \$114 million on computer systems and even more in consulting to operate them? Although they defend this spending, neither the Annual Reports nor Mr. Nicholson is clear on how much has actually been spent. And there's no word on how much more needs to be spent. Any way you slice it, that's a whole lot of money.

(I wonder if the CWB ever thought of outsourcing some of the core activities of the CWB, not just the computer services. There are things the CWB does that duplicate what the grain companies

are already doing it, particularly in transportation. If the CWB partnered with these companies, and had the companies perform certain logistical efforts, not only could the CWB save money and overhead, it may not need a big expensive computer system.)

Just thinking outside the bin.

I find it ironic that the CWB sees my earlier comments as an attack. The CWB shouldn't bristle at what was just a simple presentation of facts. I encourage the CWB to address issues that may arise from time to time and provide even greater detail and clarity next time. But during the directors' elections, I would prefer to hear incumbent director-candidates defend their record. I'd like to know what they think.

Governance and Leadership

#2 The Contingency Fund (Sept 30, 2010)

The Contingency Fund was established to underwrite the Producer Pricing Option programs to ensure that program operating gains or losses will not impact the pool accounts.

The way it was meant to work: when the CWB determines the prices for Fixed Price Contracts and other PPOs, it always includes a discount for risk. It takes a little protection. So if all goes well, it has some money left over after paying farmers the contract price. That something extra goes into the Contingency Fund. If the CWB loses money – even after the discount for risk – the losses are covered by the Contingency Fund. This flow between the PPOs and the Contingency Fund is what was envisioned.

But the Contingency Fund of today looks very different than what was conceived back in 2000.

The largest “contributor” to the Fund is “cash trading” in feed barley with a total so far of \$22.2 million. About \$20 million from feed barley trading went into the Fund in 2007-08 alone.

The second largest source of money is interest revenue from the feed barley pool account. Starting in 2001-02, the CWB said it did it to “avoid distorting the price relationship between feed and designated barley.” The CWB moves feed barley interest into the Contingency Fund almost every year now, the total so far is \$19 million.

Even though the purpose of the Fund was to ensure that PPOs would not impact the pool accounts, in practice the pool accounts have been hit a few times by transfers to and from the Fund. In 2004-05, \$7.5 million was transferred from the Fund to the pool accounts. In 2007-08, the CWB moved \$25.5 million from the pool accounts into the Fund and \$18.0 million back into the pool accounts in the following year.

Perhaps most notable is the fact that the PPOs have been a drain on the Fund to the tune of \$72.1 million since it started.

If it wasn’t for barley – both pool interest and cash trading – the CWB would’ve been forced to find some other source of revenue to prop up the Fund. Barley (in one form or another) has contributed about \$48 million while wheat and durum have drawn the Fund down by about \$42 million.

Doesn’t it make you wonder? When the CWB discounts the prices it pays farmers in the PPOs as a form of protection, why has the CWB lost so much money over the years in PPOs? So much in fact that it has had to subsidize the Contingency Fund over and over again with other sources of revenue. Even from the pool accounts.

There’s got to be a better way.

#19 It's All About Listening and Responding (Oct 27, 2010)

Did you know?

For at least the last 12 years the CWB has surveyed farmers on a variety of issues, from attitudes about agriculture to preferred marketing systems.

The proportion of farmers who were surveyed over the years who support the status quo (single desk) on barley ranged from 22% to 36%.

The CWB has done nothing.

In January of 2007, CWB officials met with Minister Gerry Ritz in Ottawa. In attendance were senior officials from the malting companies and the President of the Malting Industry Association of Canada. These representatives explained that the malting industry would not invest any more capital in the malt industry in Canada as long as the CWB has single desk marketing authority. They were demanding changes.

The CWB did nothing.

The Canadian malt industry kept to its word and has not invested in any new capacity. However, since that time, China has built a great deal of capacity and continues to import Canadian malt barley and has now increased exports of malt dramatically. (From practically zero in 2004 to an estimated 375,000 tonnes in 2010.)

We have effectively exported our malting industry to China.

In March of 2007, the Federal Government held a non-binding plebiscite on barley marketing. Farmers voted and only 38% supported the status quo.

CWB Chairman Ken Ritter said:

“The results of the barley plebiscite announced today are not overly surprising. The CWB has been surveying farmers every year for the past 10 years and these results appear to be consistent with our annual findings.”

The CWB has known farmers' views on the single desk for over ten years, and they have done nothing. They know the impact the single desk is having on the barley value added industry, and they've done nothing.

Earlier this year, the CWB hired a consultant to study the malt barley industry. The consultant apparently told the CWB:

The Pool and CashPlus need to offer producers better price signals.

The Pool and CashPlus need to offer malt companies improved delivery liquidity.

As far as I know, the CWB has done nothing with this study.

The CWB operates on behalf and for the benefit of farmers. Democratically, the majority of farmers have told the CWB over and over they don't want the single desk on barley; and the malt industry has told it in different ways what needs to be done to improve the malt industry (which

also would benefit farmers). However, rather than act on any of this, the CWB does nothing but continue to argue adamantly that one of the options presented, the dual market, will not work. (I believe it can.)

This is all about listening and responding. Farmers know what is best for themselves. They need directors sitting at the CWB board table who won't override farmers' interests with their own ideology.

#22 The CWB Doesn't Need the Single Desk to be a Producer Advocate (Nov 1, 2010)

Single desk supporters often say that the CWB and its single desk need to be protected at all costs because it is such an important and effective lobbyist on behalf of farmers.

For example, Allen Oberg, director candidate for District 5, says "Building on the strength of the single desk, the CWB is speaking out more and more for farmers." He gives examples of issues where CWB is acting on behalf of farmers: a railway costing review, producer cars, WTO, branding of Canadian wheat and terminal agreements and tendering. His message is, if you lose the single desk, you'll lose your voice on these matters.

I disagree that the CWB needs the single desk to be a producer advocate. Take a minute and look at the Canola Council of Canada and what it does for the canola industry (including producers), without being involved in selling canola or its products.

The Canola Council of Canada is a national, non-profit association with a mission to enhance the industry's ability to profitably produce and supply seed, oil and meal products that offer superior value to customers throughout the world. And it does a darn good job of it. Members include **canola growers**, crop input suppliers, grain handling companies, exporters, processors, food and feed manufacturers and governments. It's a good model to consider for the CWB.

The Council has a number of policy positions similar to the CWB:

- Equitable grading standards
- Accountable, open, competitive and commercial system of grain transportation
- Equitable treatment and level playing field under WTO
- Domestic and North American harmonization of pesticide regulations
- Canadian variety registration system and maintenance of high quality standards in that system.
- Mandatory labelling guidelines

In addition, the Council has successfully branded Canadian canola products; in fact the name "canola" indicates a Canadian identity.

Even without the single desk, the CWB could continue to play an activist or advocacy role for wheat and barley producers, much like the Canola Council does for the canola industry.

The Canola Council's average annual budget of \$5 million is funded by:

- a voluntary levy paid by processors and exporters;
- program grants received from corporate and grower organization members for specific activities (the largest sources being the canola grower check-off commissions in each of the Prairie provinces);
- government programs, both federal and provincial; and
- funds raised by Council program areas such as the Council's Annual Convention and the sale of publications.

Looking at the CWB, assuming annual exports and domestic use of 20 million tonnes of wheat, durum and barley, the CWB could generate twice as much as the Canola Council's budget with a grower check-off of only \$0.50/tonne. This compares quite favourably to the current (2008-09) cost of the CWB of about \$3.26/tonne, paid by farmers.

CWB supporters like Allen Oberg will use the fear of losing the advocacy of the CWB if it lost the single desk as a way to garner support for the status quo. Mr. Oberg isn't alone in this thinking. Other candidates that echo this same message include:

Dan Gauthier, District 1	-	Stewart Wells, District 3
Lynn Jacobson, District 3	-	Kyle Korneychuk, District 5
Garry Draper, District 9	-	John Sandborn, District 9

As I've shown already, the single desk is costing farmers millions. Don't embrace it just to protect the CWB's advocacy role; it's just not worth it. Judge it on its own.

Ask your director-candidates to explain why they think the CWB needs the single desk to be your advocate and to promote wheat. And ask them how they think the Canola Council can do it so well without one.

#31 Back to the Contingency Fund (Nov 15, 2010)

One of my first articles was on the Contingency Fund and how the CWB has lost a lot of money in the fund over the years, particularly in 2007-08. The CWB has recently posted a comment on its website addressing what it refers to as "confusion" about the fund.

The CWB states:

Resulting program losses put the contingency fund into a deficit, which necessitated a transfer of funds from other CWB revenue sources.

This did not result in a loss to producers. Producers received every penny they contracted through the CWB's Producer Payment Options, and also received near-record net returns.

To be clear:

The CWB says it transferred funds from other CWB revenue sources, specifically, \$27.6 million from the pool accounts. The following year, the CWB repaid most of this money (\$18 million) back to the pool accounts. Therefore, farmers in the pool accounts were without the benefit of this money for a full year; at the very least, there is an interest expense (loss) borne by farmers.

Producers did indeed receive every penny owed to them through PPOs; that was never in dispute.

The fact that producers received near-record net returns that year was also never in dispute. But think about it – in 2007-08 the CWB lost \$90 million in PPOs (coming out of the Contingency Fund) as well as \$226 million in “discretionary trading” in the wheat pool account. Whether the total revenues of the CWB were \$7 billion or \$7.3 billion isn’t a factor here. The size of the total revenues is not an effective argument to try to explain that farmers did not lose money. They did. The near record revenues, as good as that sounds, would have been even a little better if it weren’t for the CWB’s ineffective hedging strategy and discretionary trading losses.

Everything the CWB does is supposed to be for farmers. So, when the CWB loses money in the Contingency Fund (as it has stated), who’s money is it, if not farmers’?

#52 CWB Farm Forums (Mar 5, 2011)

CWB Farm Forum meetings hosted by farmer-elected directors are coming up. I urge all farmers to get out and go to these meetings. Press the directors on important issues – make them accountable. Get the directors to answer your questions; you have every right to know more about the CWB than they are sharing.

Here are some issues to bring up with your CWB directors (in no specific order); I’ve included questions I would want to ask – use them or add them to your own questions. Maybe if the directors read this, they’ll come prepared to answer them:

About The Lakers

The CWB’s mandate in the CWB Act is “orderly marketing”. Directors such as Allan Oberg have said the CWB’s mandate is to maximize farmers’ returns, but that is not stated in any CWB publication, including the Annual Report.

QUESTION: What is the CWB’s mandate?

QUESTION: How does purchasing vessels come under the CWB’s Mandate?

QUESTION: The possibility of making investments like this using farmers’ money is not mentioned in the Annual Reports. Why?

QUESTION: Will the CWB consult with farmers to see if farmers are interested in financing this purchase? Will the CWB ask farmers’ permission to use their money?

QUESTION: If so, will the CWB listen to farmers and abide by their wishes?

QUESTION: If you don't ask permission, how can you reasonably say that you represent farmers and their interests?

QUESTION: Can you explain – if this deal is so great – why is Upper Lakes (the CWB's supposed partner in this) selling its stake in all of its vessels, including the ones just ordered?

About Feed Barley

The CWB is handling less and less feed barley. In fact, there were no deliveries in the feed barley pools in 09-10 at all. Yet the CWB engaged in cash trading of feed barley (no pooling). In early 10-11, the CWB sold large amounts of feed barley at as much as \$50/tonne over what farmers were being paid. Offshore values were not allowed to fully impact domestic prices, effectively keeping prices low.

QUESTION: The CWB uses sales price comparisons to assess its marketing performance by grain. But it doesn't report anything for feed barley sales; why? (Annual Report, page 45)

QUESTION: Why is the CWB involved in feed barley at all? What value to farmers does it provide? How can you say the CWB provides value in feed barley when the single desk keeps domestic market prices lower than offshore?

The Annual Report (page 60) says this about the feed barley pools: "Some activity in the barley pools was related to net interest earnings of \$212,000 and to differences between estimates and actual results of \$119,000. Because this was unrelated to farmer deliveries during 2009-10 and consistent with the treatment of these credits and charges in previous pool years, a total of \$331,000 was transferred to the contingency fund.

QUESTION: What does this mean? Why is there a difference between "estimates and actual results" when there was no barley delivered into the pools? To what "actual results" is the report referring? Where did the \$119,000 come from when there was no activity in the pools?

In the EPO accounts (Annual Report, page 65), feed barley is listed with no activity (no barley delivered on EPOs) but with a loss of \$13,000.

QUESTION: How can that happen? (I know this is small, but what really is happening? If this can happen in the small accounts like this, it must also happen in the larger accounts – we just don't see it.)

About Malt Barley

The Annual Report reported that the CWB achieved premiums in malt barley of \$13.71/tonne over all competitors.

The malt barley market is very competitive; China, the CWB's largest buyer of malt barley is the most competitive market in the world for malt barley and it is well known that the Chinese are extremely price sensitive.

QUESTION: How can you get buyers like China to pay premiums like this?

In the Annual Report (page 46), concerning malt barley premiums it states: “The CWB achieved better-than-forecast price premiums. There were a number of factors that contributed to the positive results, most notably a poorer-than-expected Australian barley crop.”

QUESTION: Does this mean that the premiums the CWB got on malt barley to China are just because of better quality? If it’s not quality, why would China pay the CWB more than they would pay Australia?

About Durum

The 09-10 Annual Report stated (page 56): “Given reduced international price levels from the previous year, 2009-10 saw lower-than-expected farmer deliveries against Series delivery contracts, and an increase in the number of farmers who chose to deliver 2009-10 durum into the 2010-11 pool.”

However, the CWB only accepted 40% of Series A and 20% of Series B durum contracts. (page 56)

QUESTION: If farmer deliveries were lower than expected, why such low acceptance levels?

Also, the report says there was an increase in the number of farmers who chose to delivery 09-10 durum into the 2010-11 pool. But we know that farmers were screaming for deliveries to open up. And, based on the PROs at the time, there was no incentive to defer shipment into the next pool:

March 2010	old crop PRO = 196	new crop PRO = 187
May 2010	old crop PRO = 197	new crop PRO = 190
July 2010	old crop PRO = 201	new crop PRO = 203

QUESTION: What is the source (and logic) of the statement that farmers were deferring delivery by choice (when it was common knowledge that durum farmers were getting desperate to deliver wheat for cash flow)?

QUESTION: What is the CWB planning to do with durum to improve cash flows?

About Premiums

The CWB says it gets premiums. Last year, the CWB reported an average premium on non-durum wheat of \$4.90/tonne. (Annual Report, page 45).

QUESTION: How are these premiums calculated?

QUESTION: How do you rationalize this statement with the fact that year after year, US prices are much better? (In many years, even the lowest US price over the crop year is better than the total pool return.)

The “net CWB costs” for 08-09 were reported by the CWB to the federally appointed grain monitor as \$8.44/tonne. Assuming the net CWB costs are similar in 09-10 (not yet reported), the

net result of CWB marketing is not a premium to the competition, rather it is a discount (or loss) of \$3.54/tonne.

QUESTION: What is the true value of the CWB when it loses an average of \$3.54/tonne relative to the competition? Why does the CWB boast about getting premiums when the net result is actually a loss to farmers?

About “Contributions from other revenue sources”

“Contributions from other revenue sources” includes commercial contracts and tendering, net interest earnings and discretionary foreign exchange trading.

Contributions from other revenue sources	\$49.05 million	(page 45)
Commercial contracts and tendering:	\$40.5 million	(page 41)
Net Interest earnings:	\$9.6 million	(page 61)
Discretionary foreign exchange trading:	-\$1.05 million	(calculated)

QUESTION: Are these all the sources of revenue in this category? If so, is it true that the CWB lost \$1.05 million in discretionary foreign exchange trading? Why is this not reported directly? Why is it hidden and we have to figure it out?

The Annual Report (page 46) reported “While 2009-10 targets were exceeded for some revenue sources, others were negatively impacted by the strong Canadian dollar, increased financing costs and rising commodity markets.”

QUESTION: How would rising commodity prices negatively impact these “other revenue sources”?

About “Other Income”

In 2009-10, the CWB reported \$187 million as “other income”. (page 79) (\$133 million in wheat; \$22 million in durum; \$34 million in designated barley)

QUESTION: What is the makeup of this?

About “Other direct expenses”

In 2009-10, the CWB reported \$43 million as “other direct expenses”. (\$27.8 million in wheat; \$8.6 million in durum; \$6.8 million in designated barley)

QUESTION: What is the makeup of this?

About Cash Trading

The report on Cash Trading (Annual Report, page 67) includes all cash trading in one account – CashPlus malt barley, feed barley, organic program, Wheat Storage Program, and Churchill Storage Program.

QUESTION: Can we get a breakdown by each program?

QUESTION: What is the source of the \$10.4 million listed as “other income” in the cash trading statements?

About Mission Terminals / Soumat

Mission Terminal is part of Soumat, the grain handling business owned by Upper Lakes Group, the CWB’s partner in the laker purchase.

It has been reported that Mission Terminal made CWB director-election contributions to some director-candidates, particularly those that have an interest in producer cars.

QUESTION: Isn’t this a conflict of interest (since Mission Terminal is the largest administrator of producer cars and handles the lion’s share of the producer cars going east)?

The amount of CWB grain handled by the Soumat transfer elevator in Trois Rivières averaged 52,300 tonnes per year in the 5-year period before ex-CWB CEO Adrian Measner was hired as CEO. Since he was hired, the volumes have averaged 356,000 tonnes – an increase of almost 600%. Mission Terminal, also led by Measner, has increased its CWB business so much that it expanded its capacity – even though Thunder Bay already has significant over-capacity.

QUESTION: Can you explain why the Soumat transfer elevator in Trois Rivières has seen its CWB business go up so dramatically since the appointment of Adrian Measner?

QUESTION: Why is Mission Terminal expanding? Did the CWB negotiate with other terminal operators in Thunder Bay for additional volumes (instead of sending it to Mission)? If no, why not? If yes, why did Mission have to expand?

QUESTION: Is it the view of the board that favouring one company over the others is a good long term strategy for farmers?

#56 Leadership and the Single Desk (May 5, 2011)

Like Hank Williams Jr. says, it’s all over but the crying. The Conservatives got the majority that they wanted and needed. So now one of the key questions for Western Canadian farmers will be what is the future of the Canadian Wheat Board?

One thing that stuck out like a sore thumb for me was the reminder that the results of CWB director elections and federal elections don’t seem to be consistent. I say “reminder” because this isn’t the first time this has happened.

Last night, in the federal election, 67% of the rural voters in the CWB Designated Area favoured the Conservatives whose platform included giving farmers the right to choose who they sell wheat and barley to (in other words, making use of the CWB voluntary by removing the single desk monopoly). Provincially, Conservatives won handily in all three prairie provinces; 70% in Manitoba, 57% in Saskatchewan and 76% in Alberta. By all accounts, a resounding endorsement

of the Conservative platform. Even though the other federal parties argue that, because the Conservatives have only 40% of the National popular vote, 60% voted “against” Harper and his Conservatives, that can’t be said in the CWB designated area. With 67% of the rural vote, it can be said that only 33% don’t agree with the Conservative platform.

To compare, in the last CWB election (last fall), 57% of the votes in the final round went to single-desk minded candidates (those that want to protect and keep the single desk). Individually, the single-desk minded directors won with the following share of the votes cast: Stewart Wells (55%), Allen Oberg (64%), Kyle Korneychuk (57%), and John Sandborn (66%).

A couple of questions come to mind:

Where were all the CWB single desk supporters during federal elections? For example, those that want to keep the single desk view MP David Anderson and CWB Minister Gerry Ritz with contempt for their efforts to reform the CWB, yet these two MPs won their ridings handily by a margin of 70% and 67% respectively.

And where were all the open market supporters during CWB elections? David Anderson’s riding overlaps a great deal with Stewart Wells’ CWB district. Although David Anderson won with 70% (20,560 votes), Stewart Wells won his CWB election – although only 54.6% (1,872 votes), he still won. Clearly, many, many farmers voted for David Anderson knowing his view of the CWB, yet didn’t seem to be interested in voting for a similarly minded CWB director.

It needs to be said that any political party has more than one plank in its platform (perhaps with the exception of the Green Party) and that voters respond to more than one issue. The gun registry, health care, job creation, and the economy all come to mind. All very important issues – but isn’t the CWB an important issue on the prairies? You’d certainly think so during the CWB director’s elections. In fact, the singled-desk minded candidates ran on the main plank of keeping the single desk monopoly because it is deemed so important in ensuring farmers get the best value from their production.

The CWB seems to believe that CWB director elections are more relevant to the single desk issue than federal elections. Immediately following the federal election, the CWB released a statement. In it, the CWB states:

“The same important democratic principles that determined yesterday’s federal election also apply to farmers’ decisions on grain marketing. Prairie producers have been clear that they should determine the future of the CWB as their marketing organization. Through a sound democratic election process, they have chosen their representatives on the CWB’s board of directors since 1998.

"Farmers have the right to continue to make the decisions themselves about the role and structure of their marketing approach. The path forward must be forged in clear accordance with their wishes.

"This issue is crucial to farmers' livelihoods, to the economic stability and competitive viability of Canadian wheat and barley exports, and to the spirit of democracy."

Even though the CWB acknowledges that it plays a role in the "economic stability" of the prairies, CWB elections are restricted mainly to CWB permit book holders. Many other commercial farmers, growing a wide variety of different crops are shut out of the CWB elections, unless they choose to hop through the administrative hoops needed to just get a ballot. Since they believe they are farming around the CWB as it is, why would they even bother?

The future of the CWB should not be left in the hands of CWB permit book holders only. Beyond the obvious possible issues around a list maintained only by the CWB itself, the greater issue is that the CWB clearly affects all farmers and most people in the Designated Area. Even those farmers who believe they are "farming around the CWB" by growing only non-CWB crops are affected by the CWB. If democracy rules the day, they too should have a say in the future of the CWB.

Since the CWB has a direct effect on the financial results of farmers, it has an impact on all other people who choose to make the prairies their home; local implement dealers, elevator employees, shop keepers, machine shop operators, school teachers, truck drivers, municipal employees, and so on. The "important democratic principles" that Mr. Oberg talks about apply to everyone that the CWB touches. The federal election results should play a greater role than CWB director elections in deciding the future of the CWB, not the other way around.

One definition of leadership is making tough decisions and taking appropriate action even though it may be unpopular by many. With a lack of evidence that the CWB provides value beyond its costs, and with a very clear mandate in the CWB Designated Area, the new Conservative government should use its new majority and amend the CWB Act to make it voluntary.

#57 "I believe in democratic principles" (May 5, 2010)

Concerned about my assertion that the future of the single desk shouldn't be left up to permit book holders, someone calling himself (or herself) "I believe in democratic principles" wrote this on my blog:

"Why should a school teacher, truck driver or shop keeper have any say in how I run my business and market my grain? Do I have a say in how much of a raise the teachers get or how much the shop keeper charges for his product? As for if a person votes conservative it doesn't mean they support their entire mandate. A person would hope that they would leave it up to the people that grow the grain to decide how to market it, not everyone that lives in the MP's riding."

Since I guess I wasn't very clear before, here's my take on it.

It has never been proven that the single desk of the CWB adds any revenue to the farmers of Western Canada. The CWB has argued (supported by studies commissioned by the CWB) that it gets higher prices on behalf of farmers than they would in an open market. Unfortunately, they don't take into consideration enough to make the arguments comprehensive. They don't address the fact that the CWB costs are higher than the premiums they allegedly get (last year the CWB reported costs of over \$10/tonne and premiums of about \$6/tonne - a net drain on farmer revenues). In recent years, US spring wheat farmers could sell their whole production at the lowest price of the year and still get more than Western Canadian farmers get through the CWB.

In addition, they have never considered the impact the CWB has on non-CWB crops. I previously showed the prices of non-CWB crops such as canola and peas are lower because of the CWB. So the CWB is a drag on all farmers – even those that don't grow or sell CWB grains.

A farmer once told me “I don't care if the CWB gets me the best price or not; it's more important to me that we all get the same price.” To me, this is selfish and narrow-minded. And the fundamental flaw with the CWB.

So much is sacrificed for the sake of equality. With the CWB system, farmers receive less for their efforts, regardless of what they are growing. But farming is the foundation of rural economies across the prairies. When farming is bad, so is everything else. When farming is good, everyone gains. Everyone on the prairies likes high grain prices because farmers spend more on trucks, tools and taxes. Local economies do better when farmers make more money.

And when farming is bad enough, taxpayers – through government programs – get tapped to provide support for farmers. Everyone – and I mean everyone – has a stake in how farmers fare. When there is evidence that the CWB is creating a drain on rural economies, it hurts us all. In an open and competitive market, market forces favour those that are creating the best opportunities through the simple ability to choose. But when a quasi-governmental organization with a monopoly is the impediment of wealth creation, its future cannot be left up to those that would selfishly keep it at any cost.

I agree with the reader that brought this up; farmers should have the right to decide how to market their grain. Absolutely. But when it comes at a cost that we all bear, they lose the right to mandate it over the rest of us. If it was clear and undeniable that the CWB created wealth for Western Canada, we wouldn't be having this conversation.

I believe in economic or “market” principles. Because there is nothing more democratic than the market.

#59 Single Desk Democracy (May 9, 2011)

In last fall's CWB director election, voters (I won't call them farmers because we all know they're not all farmers) elected five new directors, four of which support the single desk. Single desk supporters herald this as firm support of the single desk, some saying 4 out of 5 directors means the single desk has 80% support of farmers. Truth is, these directors won with only 57% support.

And single-deskers ignore the fact that many farmers don't even vote in CWB elections because they don't support the CWB in the first place. Saying the single desk has 80% support of all farmers sounds impressively decisive – but it's just not true.

And when it comes to the federal election where every rural riding in the CWB designated area elected a Conservative MP running on a platform that included the removal of the CWB single desk (by an average of 67% of all rural voters), single-deskers say that there are more issues than the CWB single desk when voting for an MP so you can't say that those that voted Conservative automatically support removal of the single desk.

If they're right, the same applies to CWB director elections. As a scrutineer in the 2008 CWB election, I saw ballots that voted for a single desk candidate as the first choice and a strong "choice" candidate as the second choice – and vice versa. Clearly to these voters, the single desk was not the only issue. You can't have it both ways – you can't say that the future of the CWB is not an election issue in a federal election yet say that it is the only issue in the CWB elections.

What carries more weight on the single desk than either election are the CWB's own survey of farmers and the barley plebiscite of 2007.

Single-deskers don't like the question that includes a dual market option but I suspect that is just more of the same posturing as with the election results. They take the approach that, if it agrees with you, run with it; if not, tear it down any way you can. Truth is, most people understand there really are three options – keep the single desk just as it is, make the CWB optional (no single desk), or don't have the CWB involved at all (again, no single desk).

The last CWB survey asked 1,300 farmers; the plebiscite was answered by over 29,000. The results of the CWB survey and the federal government plebiscite on barley are remarkably similar:

CWB survey			Plebiscite
"Solely CWB"	33%	38%	"Retain single desk"
"Dual marketing"	40%	48%	"CWB or other buyer"
"Open market"	20%	14%	"No CWB role in barley"

The key here is the support of the single desk – less than 40% in both. Single-deskers try to say that many farmers don't understand the dual market option, or that a vote for the dual marketing option is still a vote in favour of the CWB. Even if you agree with either of these rationales, it's undeniable that voting for a dual market indicates support for having marketing options – clearly not in support of the CWB acting as the sole marketer using the single desk. Even when the CWB asked the simple "single desk or no single desk" question, the single desk still only garnered 42% support.

Many, many farmers have told me they support a "dual market" because, although they prefer an open market, they're not about to tell others that they can't use the CWB if they want to, so they vote for the dual market option. Whether farmers believe the CWB will survive without the single

desk is not the issue – the real issue is whether single-deskers will continue to support the CWB without the single desk.

The CWB doesn't need the mandatory single desk for market clout; it only needs support from farmers. The fact that single-deskers like the NFU fear the CWB without a single desk won't have support from farmers says a lot about what they recognize about farmers; like anyone else, farmers look for and respond to value. Going forward, the CWB needs to decide what value they offer.

Remember the old Smith Barney commercial? Open market supporters are simply saying, "Do it the old fashioned way. Earn it".

So what's the purpose of all this navel-gazing about votes, elections and plebiscites?

The votes on direct questions on the single desk are in; and consistently, the majority of farmers who participated in the CWB surveys over the years and in the 2007 barley plebiscite really don't support the single desk as much as the NFU would like you to think.

I said before that, as a vote on the future of the single desk, the federal election is more valid than the CWB director elections because everyone has a stake in it, not just permit book holders. I'll go even further. The CWB's own surveys and the barley plebiscite are even better indications. Having said all that, there really is no need to vote anymore. Supported by the CWB's own surveys and the 2007 barley plebiscite, the Conservative government has indicated it's going ahead with the voluntary CWB option. Logically, this should also satisfy those that want an open market even without the CWB, therefore satisfying the majority of farmers out there.

It's time to stop arguing about voting and just get on with it.

#63 To Vote or Not to Vote, That is the Question (May 27, 2011)

Single desk supporters are now arguing against the government's plan to end the CWB's monopoly arguing for a plebiscite or insisting the CWB board of directors has the mandate to decide on the future of the CWB – not Ottawa. Their message is clear; Ottawa should just "butt out" as farmers should decide for themselves.

- Immediately following the federal election Allan Oberg, chairman of the CWB said in a CWB release: "Prairie producers have been clear that they should determine the future of the CWB as their marketing organization."
- NFU president Terry Boehm said: "...any changes to the Wheat Board should be decided by farmers"
- The CWB Alliance stated on its website: "We are calling on Prime Minister Harper to respect farmers' right to democratically choose their marketing system through the elections to the CWB Board of Directors"

- Bruce Johnstone of the Regina Leader Post wrote: "... a plebiscite of producers who actually use the Canadian Wheat Board's services would give the government the mandate to change the single-desk marketing system."
- In this week's Western Producer, Pat Martin, NDP MP for Winnipeg Center said: "The general public might not give a hoot about the Canadian Wheat Board, but they do care about democracy, and to take deliberate steps to sidestep basic rights and freedoms is not going to sit well with the public."

None of them accept the results of the federal election as a mandate for the government to provide marketing freedom. The definition of mandate is "**support from electorate**: the authority bestowed on a government by an electoral victory, effectively authorizing it to carry out the policies for which it campaigned."

The conservatives won a majority on a platform of marketing freedom; everyone understood that meant the end of the single desk. In fact it was a dominant majority, winning all rural ridings within the CWB designated area (with a popular vote of around 67%). Any way you look at it, they do have the mandate.

CWB director elections

Single desk supporters' argue that CWB election results should trump anything the government might want or need to do. CWB directors are elected (or appointed) to share governance (with the government) and to oversee the management of the CWB. However, CWB directors do not have the power to remove or add commodities to the single desk. If farmers voted for a director because they thought he would be able to keep or protect the single desk, they were misguided or misled.

Regardless of who the directors are or what their personal conviction on the single desk is, there are two irrefutable facts:

1. **Under the current Act, CWB directors do not have the power to remove commodities from the CWB single desk. Through a plebiscite, farmers do. The federal government cannot remove commodities except after holding a farmer plebiscite (or changing the Act). That's the way the Act is written.**
2. **The federal government has the power to make substantial changes to the CWB Act, which would include rescinding it altogether if that is what it figures is necessary. And there is nothing that says that making these substantial changes is to be done only on the basis of a farmer plebiscite.**

Make no mistake: the board of directors can no more protect the single desk than it can stop the rain. Electing directors is not a proxy for a plebiscite; nor does it supersede the authority and mandate of a majority federal government. On the issue of the future of the single desk the directors are powerless.

Why a vote for the single desk?

Here are some things to think about to put all this talk of a vote into perspective.

- The single desk was bestowed upon the CWB in 1943 by parliament. Farmers did not get to vote on it.
- The Crow Rate was “retired” in 1995, by Jean Chretien’s liberal government. Farmers were undoubtedly the group most affected by this, yet they did not get to vote on it.
- The same liberal government amended the CWB Act in 1998, sharing governance with a board of 15 directors, including 10 elected by farmers. Although farmers were the ones most affected, they did not get to vote on these amendments. (Interestingly, the NFU, Friends of the CWB and CWB Alliance did not clamour for a farmer-vote on these amendments. There is only one reason: things were going their way anyway. Why fight it?)
- Just weeks after the conclusion of the latest CWB farmer-director election, the CWB board approved the use of farmers’ money to purchase two lakers. And – you guessed it – farmers did not get to vote on it.

Single desk supporters agreed with the laker purchase by the directors saying; “that’s why we elected them; to use their judgement and make sound decisions on behalf of farmers”. They contradict themselves when they don’t take the same position on the federal government and its platform that specifically included marketing freedom. As Laura Rance said in the Manitoba Co-operator, “You don’t vote for a government hoping it won’t live up to its election promises.”

The ONLY reason we’re even talking about a voting on the single desk is because the CWB Act gives farmers the right to vote on changes to what commodities are covered by the single desk. Single desk supporters have twisted this to argue that this includes anything about the CWB. That would mean the CWB directors have more power within the Act than the government itself. The CWB Act cannot transfer absolute power to farmers and directors to be used to stop the government from making appropriate changes to the Act. The government cannot be hamstrung by the wording of the Act.

So how would a vote on the CWB go anyway?

Let’s say a farmer vote was held on the future of the single desk. If the results favoured the single desk supporters’ position, end of story, along with some self-satisfied gloating. Open market supporters would take a page out of the single desk book and challenge it.

If it went against their position, history has shown the single desk supporters would complain about the voters’ list, the question, the colour of the ballots, or anything else they could say that was a problem. Then, when all else fails, they would take it to court.

A vote delays the process during which things would stay the same. After the vote, win or lose, challenges would delay any progress. The strategy of the single desk supporters would be to delay it long enough until a change in government in Ottawa. And that’s why they want a vote.

In other words, no progress. In my view, they don’t have a mandate to do that. I didn’t vote for them.

#67 It's Time to Move On (Jun 21, 2011)

Allen Oberg, Chairman of the CWB, spoke about the future of the CWB at the Western Canadian Farm Progress Show in Regina last week. While reading and listening to his presentation online, I was struck with just how much this debate is now focused on the plight of the reformed CWB, and not about marketing freedom.

This whole process started by the federal government isn't about the future structure of the CWB – it's about providing marketing freedom to Western Canadian farmers. Why are we spending so much time on what the CWB will be able to do – or not do – in the absence of the single desk?

The Conservatives main objective is not to reform the CWB into some form of “voluntary marketing agency”; that part of this exercise emerged because it appeared that a portion of the farming community wanted a voluntary CWB. And since this exercise is about giving choices, it makes sense to consider a voluntary CWB as one choice.

But now the debate is about jobs in downtown Winnipeg, whether the port of Churchill will survive, whether the federal majority government has the mandate to provide marketing freedom, and most of all that farmers should get to vote on the future of the CWB. Add that to the drone of more NFU and CWB rhetoric about the value of the single desk – all unproven and, quite frankly, using analysis that is hard to believe that any reasonable person would believe. (The NFU allegation that the CWB is responsible for adding \$1.5 billion to farmers' incomes would be laughable if it weren't so serious. \$1.5 billion works out to about \$75/tonne on CWB grains only; do they really think that net returns to farmers would be that much lower without the CWB?)

In Regina, Allen Oberg made his views clear; he said “the CWB cannot survive without the single desk”. He says the CWB is not a grain company yet will be expected to compete as one, relying on its competitors. The CWB has no capital base for borrowing money or financing its operations, it relies on government guarantees; it will be too small; it doesn't matter how good the CWB is at marketing, it won't survive without physical assets; even with a large base of farmer support, the CWB won't survive in a competitive world. What is the business plan of the new CWB? Who are its shareholders? Are they farmers? What are its assets?

None of this has anything to do with marketing freedom; it's all about the organization.

The CWB has failed to prove its relevance. They argue that the single desk needs to remain because farmers benefit from it. However, they have never proven it. Read back through all the press releases and public comments by the CWB; you will not find one shred of irrefutable proof that the single desk provides a net benefit. Don't just say “because it's been good to farmers” – tell us how. When you don't provide hard evidence, we can only assume it's because you can't.

Oberg has stated that, if the “new model” of the CWB cannot provide additional value, then why bother. And he says he can't think of a better model than the single desk. About the government, Oberg said, “I do not believe they have a vision for how the CWB could function in an open market. They simply want the single desk dismantled.” I think he's right; the

government's focus is on providing farmers with marketing choice. I think it's up to those that have an interest in the CWB to put some effort behind making it work.

If those who are in the best position to lead change within a voluntary CWB – the directors and the senior staff – don't think they can create a meaningful and successful marketing organization for farmers, then I say we should believe them.

Minister Ritz should take this as a strong message, rescind the CWB Act, and move all non-marketing activities to a newly minted Canadian Wheat Commission (CWC). Funded by a voluntary check-off, the CWC could be used to administer cash advances on wheat and barley, support the Canadian International Grains Institute (CIGI), support wheat and barley breeding programs, market development – and anything else its management feels compelled to get involved in – except grain marketing and regulations.

If those wanting the CWB to remain active in grain marketing in some form, I suggest they work toward creating an organization that – quite frankly – does not market grain nor regulate. The CWB says it can't compete as a grain company, so take that one off the table; let's all agree it won't be a grain company. It would be a mistake to have them regulate anything, so turf that one too.

However, under the right leadership, the CWB could become a very important risk management tool for farmers, providing optional price pooling (yes, through the grain companies), other pricing options and market-based resources to enhance cash flow. It could even administer cash advances (which could be imbedded in other cash management tools).

If those leading the CWB can't see a future for a voluntary CWB of any description, even one providing risk and cash management, I guess it has no future. But that's OK - in a free market there will be others willing to step in to offer whatever farmers need and the market can provide.

It's time to move on.

#68 Take My Ball and Go Home – CWB Style (Jun 21, 2011)

A foundation of the CWB's message about the future without the single desk is that it won't be able to compete with the grain companies that it will be forced to rely on to handle its grain.

Allen Oberg recently said:

If the CWB were to continue its grain-marketing role in an open market, it would need to operate as a grain company. A grain company that would need to rely on competing grain companies in order to carry out its business. ...

...You will drive to your local elevator, which is now competing with the CWB. This elevator is run by a company with no incentive and no requirement to handle CWB grain.

In fact, the CWB has said – over and over for some time – they will not be able to compete while relying on their competitors to handle their grain. Those of us on the other side of this debate have said – over and over for some time – this happens all the time; the grain business is a volume business – bring them volume and they will be eager to negotiate to get your business.

Yesterday, the Western Grain Elevator Association (WGEA) released a statement on the subject:

"The insinuation is that grain handling companies would not be interested in continuing to partner with the Canadian Wheat Board as suppliers of handling services," said Wade Sobkowich, Executive Director of the WGEA. "It's unfortunate that members of the WGEA have not yet been approached by the CWB to discuss maintaining its strong partnership in an open market. Grain companies would certainly be prepared to negotiate handling or marketing agreements with the CWB on standard commercial terms. Our members look forward to entering into discussions with the CWB to ensure an orderly transition to marketing choice in a way that is in the best interest of all participants, including producers."

Sobkowich adds that handling grains and oilseeds for third parties is commonplace in the grain handling system and would continue with marketing choice. "Grain companies currently offer handling services to third parties who do not own elevators or port terminals, many of whom are direct competitors. It makes good commercial sense for grain companies to provide services to the CWB, especially in circumstances where the volume of wheat and barley to be handled is significant."

So where is the CWB leadership? They've taken this position without even discussing any of this with the grain handlers. And the grain handlers "look forward to entering into discussions with the CWB".

It would make much more sense to approach the members of the WGEA (and other grain handlers) and negotiate commercial terms. Only after trying sincerely and failing, should you come out and say "it won't work."

This approach by the CWB board is the epitome of arrogance. There are many things the CWB could be and do; this kind of opportunity is rare. But let's face it; they don't want a voluntary CWB to work and have failed to even try. Many, many farmers, expecting them to work on their behalf, should be very disappointed in the CWB board right about now.

My guess is that the majority of CWB directors are still in a mindset where they are not going to accept the removal of the single desk and, unfortunately, all their efforts will be going into fighting change rather than pursuing opportunities on behalf of farmers. Like the playground brat, since they aren't getting their way, they're threatening to take their ball home.

I'm sorry to say that we are likely faced with the prospect of a summer and fall of the CWB making resistant "why bother?" type of statements, only to be corrected – over and over – eroding any confidence the board leadership might have had. Unfortunately, the end result may

be a completely impotent CWB, not able to provide value in a voluntary market, or no CWB at all
– simply because its leadership failed.

CWB Elections

#14 CWB Elections: Those That Can Vote, Should Vote (Oct 18, 2010)

There are farmers saying they won't vote in the CWB elections because they don't grow CWB crops. They say that they really don't care what the CWB does or doesn't do because it doesn't have anything to do with them.

Well, it does.

Delivery of CWB grains is restricted by the CWB "calling" grain into the system – you'd like to deliver more but you can't. As most farm bills come due in the fall, farmers need to sell grain to pay the bills. Since they can't deliver enough CWB grains to pay the bills, they sell something else.

A friend once joked that he grew peas so that he could pay his durum production bills in the fall. It'd be funny if it wasn't true. Between the low Initial Payment and 50% contract calls, there just isn't the cash flow needed to cover the input costs. So peas or canola or some other crop carries the burden.

Canola is the big one – the big non-CWB crop that gets sold at harvest or shortly after to pay the bills. The problem is that too much canola gets pushed into the system in the fall. As canola stocks build in the primary elevator system to more than a million tonnes in most years, the basis can weaken by as much as \$30/tonne (or more) – we've all seen it. This is not elevator companies taking advantage of you because they know you need to sell - grain handlers use price to get farmers to slow down on deliveries and – at the same time – to get buyers to buy more (or attract price sensitive buyers, like Mexico). Once the stocks in the elevators begin to get cleared up, the basis works its way back up to as much as even money to futures, as buyers look for prices that will now attract new deliveries into the system.

Feed barley is another big one. I've already talked a few times about the current export feed barley program that is costing all feed barley producers – even those that don't sell to the CWB – millions.

The CWB's passive system of "inventory management" makes the whole system – for all crops – dysfunctional. Whether they are manipulated, managed or free, markets provide signals and incentives to both buyers and sellers. In western Canada, since they get the same price regardless of when they deliver, farmers have the incentive to deliver wheat early in the crop year (instead of holding it for later delivery); yet they can't deliver any more than the CWB allows. On the other hand, the canola market gives incentives (signals) to sell for delivery later in the year; yet many can't as they need the cash now, not later.

When the CWB states it doesn't distort markets, it's wrong. Among others, it distorts the markets for all the non-CWB crops grown in western Canada. And it's not to the benefit of the farmer.

Don't think for a minute that because you don't sell to the CWB that it doesn't concern you. It does. If you're a grain farmer, and even if you don't sell grain to the CWB, your vote in the director's election is important.

#20 The CWB Director Election is Important (Oct 28, 2010)

The CWB directors' elections are upon us. The ballots have been mailed out. It is now prudent to review where candidates stand and the track record of incumbents.

There are three incumbents running for re-election. Henry Vos (District 1), Allen Oberg (District 5) and Kyle Korneychuk (District 7).

Vos is known to support positive change. According to his election material, his vision for the CWB is "A Canadian Wheat Board where farmers have the freedom to operate and manage their businesses with relatively few restrictions." It also states "During his past term as a director, Henry has worked constructively for change to increase the value of wheat and barley to farmers."

Oberg is an unwavering advocate of the single desk. In his profile, he states "I am convinced that the single desk is fundamental to a strong and viable CWB."

Korneychuk is also a staunch guardian of the single desk. He states "I firmly believe that the CWB with a single desk mandate provides the largest benefits to all producers".

The following is what occurred at the CWB during their term – since 2006:

Administration costs since 2006:

- CWB overhead costs have risen by about \$9 million (13%).
- HR costs have risen by about \$6 million (16%).
- Communications expense has risen by about half a million (30%).

The Single Desk performance since 2006:

- Premiums the CWB may have achieved were overwhelmed by other factors that kept returns at or below annual market averages.
- Wheat pool averaged about \$30.00/tonne below annual market averages.
- Durum pool returns averaged about \$7.00/tonne above annual market averages.
- The malt barley pool returns averaged about \$50.00/tonne below annual market averages.
- Delivery into the durum and malt barley pools was restricted.
- 08-09: 81% acceptance on durum (in a market offering well-above average prices).
- 09-10: 52% acceptance on durum
- 08-09: malt barley pool was closed to new selections half way through the year.
- In 07-08, the CWB lost \$226 million in discretionary trading in the pools (mainly wheat).

- Most years, the CWB held back from the market the true value of the export market, thereby having a seriously negative impact on domestic feed barley values. About \$50/tonne in 07-08, \$8.00/tonne in 08-09, unknown in 09-10, and \$50.00/tonne in 10-11 (currently).

Producer Pricing Options and the Contingency Fund since 2006:

- The CWB lost a total of \$94 million in the PPOs (06-07 to 08-09; 09-10 information is not available yet).
- The Contingency Fund was drawn down by about \$41 million. It went from a \$44 million positive balance in 2006, down to a \$29 million deficit in 2007-08, and back up to a \$3 million positive balance in 2008-09.
- In 08-09, the PPOs “earned” \$25.00/tonne, one of the largest amounts taken from participants ever, as the CWB tried to cover the losses in the Contingency Fund. The Early Payment Option “earned” \$15.00/tonne, by far the largest amount taken from participants ever in the life of the EPO program, also to cover the deficit in the Contingency Fund.

Evidence suggests that the single desk has not generated any net benefit to farmers and has been responsible for a serious drain on the Western Canadian economy over the last four years.

All candidates need to stand up for what they believe. Incumbents have the added accountability of what they did while on the board to improve the CWB for farmers. Those that are unwavering proponents of the single desk such as Korneychuk and Oberg and other new candidates need to explain why they think it is beneficial to farmers in the face of overwhelming evidence to the contrary.

These candidates have indicated they support the status quo (protecting the single desk):

District 1: Dan Gauthier
 District 3: Lynn Jacobson, Brett Meinert and Stewart Wells
 District 5: Allen Oberg
 District 7: Kyle Korneychuk
 District 9: Garry Draper and John Sandborn

All these candidates should be asked what evidence they have that the single desk is a benefit.

From what I can gather, these candidates support change (even if it means changes to the single desk):

District 1: Henry Vos
 District 3: Brian Otto
 District 5: Vicki Dutton
 District 7: Terry Youswa
 District 9: Ernie Sirski

All these candidates should be asked what they would do to change the CWB for farmers’ benefit.

All farmers need to take this election seriously. I’ve heard about farmers that don’t care about the elections or don’t agree with them so they don’t bother to participate. (Some even toss their

ballots out into the garbage can in the post office. Don't! There is talk that ballots have been taken out of the garbage and submitted by unscrupulous characters - you may not agree with their choice!)

Even if you don't grow CWB grains, you are impacted by decisions and actions of the CWB and its board of directors.

Even if you don't believe in voting for CWB directors, your vote is important.

If you qualify, vote.

#32 “Single Desk” Candidates vs “Change” Candidates (Nov 17, 2010)

It's been said that the CWB director candidates that have stated their support for the single desk are being more honest than the ones that have not declared. Kevin Hursh, the ag commentator from Saskatoon, even suggested the ones who have not declared were trying to mask what they truly believe. He and others in the media want candidates to come clean on this one issue.

This is fascinating to me; some candidates are being criticized for not stating "front and centre" their view of the single desk. Yet the single desk candidates are being lauded for taking a position on the single desk issue, even though they don't have anything to say about real marketing issues in any of their election material. They just say we must keep the single desk because it's what gives farmers power, or gives farmers better prices.

In the interests of full disclosure, I have some questions for all the single desk supporting candidates:

How do you rationalize your support for the single desk in the face of so much real evidence (even from the CWB itself) that shows that the single desk is not getting top returns for farmers and is arguable an economic drain on Western Canada?

Why do you state your firm support for the single desk and yet never talk about its marketing performance on behalf of farmers?

Why do you only talk about the non-marketing activities of the CWB – fighting the railroads, WTO, GMO wheat, and other advocacy roles – but don't talk in detail about marketing?

Not one single desk supporting candidate has ventured a public comment about the durum wheat fiasco we are facing right now. None talk about feed barley exports and how the CWB program is costing all farmers. And none address the problems with feed wheat pricing.

If the single desk marketing system is a fundamental part of your platform, why not address these issues?

Arguing your case on the basis of whether you are for or against the single desk reduces the election to nothing more than an ideological exercise that is, for all intents and purposes, a stalemate. Apparently this is what the media would like to see.

You will never convince some people that there are any problems at all with the single desk. And others will never venture off the “just get rid of the CWB” position. Focusing on a singular issue like this disenfranchises the majority of producers out there that are sensible business men and women and would appreciate a sound business approach to CWB governance. When candidates put themselves in one category or another on just the single desk issue, it doesn’t give these people much to go on. Business-minded farmers want a director to just get on with the business of making the CWB work for them. As Vicki Dutton, candidate in District 5 put it in her election material, either “lead, follow or get out of the way”.

Embracing an ideological position without facts is an impediment to sound judgment. What should matter is if these candidates are willing and capable to make the appropriate decisions to make things at the CWB better for farmers. Sorry to be blunt, but those candidates that take a strong stance in defence of the single desk, just appear to be close-minded to me.

What would they do if it was shown that the single desk is not working and there’s a better approach? What if it was proven that a dual market could work very well? I suspect these candidates would still vote to keep the single desk.

If you're not capable of arguing about the details about marketing with or without the single desk, perhaps you don’t have the depth to be a CWB director. The real way to govern the CWB is to put your ideology aside for minute, and rationally and reasonably assess the issues for what they are. Then address them in the most effective way possible for the benefit of farmers (not for the benefit of the CWB).

What concerns me are directors who say they will protect the single desk on ideological grounds and ignore what the CWB’s own data is telling him. What I appreciate is someone who says – if it needs fixing, let’s do what is needed.

Single desk directors and their supporters have had their chances to fix the single desk and they have failed. It seems to me that if someone is willing to face reality and make things better, then they should have a crack at it, regardless of their "ideology".

And under the circumstances, it’s pretty clear that the single desk would be targeted - at least by those who have not stated their position on the single desk.

#36 What’s it going to Take for Status Quo Supporters to See What’s Going On? (Nov 27, 2010)

In 2001-02 the CWB transferred \$7.1 million in interest revenue from the feed barley pool into the Contingency Fund.

It now has a policy that allows it to arbitrarily transfer whatever amount of the feed barley interest revenue it believes it should so that interest revenue doesn't distort the feed barley price.

The drivers here are (1) what the Contingency Fund needs and (2) what the CWB believes is the "right" price for farmers selling feed barley. In any other world, this would be considered manipulation.

CWB staff has told me that the interest revenue isn't being taken out of the feed barley pool; rather, they say it goes directly into the Contingency Fund. This is convenient for them because this way it doesn't look like the CWB is taking from feed barley producers and artificially setting the feed barley price. BUT – check out the annual reports; in 2007-08, there was \$948,000 in interest revenue reported in Pool A and \$1.236 million transferred out to the Contingency Fund.

In 2002-03, domestic maltsters in Alberta imported malt barley from Denmark because of price signal failure by the CWB.

This is from Bob Sutton, Vice President of Rahr Malting in Alix Alberta:

The CWB was overly cautious about increasing the PRO while feed barley prices rose sharply due to the drought, leading farmers to avoid CWB pool contracts for malt barley. The malt industry first took the drastic step of guaranteeing the PRO to inspire some confidence in the price. Meantime, we needed to make sure we had low protein barley and the EU hadn't figured out yet how bad our crop was, so we made the purchase and when the news hit that Canada's crop was so bad that we were importing from the EU, prices jumped.

The CWB argued that the quality of the barley crop that year didn't meet malt specifications, forcing the maltsters to import. Ask the maltsters and farmers in the area – the quality was there, but the CWB malt PRO wasn't competitive to domestic feed prices.

At 891,000 tonnes, it was the smallest malt barley pool in recent memory.

With proper price signals, there would be no imports and malt prices to farmers would have been higher.

Estimated cost: \$40/tonne on about a million tonnes = \$40 million lost revenue for farmers

Worth considering – the quality of the crop this year is about as bad as it's ever been, yet no one is importing barley from offshore.

In 2007-08, the CWB lost about \$90 million in the PPOs due to inappropriate hedging and \$226 million in the wheat pool account due to "discretionary trading" (speculating).

It's likely the CWB used the same "hedging" strategy in the pool account as in the PPOs and so it's equally likely that the CWB took similar losses in the pool account (on top of the "discretionary trading losses") – but there is no way to find out.

Estimated cost to producers: in excess of \$300 million

In 2009-10 and 2010-11, the durum market at the farm level was in total disarray.

CWB accepted only 52% of the 09-10 crop

Poor deliveries combined with low Initial Payments, farmers began selling high quality durum into the domestic feed market

Vessels on demurrage because the CWB couldn't get the durum

Cost to farmers: many millions

In 2010-11, the CWB initiated a feed barley export program that hid much of the export value from farmers.

A more fluid program providing good price signals back to the prairies would have increased domestic barley prices

Estimated cost to farmers: in the hundreds of millions.

Over the years there have been higher handling costs for regulated CWB crops.

In 2008-09, Western Canadian average "net-backs" (handling, cleaning, CWB expenses, etc - excluding freight):

CWRS = 28.91

Durum = 48.47

Canola = 5.65

(The reason canola is lower – competition and no CWB costs.)

Even a \$20/ tonne difference is worth about \$400 million annually

Every year, non-CWB crops are sold in the fall to pay for input costs, including those for CWB crops.

It has been estimated that canola farmers receive in excess of \$60 million LESS annually due to this excess selling pressure. Include all non-CWB crops, and the cost to farmers is closer to \$100 million annually.

Add to that the cost of additional on farm storage required for CWB crops that can't be delivered, and the cost is even higher.

CWB pool prices net to farmers are consistently below crop year average farmgate prices in the US northern plains.

Considering the last 7 years, the pool returns on spring wheat and durum have consistently been below the US average street price.

Applied to the whole pool, this totals over \$3 billion in revenue below what average US prices would have provided.

All these "situations" occurred under the status quo with the single desk. However, not one director candidate that is running on protecting the single desk has addressed any of these – or any other unfavourable situations that the single desk is responsible for. Instead, they argue

about what they believe will happen if the single desk is lost; curiously, they never talk about how problems like these will be avoided.

There are candidates that are running on platforms that are focused on changing the way the CWB does business. They recognize that there are problems with the CWB that are costing farmers a great deal and are willing to address them.

Considering these “situations” listed above, which candidates make more sense? The ones that want to correct these costly episodes, or the ones that are turning a blind eye to them and perhaps even believe that nothing is wrong? Once they're at the board table, which ones will work at improving these situations?

Misrepresentations

#21 The Debate Gets Personal (Nov 2, 2010)

I have received a copy of a “letter to the editor” signed by Ian Robson from Deleau, MB. It is a direct response to, and criticism of, my commentaries, and a personal attack on me. His letter is an excellent example of how the guardians of the CWB – those that argue aggressively against any negative comments about the CWB, even those substantiated with facts – use rhetoric, fear and even personal attacks to change the channel or divert attention away from the real issues.

His letter follows my comments.

First, I make no apologies for my comments or my position. I am a fierce proponent of all things efficient; all my views are through the lens of efficiency and the benefits it brings to the whole market and value chain – farmers, grain companies, processors, and ultimately the consumer. Unlike Mr. Robson and others, I believe there is more wealth to be created through greater efficiency and that farmers and grain companies can both be more prosperous. I don’t believe that when one gains the other loses; Mr. Robson appears to believe (as do other guardians of the single desk) that if grain companies are making more money it must be coming out of the farmer’s pockets.

Whereas I welcome the debate, I am disappointed in the lack of substance brought forward by Mr. Robson. Rather than attack me as a “CWB slagger”, it would have been more beneficial for all involved if Mr. Robson provided clear evidence of his support for the single desk and the CWB. Even though he argues that my arguments are hard for him to understand, he doesn’t counter with anything factual to substantiate his argument or to discredit my facts and conclusions.

Mr. Robson’s approach assumes I am working to put an end to the CWB. Since I have never taken that position, even on this he can provide no evidence. I see how the CWB is not providing the net benefit that the farming community deserves and it needs to be changed or improved. To me, that means the possible end of the single desk. If to Mr. Robson the end of the single desk means the end of the CWB, then he should make that clear.

I apparently have failed at explaining the weaknesses I see in the single desk. Let me try one more time:

The single desk is responsible for export feed barley prices NOT being translated to the domestic market. This means that the local price of barley to the local feed lot or feed mill stays lower than it would otherwise. Farmers end up selling barley locally for a lot less than they would otherwise. This costs farmers a lot of money. If the CWB used a system to translate the price better (better price transparency) then all farmers would get higher prices, and grain companies would make no more than they do now handling CWB barley.

The single desk (and pooling) is responsible for a low initial payment and poor movement which, combined, has created financial hardships on durum producers. Because of the lack of cash flow, many durum farmers sold high quality durum into the local feed market. Now the CWB is scrambling for high quality durum for offshore sales; one vessel has been in Vancouver since Sept 19th and is still waiting for durum. The demurrage bill will be in the millions and will be paid for by farmers. If the CWB provided better upfront pricing and more flexible delivery options, this would not have happened.

Price comparisons show the pool returns are consistently below THE LOWEST daily prices over a crop year that the US farmer can sell at. Even if the US farmer sells at the lowest price he sees all year, he still gets more than Western Canadian farmers.

If Mr. Robson and his colleagues cannot see that these represent hundreds of millions in losses by the single desk to him and his neighbours, then I'm afraid I am not equipped to convince him otherwise.

But I will repeat – when it comes to CWB board candidates, give your full consideration to those candidates that are willing to look critically at all the CWB is doing. It must work for farmers to be sustainable. And that means judge on more than rhetoric; consider those candidates that are willing to make hard decisions.

But most of all, ask any incumbent who stands to protect the single desk, what they've been doing for the last four years. They've got a lot to answer for.

Mr. Robson's letter:

Dear Editor

For some time now private market commentators have slagged the CWB. These attacks alternate between the paid for puppet farm organizations like the Wheat or Barley Growers and the direct Trade paid market commentators.

Commentator Mr. John De Pape, as a former Cargill employee and a tireless promoter of margin trading activities is one of these CWB slagers. His reports are laden with meaningless jargon designed to make him sound like an academic criticizing the Canadian Wheat Board. This rings more than a little hollow when you realize that the CWB returns more than 95% of market revenue back to us as the benefiting farmers. The demise of the CWB would allow Mr. De Pape and his private trade friends to profit from more margin trading at the expense of farmers.

How reliable have Mr. De Pape's comments been? In 2003 he said barley exports had dwindled to "insignificance." In the same report he also complained it is "short-sighted" for the CWB to charge a premium price to U.S. and Canadian malsters. This is a magical way of saying farmers should take less for their grain, presumably by allowing Mr. De Pape and his friends in the private trade to claim their margin instead.

This is typical of Mr. De Pape's short sighted thinking. Fast forward to 2010, what do we see? The high Canadian dollar has taken the bloom off the cattle market, the Russians just stopped all grain exports, malting and feed barley sales are booming. Lucky we still have the Wheat Board to negotiate the best deals in all the market conditions. It is a good thing that nobody took Mr. De Pape too seriously back then, unless of course you count our failed ostrich farmer Federal Agriculture Minister and a few oil barony Alberta ranchers.

Is there a connection to this flood of self-serving trade commentary and this years' CWB Farmer Director Elections? Yes there is a connection. Please vote for Farmer CWB Directors that fully support the CWB.

Ian L Robson
Deleau, Manitoba

#24 Despatch at the CWB: Not What You Think (Nov 3, 2010)

A friend was telling me about a conversation he had recently with Allen Oberg, Chairman of the board of directors of the CWB. Frustrated by seeing durum vessels on demurrage, my friend suggested that the senior staff should pay for the demurrage out of their own pockets. According to my friend, Oberg responded by asking "should we give them the despatch as well?"

I doubt Mr. Oberg knows what he's suggesting.

Demurrage is a penalty paid by the shipper to the vessel owner for taking longer to load a vessel than you had negotiated. Despatch is a payment from the vessel owner to the shipper for loading faster than negotiated.

The CWB gets both in a typical year - demurrage on some vessels, despatch on others. The CWB reports these two income/cost related factors in the annual report as a net figure - one subtracted from the other. So, in 08-09, when the CWB racked up \$7.6 million in demurrage charges and \$15 million in despatch "earnings", it reported a "net despatch" figure of \$7.4 million despatch. In other words, the CWB reported only that its despatch "earnings" were greater than the demurrage charges by \$7.4 million. It looks like, on balance, it was a positive year when it came to loading vessels.

But the CWB leaves out an important factor, and I'm guess Mr. Oberg doesn't realize it or is looking the other way on purpose.

To earn despatch, the CWB takes less time to load a vessel that it negotiated for. But despatch doesn't cover the cost of the loading time that the CWB negotiated for in the first place. When you say you need 6 days to load, the effective ocean rate you get factors those 6 days into the total costs. The more time you negotiate for, the higher the cost.

So - when you say you need 6 days to load, guess what? You PAY for six days.

And when you use only 4 days to load, you get despatch for the two days you didn't use (but you still pay for them).

ALSO - despatch is only a **PARTIAL REBATE** of the charges for those days not used. Typically it's half the freight rate (or less).

Here's the thing that Mr. Oberg doesn't understand: when you get paid despatch, it has actually cost you.

When the CWB reports despatch payments without considering the full expenses, it gives an incomplete picture.

SHIPPERS SEE DESPATCH AS A LOSS. NO ONE SETS OUT AHEAD OF TIME TO EARN DESPATCH, BECAUSE IT'S SO COSTLY. CERTAINLY NO ONE ELSE SETS OUT EARNING DESPATCH AS A CORPORATE GOAL LIKE THE CWB DOES.

For the CWB to "earn" \$15 million in despatch in 08-09, it's safe to estimate that this represents excess loading days that cost the CWB in excess of \$35 million. After getting the despatch payments, the CWB paid out \$20 million for loading time they didn't need.

For 08-09, add the demurrage charges to the actual despatch costs and the situation was likely over \$40 million in losses.

Over the last five years, demurrage and despatch (including the freight cost) would likely total more than \$250 million in LOSSES. Because the CWB does not report the total despatch situation, it reported a net demurrage and despatch of \$26.7 million gain.

With all due respect to Mr. Oberg, I doubt he understands the true nature of despatch. I wonder if others on the board do either. If they did, why would they set a goal to earn \$4.5 million in despatch each year? Clearly they don't know that in reality, what they have set is a goal to lose at least \$10 million a year and likely much more.

I guess it just looks better than demurrage.

#25 The NFU Wades into the Debate (Nov 4, 2010)

This week farmers received a one-pager from the NFU explaining what it sees as the benefits of the CWB for producers. It requires a response; I will focus on the most glaring errors.

Concerning wheat and barley premiums, NFU says the CWB gets big premiums, referring to two studies – a 1996 study by Kraft, Furtan & Tyrchniewicz and a 1997 study on barley by Schmitz, Gray, Schmitz and Storey. Long ago, the approaches used in both these studies were shown to be seriously flawed, as were the conclusions. I'm happy to give more detail – just drop me an email to cwb@monitor.ca.

Concerning interest earnings, beyond having their facts dead wrong, they also contradict themselves. They say the net interest earnings were \$104 million per year and the 5-year average is \$29.8 million; can't see that happening plus both these figures are wrong. First, the net interest

earnings have never been as high as \$104 million. Net interest earnings are currently around \$2 million; the 5-year average is \$26.4 million.

So eager were they to update this sheet, they included this gem about the average interest earnings of \$29.8 million (their number): “These earnings more than offset the cost of staffing and administrating the CWB.” Staffing and administration costs last year were \$79.1 million and the 5-year average is \$72.3 million – a far cry from \$29.8 million.

Concerning revenues from terminal rebates, the NFU didn’t even bother updating the figure from the last time they used this sheet two years ago. Under the circumstances, I won’t comment on the figure. But, I will say that it’s a stretch to give credit to the CWB for something the grain companies do. Sure the CWB tenders to the grain companies for railcars of grain, but it’s the grain companies that respond with discounts to their typical charges. This shows what competition would do to costs if the CWB system wasn’t in the way.

As for despatch, either the NFU doesn’t get it or they are intentionally misleading. Please read my last commentary about despatch to see that it is a false-economy to pursue despatch like the CWB does. Whereas the NFU suggests despatch is a gain, in actual fact it’s a substantial cost.

Concerning rail freight rates, the CWB was only one voice among many in the discussion. To give credit to the CWB like the NFU does, unfairly trivializes all the work many others did on this issue.

Perhaps most glaring is that the NFU doesn’t consider everything that the CWB does and its impact on farmers:

- High cost of handling CWB grains compared to non-CWBs. If they want to show how tendering provides revenues for the CWB, it’s necessary to also talk about the high cost levels to begin with.
- Affect on cash flow due to lack of full-cash-on-delivery options. Durum is a perfect example this year.
- Affect on non-CWB crops like canola. Prices are pressured as farmers sell these crops to pay for their bills from growing CWB crops.
- Affect on domestic feed grains. Export prices aren’t transparent and so are not allowed to help raise domestic prices.

In general, with this flyer the NFU show gains where there really aren’t any and they don’t show where there are true losses, or drains on the farmer and farm economy. I find it truly sad that the NFU went to all the trouble to put this together and all they showed was that they don’t understand the topic.

Farmers are smarter than the NFU gives them credit for. Presenting a document like this, expecting farmers to accept it as presented, is an insult to the collective intelligence of farmers.

#33 Myths and Myth-Representations about the CWB (Nov 18, 2010)

Single desk candidates and others have made a number of statements to strike fear in the hearts of voters. Here are some of those statements along with my comments.

Without the CWB, farmers would be forced to market their grain directly to offshore buyers.

Why would farmers be forced to market their wheat directly to offshore buyers when there are companies already set up to compete for this business? Do canola growers sell canola to, say Showa, in Japan? Farmers would market wheat the same way they market anything else.

A voluntary CWB would be in direct competition with the grain companies that it would rely on to ship its grain. Why would they handle the CWB grain and not their own?

Grain handling is a fixed cost business and there is over capacity. CWB tenders have shown what grain companies will do to get extra volume – they discount their fees by as much as \$20/tonne. If the CWB approached a grain company with the support of farmers representing a large amount of grain, the CWB could negotiate very attractive handling terms. Grain companies would work hard to get and then keep a sizable customer like that.

A dual market won't work.

I think to most people, a dual market is one where farmers are free to choose who they sell to, including the CWB. In a dual market the CWB would not have a monopoly, or its single desk; it would be a participant in the market providing whatever value it can for producers. For example, I have shown in an earlier commentary that only about 17% of Western Canadian farmers deal with the CWB on barley, either malt or feed (and that includes 100% of all the malt barley). In a dual market, if the CWB dealt with even 10% of all farmers on barley, this should be considered a success. It would tell me that 10% of all farmers find value in the CWB offering. The CWB doesn't need to handle everything to be considered a success.

On its website, the CWB tries to explain how a dual market won't work by giving examples from the 1930's. (<http://www.cwb.ca/public/en/hot/choice/myth/>) These examples all depict a fixed price pool; I showed earlier that a basis priced pool would allow the CWB to compete very well.

The dual market experience in Australia shows a dual market won't work here.

Quite the contrary. In the first year after losing the single desk, AWB acquired over 25% of the Australian 08-09 wheat crop. It's pooling activities attracted 2.7 million tonnes while its "Grain Marketing" business unit acquired a further 3.4 million tonnes. I understand that some of the private companies also provide a pooling option. Pooling successfully offered alongside the "open market". Go figure.

Getting rid of the single desk will be the end of the CWB.

The single desk represents forced participation. In a dual market, with voluntary farmer support, the CWB could be very effective marketer - as long as its open to doing things a bit differently. A separate organization could be formed to address policy issues on behalf of the industry, including farmers (but voluntary), much like the Canola Council of Canada does for canola.

The CWB risk management program has a lower cost than for non-CWB crops

Truth of the matter is that the open market system, including competition and the use of futures has been proven to be a much lower cost system (not just here - anywhere in the world). For example, in 2008-09, Western Canadian average “net-backs” (charges that cover handling, cleaning, CWB expenses, risk management, etc - excluding freight) were reported as:

CWRS = \$28.91

Durum = \$48.47

Canola = \$5.65

The reasons canola is lower include competition and the lack of CWB costs. (These net-backs cover all relevant costs including risk management.)

Working together, marketing through the single desk gets farmers better prices.

Although it’s nice to think this, and intuitively this makes sense, it is not supported by evidence. Even if it was able to get premiums, we have shown that the real costs and lost opportunities are much larger, presenting farmers with a net loss position. More streamlined models need to be considered but the majority of the CWB board of directors cling onto the status quo.

The CWB does not distort markets.

This is just wrong. Poor farmgate cash flow forces marketing actions in other crops that would not occur if the CWB crops were more responsive to market signals. The way the CWB has handled feed barley exports for the last four years has artificially kept the price of feed barley low in Western Canada. Poorer net returns on wheat due to high costs and less-than-average prices contribute to increased acres of other crops, pressuring prices lower due to increased supply. Canada also has a smaller processing industry because of the single desk.

Without the CWB, the US border will get slammed shut to Canadian wheat because there will be lines of trucks hauling south.

The truth of the matter is that all the trade challenges brought forward by the US have been against the CWB – not import of Canadian wheat. (One challenge actually stated it was on wheat from Western Canada, not eastern Canada.) Canada enjoys an excellent trading relationship with the US on all sorts of other agricultural commodities; corn and soybeans coming from the US into Canada; canola, flax and oats going from Canada to the US. In fact the US imports more oats from Canada than it grows domestically. None of this trading activity has been hampered by trade actions – because none of these activities involve the CWB.

Feel free to write in with other myths or myth-representations that you would like to have discussed.

#34 More Misrepresentations (Nov 22, 2010)

It's late in the CWB director election and the rhetoric has kicked up a notch.

There are eight candidates running campaigns around what they believe is the importance of the single desk. They all argue how important the CWB is to farmers as an advocate. The common strategy seems to say if the CWB loses the single desk, farmers will lose the collective power of the CWB on these non-marketing issues.

There are five other candidates running on platforms for change at the CWB, addressing marketing problems, including net returns to farmers and escalating cost issues. These five are apparently running on correcting or improving the CWB and its programs, addressing current problems.

Farmers have basically two choices; they can either vote for a candidate that is looking at solving current, real problems or they can vote for a candidate running a "what if" campaign, as in "what if" we lose the single desk.

The "what if" candidates seem to be itching for a fight over the future of the single desk but there's nobody there to take the other side of the argument. And now the media has stepped in and taken up the cause for the "what if" group. There have been a number of recent articles on how there are no candidates running to remove the single desk.

Unfortunately, the media seems to have bought into this notion that the election is all about the single desk. Never before has so much material about the current workings and activities of the CWB been provided to the media during an election (yes, from me). Yet during the whole election period (so far) the media has failed to pick up on any of it. (With the exception of this week's Producer where there will be an article about my blog – but still not about the content.)

It is really disappointing that the media have made a story of the candidates who have not declared their position on the single desk, yet have failed to talk about how the "what if" candidates won't talk about current problems with the CWB. Isn't there a story in that?

Here's the real story: there are five candidates out there that are saying, "Let's not worry or argue about the future of the single desk right now – there are far too many other burning issues that should be dealt with right now". They have changed the channel – past CWB elections have been about the single desk, but in this one, these candidates that are working at being more relevant. And yet some are trying to say they're not being honest. Give me a break!

CWB Alliance

A new group has added its voice to the election debates - the Canadian Wheat Board Alliance. Its main offering is a website describing what they believe will happen if we lose the CWB or the single desk. It is totally aligned with the "what if" crowd. Nowhere does it address current issues facing farmers right now nor does it come up with any solutions.

And much of what they say is misleading– or just plain wrong.

It's really unfortunate – even though they present some interesting material, it's impossible to have any credibility because there is so much wrong or misleading material alongside it.

I could counter all the issues in detail to correct the Alliance. But to me, that's not the story. The real story is the remarkable extent to which they will go to convince farmers that making any changes to the CWB is a huge risk. It is equally remarkable that they refuse to address current issues that need attention.

The Alliance and the "what if" candidates should be answering the question "What if the CWB and the single desk remains?" We all know the CWB's not going anywhere, so these candidates should be saying what they are going to do to improve the CWB.

Let's recap some of the current issues:

- Durum: poor movement, poor pricing
- Feed barley: poor price signals, lack of arbitrage with the domestic market (domestic market held down)
- Feed wheat: lack of price signals
- Expenses appear to be out of control
- High system costs
- No evidence of premiums
- No fresh ideas

Ironically, a vote for the status quo means nothing will change, leading more and more farmers to revolt against the CWB – including some that might surprise you.

The "what if" candidates want to fight over the future of the single desk, but they don't address current marketing issues. Remember, the single desk is THE marketing instrument of the CWB. It would make sense to argue for the single desk on the basis of marketing performance and related issues yet this group avoids that at every opportunity. Saying the single desk gets farmers the best returns without proof is not acceptable.

Either the CWB Alliance and the "what if" candidates don't understand the core marketing issues or they think there are no CWB problems facing farmers, which means they are out of touch. Or, they do understand the issues but are intentionally avoiding them.

I'm sure it's hard to make farmers fearful of losing the single desk when so many are talking about the marketing problems facing the CWB right now – problems that involve the single desk.

But the Alliance is still going to try.

#45 CWB Director Has His Facts Wrong (Jan 26, 2011)

In a recent article in the Manitoba Co-operator (January 6, 2011), Canadian Wheat Board elected director Bill Woods, takes aim at the railways for what he calls "slick accounting". Unfortunately, Mr. Woods has his facts wrong, which makes his whole argument meaningless.

Here's a little background. The annual review of regulated rail rates and charges showed that the revenue of both railways – CNR and CPR – came in under the Revenue Cap for 2010. According to the Canadian Transportation Agency (CTA) in a Dec 21st release, the railways combined were \$5.4 million or 17 cents a tonne under the CTA Revenue Cap of almost \$923.4 million or \$28.93 a tonne. According to the article in the Co-operator, the Federal Grain Monitor (Quorum Corporation) reported that farmers paid an average of around \$35 per tonne in the same crop year, which works out to about \$6 per tonne over the Revenue Cap rate.

Mr. Woods' first mistake is assuming that what farmers pay is what the railways collect as revenue.

His second mistake concerns incentives for shipping in blocks of 50 and 100+ cars. Woods asserts that the railways charge grain companies the single car rate and then pay incentives back to the grain companies to ship blocks of 50 or 100+ cars in the form of "multicar incentives" of as much as \$8/tonne.

His argument is that the total railway revenue should be based on the \$35 per tonne average rate that farmers paid before any "multicar incentives". According to Woods, "There are about \$100 million paid out annually in multicar incentives. So that means, because the railroads are able to deduct that, their revenue can be \$100 million higher. So in reality they are well above the revenue cap."

Well, in reality, there are no "multicar incentives" paid back to grain companies. There used to be, up to about five years ago; but now, grain companies simply pay lower rates for shipping 50 and 100+ cars at a time.

For example, let's look at Rosetown, SK. The freight deduction on a cash ticket for CWB wheat is \$39.14 per tonne – this is what a farmer pays. This is based on the single car rate of \$3,562 per car to Vancouver and the assumption of 91 tonnes per car. But the railways also have rates for shipping in large blocks. The 50-car rate for Rosetown to Vancouver is \$3,198 per car, or \$35.14 per tonne. The 100-car rate is \$2,834 per car, or \$31.14 per tonne. So when a grain company ships a 100-car train of wheat from Rosetown to Vancouver, they don't pay the single car rate of \$3,562 per car (\$39.14 per tonne) and then receive a rebate payment from the railway (as Mr. Woods seems to think) - they simply pay \$2,834 per car. This works out to \$728 per car, or \$8.00 per tonne lower than the single car rate that is being deducted from farmers' cash tickets.

So, for the most part it seems that farmers, through cash ticket deductions, are paying more for freight than what the grain companies pay to actually move the grain. BUT - a more complete review of this shows that, in 2008-09, grain companies paid farmers an average trucking premium of \$6.17 per tonne – this comes right out of the lower freight rates they pay for shipping in 50 and 100 car blocks. In addition, the Grain Monitor reported CWB "transportation savings" of \$1.70 per tonne – some of which could be argued is available because of the lower rates for large blocks of cars. When you put all of this together, farmers in general are the greatest beneficiary of the efficiencies of multicar loading.

This all leads to Mr. Woods' third mistake – using his misunderstanding of the facts to argue that the railways' revenues are over the Revenue Cap.

Mr. Woods, please take note - there are no incentive rebates paid by the railways to grain companies for loading 50 or 100 car trains. Shippers simply pay a lower rate in the first place. Check for yourself at <http://www.cn.ca/en/shipping-grain-price-tariffs.htm> and look up tariff CN 512538-AK. I'm surprised that even Travacon, the CWB's consultant of choice on this matter, didn't seem to catch this.

Is this really "slick accounting" by the railways as Mr. Woods claims, or is it "fast and loose" analysis by a CWB director? The facts certainly don't support Mr. Woods' assertion that the railways are pulling a fast one. As a CWB director, Mr. Woods should certainly know these details.

Let's hope that this isn't the analysis that the CWB is using to support its call for a rail cost review.

#47 Wayne Easter Defends the CWB with Incomplete Information (Jan 30, 2011)

In a Jan 29th letter to the editor in the Ottawa Citizen, Wayne Easter, MP and Liberal Ag Critic, takes aim at David Anderson's position on the Canadian Wheat Board (CWB), but he's shooting blanks.

This was in response to a letter to the editor in the Jan 22nd Ottawa Citizen where David Anderson, MP Cypress Hills-Grasslands and Parliamentary Secretary for the Canadian Wheat Board, said that Western Canadian farmers "pay a high price to endure the limitations of the CWB's marketing attempts".

Mr. Easter argues the CWB earns premiums for Western Canadian farmers, specifically mentioning 2008-09 where the CWB reported premiums of \$6.65 per tonne for wheat, \$15.37 per tonne for durum and \$14.65 for malt barley. Mr. Easter's incomplete accounting fails to recognize or report that these alleged premiums come at a cost – paid by farmers.

The CWB reports its marketing costs to the federally appointed Grain Monitor, at least for wheat and durum (the grain monitor doesn't report on barley). The CWB reported that its costs in 2008-09 were \$8.44 per tonne for wheat and \$28.38 per tonne for durum. This means the net result of CWB marketing activity – premiums minus the costs to earn them – is a net cost of \$1.79 per tonne on wheat and a net cost of \$13.01 per tonne on durum.

Applied to all the grain marketed by the CWB that year, this means CWB marketing in 2008-09 represented a net cost to farmers of \$28.5 million on wheat and \$55.7 million on durum.

Mr. Easter should take note that these are the CWB's own numbers – both the premiums achieved and the costs to achieve them. Mr. Easter is eager to see the figures for the 2009-10 crop year when they are presented to Parliament; let's hope he doesn't make the same mistake of ignoring the cost of CWB marketing again.

And this is only a partial story; this does not include the non-marketing costs of the CWB, the higher system costs with the CWB, the higher farm costs due to the CWB (higher interest and storage costs) and the fact that US farmers get paid more than Western Canadian farmers through the CWB (in most years, farmers in North Dakota and Montana, growing competing crops of wheat and durum, could sell their whole crop at the lowest price of the year and still get more than Western Canadian farmers through the CWB).

Before Mr. Easter criticizes his colleagues of perpetuating misinformation, he should make sure he has complete information or else he may himself be criticized of perpetuating misleading information.

#65 For What it's Worth (Jun 2, 2011)

Everybody look what's going down
There's battle lines being drawn
Nobody's right if everybody's wrong
Young people speaking their minds
Getting so much resistance from behind

"For What it's Worth"
Buffalo Springfield, 1967

Some people don't know their stuff

There seems to be an onslaught of opinions expressed in letters to the editor in a number of papers – both rural and urban. The common thread on many in support of the single desk is that they have no supporting evidence. These fresh observers are wading into something they appear to know very little about yet make pronouncements as if they are an expert on the subject. For the most part they are simply repeating what has been said many times before by the CWB or its supporters. When you read them, look for the supporting evidence; it won't be there.

For example:

1. In the May 21st Regina Leader Post, Bruce Johnstone said:

"So why do farmers support the single desk? Because they derive an economic benefit from doing so, just like oil-producing countries that belong to OPEC, or potash producers that use Canpotex to market their potash offshore. As the NFU recently pointed out, every year, the CWB puts \$1.5 billion into farmers' hands that they wouldn't otherwise have."

How does Mr. Johnstone know farmers derive an economic benefit from the CWB? What analysis has he done? As I've shown before, the NFU "analysis" (and I use the term loosely) is badly flawed. The CWB handles around 20 million tonnes of grain annually. To say that the CWB is responsible for adding \$1.5 billion to farm revenues, that works out to \$75/tonne. So, you're

actually saying that, without the CWB, wheat, durum and barley prices would be \$75 per tonne lower. Also, the NFU – like that of many other CWB-friendly analysts – makes unsound assumptions and doesn't include additional costs brought by the CWB in any of their analysis. Anybody that truly understands the grain business would know that \$75 per tonne benefit is nothing more than a fairy tale.

2. In the Edmonton Journal (May 29th), Doug Hollands said this about the loss of the single desk:

“Surely there is no “net benefit to Canadians.” I suggest it would be a tremendous net loss to Canadians.”

Mr. Hollands volunteers no evidence to support what he is saying. In fact, there is nothing to support the idea of better prices or value except that the CWB says it does; but it has never proven it. So how can Mr. Hollands say that taking away the monopoly would be a “tremendous loss”? What does he know that those of us much closer to the facts don't know?

3. In the Regina Leader Post on May 28th, Morina Rennie wrote:

“The CWB's product differentiation strategy allows producers to obtain a premium price.”

Ms. Rennie does not share in her letter how she knows this to be a fact. Since she is a professor of business administration, I would expect a more robust analysis, relying on facts and sound, irrefutable analysis, rather than just repeating CWB rhetoric.

Others that should know better

4. Pat Martin is the Winnipeg Centre NDP MP who is the Opposition critic responsible for the wheat board. In a May 31st Winnipeg Free Press article, he states:

"There is no business case for this. In fact, it will take hundreds of millions of dollars out of the Prairie farm economy and put it in the pockets of the shareholders of the big grain companies like Cargill and Viterra."

Mr. Martin would gain a whole load of credibility if he referred to some substance to back up these claims. I understand he believes this; but I'm more interested in what he knows, something he has kept from us.

5. May 25th, Bill Gehl, President of the Canadian Wheat Board Alliance was interviewed on BNN:

“The board is very involved in transportation so we're going to see some pretty big increases in transportation costs... obviously our returns are going to fall...obviously our customers are going to see big changes as well and that will be the loss of some of our quality assurance things that the wheat board does through the Canadian International Grains Institute...we're going to see a weakening of the Canadian Grain Commission...

Let's look at these items one at a time:

Transportation costs: removal of the CWB single desk will not change the fact that rail rates are regulated and the single desk has nothing to do with setting rail rates.

Falling returns: although this seems obvious to Mr. Gehl, he fails to acknowledge that the CWB's reported costs are greater than their reported premiums. Using the CWB's own numbers, if nothing else changed, farmers will get higher – not lower – prices without the CWB single desk. Either Mr. Gehl was not aware of this or he has chosen to ignore it.

Loss of quality assurance: based on what? Canada has an excellent reputation on all grains – even non-board grains. There is nothing to suggest that in an open market our wheat quality will be anything lower or less consistent than it always has been.

Mr. Gehl presents all these as problems with removal of the single desk – without a shred of supporting evidence. I assume if he had evidence, he would use it.

The power of fear

The common thread on all these CWB-supporting comments is fear. Commentators are coming out of the woodwork, mostly saying that, without the single desk, the sky will fall. Loss of quality assurances, loss of revenue, higher costs, no market development, loss of the Canadian brand, farmers getting ripped off by multinationals, poor service, and so on. Not one CWB-supporting commentator offers any proof or evidence for their claims. In fact, every one of their claims can be countered with real evidence or logic. Nor are they being realistic by talking about the problems with the current CWB system – high costs, low returns, poor cash flow, negative impact on other crops, drain on the economy and so on.

I have one question for them: Why not?

This is a very important event in Western Canadian history. We have the responsibility to get it right. I challenge all single desk supporters to prove their arguments. And challenge the facts you don't agree with, with real evidence, not blind rhetoric. If you can't do that, at least get your facts right.

“Paranoia strikes deep
Into your life it will creep
It starts when you're always afraid...”

#95 The \$500 Million Question (Oct 25, 2011)

CWB defenders are using the economic benefit argument provided by the CWB that suggests that the single desk is responsible for \$500 million in annual "benefit" to Western Canadian farmers. Unfortunately, the CWB has not released any details or calculations used to get this figure. Yet it's being thrown around – in the media and in Parliament – as if it's irrefutable.

Back in 2006, the CWB published on its website an analysis that showed the CWB provided a financial benefit of between \$530 million and \$655 million. I'm told the current estimate of \$500 million used the same approach. A closer look at that analysis seems appropriate.

The 2006 Analysis

The CWB summarized its "benefit" as follows (details at the end of this article):

Value of CWB single desk marketing approach: \$297 to \$417 million

This is based on various CWB-commissioned studies that have been proven to be flawed in either their methodology or their assumptions. It can't be said that the CWB doesn't get these premiums but none of the studies used prove that it does.

Value of various logistics approaches: \$169 million

The CWB reports that it provides value in its approach to managing logistics – tendering (\$38 million), managing delivery system access (\$115 million), terminal blending (\$10 million), and producer cars (\$6 million).

Tendering is the process of getting grain companies to compete. It is not a benefit of the single desk; rather in a backwards kind of way, it shows the high cost of the single desk. Think of it this way – if the CWB didn't tender, the normal CWB system would cost farmers \$38 million more on that grain than if grain companies were allowed to compete for it. Now imagine the savings if the CWB tendered the whole crop.

The CWB has "managing the delivery system" dead wrong. Through serious misunderstanding how the system works, the CWB has convinced itself that it adds value here; it doesn't. The reality is that it comes at a hefty cost. And the only reason producer car loading appears to be attractive is because these CWB system costs are large.

Net interest earnings: \$66.2 million

The CWB usually earns interest. The current net interest earning (2009-10) is \$9.6 million.

Cost benefit?

Those arguing for the retention of the single desk use this \$500 million "benefit" figure, but they also argue for a "cost benefit" analysis. Here's what that would include:

Single desk

Benefit: Any premiums need to be measured properly. This includes measurement against a crop year benchmark. The true measure of marketing "benefit" is not measured on whether the CWB captured higher prices than its competitors on a particular day; rather it is how it stacks up against the range of prices over the crop year. Data shows that the CWB has consistently returned lower than average crop year prices. Rather than put a hard number on it, let's just say

it's pretty easy to see that returns of say \$25 below the crop year average (its often larger) would cost farmers over \$400 million annually (and that's just comparing to crop year average prices).

Cost: The CWB reports its total marketing costs to the federally appointed Grain Monitor. In the last report it showed costs of \$10.14 per tonne and \$30.09 per tonne on wheat and durum respectively. This means a total cost of \$291 million in costs that farmers pay now because of the single desk. (This is even higher when you factor in CWB barley.)

Logistics

Benefit: As stated above, the CWB does not bring any benefit for farmers through its activities in logistics.

Cost: CWB handling costs (elevator tariffs) are higher than on non-CWB crops like canola. The difference, as reported to the Grain Monitor, is about \$8.00 on wheat and \$9.00 on durum. (This is in addition to the CWB marketing costs.) This means moving to a more competitive market could save farmers an additional \$167 million annually.

Impact on non-CWB crops

Domestic feed barley: The way the CWB sells export feed barley has at times cost the barley farmer selling into the domestic market as much as \$400 million in a year. Also, it is generally accepted that the CWB has often missed export sales of feed barley because of uncertainty of supply. A functioning open market would be able to respond to these opportunities.

Canola: Canola and other non-CWB grain prices are lower due to the single desk. Since farmers are not free to deliver wheat as they wish, they sell other crops for cash flow. This has been shown to generate pressure on the prices of these crops, particularly at harvest as farmers sell more than the market needs at the time. Cost estimates on canola alone are around \$100 million annually.

Other issues

There are many other issues that the CWB does not factor into its "benefit" analysis – but should be included in a cost benefit analysis. These include all those activities in which the CWB may engage resulting in costs or benefits for farmers. For example, demurrage and dispatch cost farmers money as does CWB speculative trading (\$236 million in 2007-08). In comparison, when a grain company loses on these items due to mismanagement, there is no mechanism to pass those losses on to farmers.

A comprehensive analysis would also include the additional cost to farmers for being forced to store grain longer on the farm and the cost to the rural economy from lost processing opportunities.

All told, using readily accessible data and a sound understanding of how this business works, the cost of the CWB is well in excess of the \$500 million in alleged "benefits". A true cost benefit analysis would show that, even if the CWB got premiums, the costs – both real and "opportunity" – far outweigh the "benefits".

CWB “Benefits” Analysis (2006)

Value of CWB single desk marketing approach for wheat: \$146 - \$255 million

The lower end is based on a benchmarking approach designed by Dr. Richard Gray and the CWB used only once; the higher end is based on a study done by the late Daryl Kraft, Hartley Furtan, and Ed Tyrchniewicz (KFT).

The benchmarking approach was badly flawed; for example, it did not consider CWB storage payments as a CWB system expense because there appeared to be no similar cost on the US side. Also, it assumed terminal costs in the US were the same as in Canada (they are lower).

KFT overstated the risk management cost of canola, making wheat look more attractive in comparison. They wrongfully assumed that the Canadian Grain Commission handling tariffs were the actual costs of handling (they are not; they are much higher than the actual costs or even what is charged.) Also, KFT assumed the CGC tariff on canola was the actual amount charged to handle canola (which it is not) and did not adequately include export sales basis levels. These mistakes made wheat look more attractive, adding to the net “benefit”.

Our analysis of these studies do not allow us to say that the CWB does not add benefit; we can only say that the results of these analyses are flawed in favour of the CWB and should not be relied upon to demonstrate value with the single desk.

Value of CWB single desk marketing approach for barley: \$59 million

This is based on the 2005 study by Andrew Schmitz, Troy Schmitz and Richard Gray (SSG), commissioned by the CWB. It said that the CWB earned premiums on malt barley averaging \$59 million annually (and nothing on feed barley). On a typical two million tonne malt program, this means about \$30 per tonne of the malt premium (over feed) is allegedly due to the CWB. But the typical malt premium over the domestic feed barley price tends to be less than \$30; this means that SSG is saying that without the CWB, the malt price would be below the feed price, something that happens nowhere else in the world.

This study also says that the CWB captures these premiums through “price discrimination”. The authors took CWB sales contracts and categorized them by destination: Canadian domestic, US, Japan and the rest of the world. Comparing prices by destination, the study found that Japan paid, on average, more than other destinations. They postulated that this must be due to price discrimination. However, the same approach used on canola – a non-CWB crop – would show the same results. For example, Mexico and China are price sensitive buyers and tend to buy at harvest time when prices are lowest. Japan, on the other hand, is less price sensitive and buys canola consistently through the crop year, even when the price is seasonally high. Comparing these destinations as SSG did on their barley study would also show that Japan’s average price of canola is higher than other destinations. SSG’s results on barley do not prove price discrimination by the CWB single desk.

The methodology used by SSG is clearly flawed and cannot be used to demonstrate premiums captured by the single desk.

Value of CWB single desk marketing approach for durum: \$92 – 103 million

The approaches used in the studies used on wheat and barley were employed by the CWB to estimate the value on durum. For the same reasons as above, the results are suspect.

Tendering and railway and terminal handling agreements: \$38.1 million

This is a simple calculation by the CWB including railcar tenders and volume agreements. It shows that the grain trade will negotiate away some margins for volumes. In reality, this is not a benefit of the single desk; it shows only a portion of the benefit of an open market where companies would compete. Data shows that the margins on canola (where there is strong competition) are much smaller than on CWB wheat. It is estimated that total CWB handling costs on wheat and durum are about \$8/tonne higher than on canola; on 20 million tonnes that works out to \$160 million.

In an open market, grain companies would compete on all the wheat, not just the amount that the CWB decides to tender. In an open market, the “benefit” would be far greater.

Net interest earnings: \$66.2 million

The current net interest earning (2009-10) is \$9.6 million. It has gotten smaller due to much of the receivables on credit sales being paid or written off.

Approach to managing delivery system access: \$115 million

Using posted Canadian Grain Commission (CGC) handling and cleaning tariffs on canola and “CWB observed” canola basis levels, the CWB estimated that “grain handling companies have charged almost 40% more in basis than their actual handling costs”. The CWB assumed that the CGC tariffs are the elevator’s “costs” and the basis is the amount they are charging for handling.

For example, if the canola basis was \$40 under and the CGC tariffs totalled \$25, the CWB postulated that the grain companies were charging \$40 when their “costs” are only \$25 – overcharging by \$15. The CWB suggested that if allowed, grain companies would “over charge” the same way on wheat. The CWB then argues that the single desk ensures that grain companies don’t overcharge.

The problem with this approach is two-fold. First, the basis is not the amount being charged by grain companies to handle canola; it is a reflection of the current spot market and also reflects a west coast selling basis, which could be \$25 under, leading to a calculated gross margin of \$15, which would cover handling, cleaning as well as storage and interest. (This study was done in 1996; current basis levels indicate a much lower gross margin on canola.)

Second, the CGC tariffs are not the “cost” to clean and handle. Grain handling is a high fixed cost business and the cost to handle the next tonne of grain – the marginal cost – is effectively zero. This explains why at times grain companies get very aggressive in their pricing to draw grain into the elevator.

Further, the tariffs are not used by canola handlers to determine what they charge farmers. They are published because the Canadian Grain Commission stipulates that grain companies submit them for publication.

The CWB argues that if grain companies were given the same opportunity to overcharge on wheat, it would cost about \$115 million. However, data shows that grain companies actually charge less to handle canola than wheat; removing the single desk will decrease wheat costs, not increase them.

Terminal blending: \$7 - \$10 million

The CWB states “A portion of this is the benefit that accrues to farmers as a result of the terminals blending different downgrading factors ... to increase the proportion of higher quality milling wheat.” This calculation does not however, include an assessment of the cost of shipping high quality grain on sale of a lower quality – shipping #1 CWRS on a sale of #3 CWRS, for example. Nor does it factor in the added cost of terminal storage due to having the wrong grade in position and being stored for lengthy periods of time. Another factor that should be considered is terminal inefficiencies such as loading at multiple terminals and demurrage.

Farmer access to producer cars: \$6 million

Producer car shippers determine that producers loading their own cars save as much as \$1,500 per car. This is because they are avoiding the elevation and cleaning charges for CWB grain going through an elevator. What it doesn't factor is that in a competitive market, elevator charges for wheat will come under pressure, similar to canola. If wheat charges at the elevator were the same as canola, the value of loading producer cars would drop to an estimated \$500 per car. In addition, shipping in producer loaded cars increases the potential for mis-grades at the port (grades that may not be needed at the port) which reduces port efficiency.

The Single Desk

#27 Price Discrimination: Is This Really Single Desk Power? (Nov 8, 2010)

The CWB and single desk supporters often cite “price discrimination” as the foundation of single desk market power. Price discrimination is the ability to sell into different markets at different prices at the same time. Supposedly, the CWB has this ability through the single desk. A search of the CWB website for the phrase “price discrimination” ironically provides only one reference (in a description of a 1997 barley study):

“The key difference between the CWB system and a multiple-seller system is the ability to price discriminate.”

In theory, competing multiple sellers offer the price lower in the high priced markets until they equate to the prices in the lower priced markets. The CWB refers to this as the Law of One Price.

But the CWB competes in the global market which is a “multiple seller” market. So, according to the CWB’s theory of the Law of One Price, the various markets within the global market should be all at one price. And yet, they are not. The CWB mentions premium markets in the 2008-09 CWB Annual Report (page 33):

“The global market for wheat, durum and barley is highly competitive. ...all competitors are seeking ways to sustain and expand their share of the global market, particularly in premium markets.”

Why have “premium markets” kept their premiums, even with multiple sellers competing?

There are many reasons why different buyers will pay different prices on the same day. In fact, the same buyer may pay two different prices on the same day from two different suppliers. Mostly it comes down to buyers have different needs (quality, risk diversification, political or strategic needs) and sellers have different offerings (quality, consistency, timing, available freight).

CWB Studies

The CWB has studied price discrimination in barley markets. The studies looked at all the CWB sales over a period of time and categorized them by destination country. They showed that, on average, Japan paid more than the US market, and the US market paid more than the rest of the world (ROW). This was perceived to show that the CWB was able to price discriminate into the Japanese premium market without pressing its price lower.

But the Japanese buy barley from Australia too, making Japan a multiple seller market. Using the CWB's logic about multiple sellers, we would expect to see the price in Japan pushed lower to equate to prices in non-premium countries. But we don't.

Now consider the canola market. Japan buys Canadian canola year round, through all the peaks and valleys in price. Other markets like China, Mexico and Bangladesh typically buy Canadian canola only if the price moves low enough to generate interest. In fact, open market traders will sell to these other markets at a lower price than they will sell to Japan – on the same day. (I want to keep these commentaries short; if you want a more detailed explanation as to why they would do this, drop me a line at cwb@depape.ca)

In just about any year, Japan's average purchase price for Canadian canola will, on average, be higher than other destinations. However, this occurs in a multiple-seller environment and does not mean any marketer discriminated on price.

Can the CWB price discriminate? Sure – but so does the private trade. Grain markets may be "commodity" markets, but in reality, they often trade on the basis of the "product" being offered which includes, service, quality, timing, and other aspects of the offering. And the CWB does not have a monopoly on those.

#28 More on Price Discrimination: Sometimes it has more to do with the Buyer than the Seller (Nov 9, 2010)

You can't really talk about price discrimination – or differential pricing – without talking about why some buyers will pay premiums for some sources and not others.

Often it just comes down to consistency and quality.

A good example is the Japanese feed barley market where we've seen different prices paid for grain from different origins – the buyers are the ones doing the price discriminating. Over the years, Japan has paid a premium for Australian feed barley over Canadian or US feed barley. In Japan, it's referred to as the "Australian Premium". The reason for the premium is mostly quality.

Barley from Australia comes from different regions, mainly Western Australia, New South Wales and Victoria. Barley from each of these regions gets shipped out of regional ports, keeping the barley from these different regions separate which keeps the quality consistent and identifiable. Growing conditions can be quite different between these regions but within each region, the conditions are much more consistent. Japanese buyers don't just buy Australian barley, they buy New South Wales barley, or Victoria barley, or Western Australian barley and will know upfront that the quality they get is quite consistent – and often quite different between the regions.

On the other hand, barley from Canada is originated from many regions within Western Canada and is commingled in the process of moving it from various origination points to Vancouver. Therefore, the barley that Canada sends to Japan does not have as consistent a quality as Australia.

Another factor plays into the quality of the feed barley we send to Japan. Because the dominant market in Western Canada is the domestic feed market, the CWB must compete for barley for export. And as we all know, most often the PRO is below the domestic price which makes originating feed barley problematic most years. (The fact that the PRO doesn't respond effectively to changes in market values also makes it difficult to attract barley. The CWB will be the first to admit this.)

With no realistic competition from the CWB, domestic buyers will buy the best quality barley available to them first. Feed barley is bought on the basis of bushel weight – if 52 to 56 pound barley is available, it will be snapped up by buyers, leaving the 44 to 48 lb barley. This leaves the lesser barley looking for a home. Often farmers will have barley that technically grades a 1CW feed but is comparatively lightweight. This is the barley that gets sold to the CWB. And so this is the barley that gets sent to the quality conscious buyers of Japan. It's no wonder Australia gets a premium over Canadian barley.

A friend recently told me a story of when he had Japanese buyers visit his farm. When his guests saw a pail of barley that my friend had kept for samples, they asked what it was. They did not believe it was Canadian barley – it was nothing like they had ever seen in Japan from Canada.

We could match or exceed Australian quality in export markets. Over the years, the CWB has been approached various times to allow "selected" feed barley to be handled from the farm right through to the buyer. So far it has failed to capitalize on these opportunities to market high quality feed barley which would provide barley producers with another outlet for their barley.

When some director candidates talk about meaningful changes to the CWB, becoming more responsive to farmers needs, this is the kind of thing that they're talking about.

The CWB remain mostly impotent when it comes to feed barley. We need a CWB that is responsive to market opportunities that will benefit farmers. We need directors that will pursue these opportunities – not be threatened by new ideas just because it doesn't fit with the prime directive of keeping the single desk model. If the single desk is in the way, then perhaps the single desk needs to be moved into another room.

One more thing to think about: when the CWB says it discriminates on price, is it really? Or is the buyer just paying for Canadian quality?

#29 CWB Single Desk vs Grain Companies (Nov 10, 2010)

A current argument in support of the single desk compares the CWB to grain companies. Allen Oberg, director-candidate in District 5 says "Unlike private grain companies who work on margins, the CWB's price premiums are returned directly to farmers".

One thing that never seems to come up in this argument is the fact that with the CWB system farmers actually pay both the CWB overhead and the grain companies their tariffs for handling. It's a double whammy.

Last year, the CWB overhead cost worked out to \$3.27/tonne. In addition, on behalf of farmers the CWB paid grain companies \$8.34/tonne for terminal handling and \$3.83/tonne for storage. (All these figures are in the Annual Report.) On top of that, farmers paid grain companies (through cash ticket deductions) elevation and cleaning fees in the neighbourhood of \$14.00 and \$5.00 respectively.

So under the CWB system, CWB costs are in addition to the grain company charges for handling. On non-CWB crops like canola, obviously farmers don't pay the CWB. And, as I've shown before, the handling charges are much less on non-CWB grains due to competition – both export and domestic.

Here's another way to look at it. Grain companies bid on CWB tenders for railcars by discounting their tariffs that would apply to CWB grains. Often the bids show handling fee reductions in excess of \$20/tonne. Think about it – how could a company discount their fees by \$20/tonne unless they were making more than that in the first place? Also, why would they discount at all? The answer is they are competing for extra shipping of CWB wheat. Clearly, when grain companies compete for grain, the fees they charge go down – your costs go down.

Let's say for argument sake that in a competitive marketplace (like we would have with a voluntary CWB) total grain handling costs would go down \$10.00/tonne (or about half of the discounts we see on tenders – it would likely be more, but this is enough to make the argument).

The CWB reported it was able to get premiums of \$6.65/tonne on all wheat sold last year. After covering overhead, that works out to \$3.38/tonne net for the farmers' benefit. Now factor in the excess grain handling cost because we don't have competition for CWB grains – (remember the \$10.00/tonne).

Now the single desk "benefit" to farmers is a net loss of \$6.62/tonne.

That is, of course, if you believe the CWB gets premiums in the first place.

Now factor in all the other costs that you pay through the CWB system but aren't reported directly – like demurrage. It only gets worse.

There are a few director candidates in the CWB election that say the single desk gets better prices. If you get a chance, ask them to explain how that works when the CWB's own financial figures don't support that conclusion.

#30 Operating a Voluntary CWB Pool (Nov 12, 2010)

Proponents of the single desk often say that the CWB could never succeed as a voluntary option in an open market. In fact, this is the basis of the argument that a dual market could never work.

The main reason often indicated is that voluntary pooling can't work. It's not pooling that's the problem, it's the Initial Payment. In an uptrending market, the Initial Payment (which if fixed) would become increasingly unattractive. Even the Pool Return Outlook (PRO) lags behind the

market and doesn't show the current value of the grain. So, in an uptrending market, the price signals from the pool would fail to attract deliveries as farmers opted for higher open market prices.

The opposite would occur in a down trending market. As the spot open market price drops, the PRO would become increasingly attractive. In fact, the Initial Payment might become too high. In this situation, the CWB argues, it would be swamped with grain deliveries that it would end up selling at a loss.

There are two factors that need to be addressed. Access to the CWB program in an open market and pricing.

Let's start with pricing. This is how it could work:

All farm contracts with the CWB would begin as a basis contract. The basis would be guaranteed. There would be no guaranteed Initial Payment.

I've often wondered why the CWB guarantees a flat price with the Initial Payment when it only has control over the basis. The CWB takes on the risk that the market price will move against the Initial Payment. For this reason, the CWB sets the Initial at something like 60-65% of the expected final – just in case.

Guaranteeing only the basis would mean less risk to the CWB. A typical basis (on CWB sales) to the appropriate futures market could be identified and the potential range of that basis calculated. The CWB could advise as early as seeding time what the basis would be for all classes and grades of wheat and barley. Because the CWB would be guaranteeing only a basis, the risk to the CWB would be greatly reduced.

Just like the current Initial Payment, the Initial Basis would be guaranteed, meaning it would never go down. And there could be final payments (based solely on the difference in the basis sold when compared to the initial basis).

Farmers would sign up deferred delivery basis contracts with the CWB at the beginning of the year – just like they do with grain companies on canola. And just like the non-CWB market, the contract would be priced at a time of the producer's choosing (not at the CWB's discretion).

Beyond offering a competitive and meaningful price in an open market (and one that changes as the underlying market prices change), there are other benefits:

- It could be voluntary.
- Farmers could get paid on delivery a higher proportion of the final sale value, helping with cash flow considerations.
- The CWB would have much less risk making it easier for the CWB to manage its risk (therefore it would cost less).
- There would be no need for complicated PPOs.
- The CWB could offer shorter pooling periods.
- Farmers could opt into the pool at any time.

- The CWB could offer pricing off the different futures contracts which would allow for better price signals for deliveries. For example, if there was a price advantage to deliver in the spring instead of the fall, the price would provide that incentive.
- Farmers that want just a flat price initial could get that from the CWB too.
- Better price discovery and transparency.

Why does the CWB want to take on risk that it must then manage?

Next, I'll cover how the CWB can manage access to the CWB program in an open market.

#31 Managing Access to a Voluntary Pool (Nov 15, 2010)

According to single desk advocates, a problem with a voluntary pool is access. They fear farmers would try to opt in and out all the time, depending on the price spread to the open market price.

The Initial Basis concept I described in my last commentary goes a long way to solve that issue. Since the final price of the pool would be variable (like any basis contract), it would remain close to the open market price, providing less incentive to opt in or out.

Beyond that though, all contracts with the CWB should be considered just that – a contract. Just like with any other grain, pulse or oilseed buyer, sales to the CWB should be considered a firm obligation to deliver. With the Initial Basis idea, the CWB should treat any defaults like any other buyer would.

For instance, if you wanted to deliver at or near harvest, the CWB could offer a pool with an Initial Basis based on the December futures contract. For deliveries later in the year, the later pool would have an Initial Basis based on one of March, May or July futures, depending on the delivery period. This would provide financial incentives to farmers to hold wheat for delivery later.

The different prices of different futures months reflect the relative value of holding grain or moving it. Farmers are not seeing the benefits of these market signals since they are not used by the CWB in any way right now to manage the flow of grain into the system. But they could be.

#35 Market Signals vs Market Power (Nov 26, 2010)

A few years ago, CWB Chairman Ken Ritter embraced Al Capone's approach to getting his way when, speaking to an Alberta Wild Rose Convention, he paraphrased Capone by saying: "You may get what you want with a smile, but you can get it a lot quicker with a gun and a smile."

More recently, Maureen Fitzhenry, spokesperson for the CWB, seems to have considered a similar approach. In an article in the Western Producer this week discussing problems with durum this year including slow farmer delivery, Ms. Fitzhenry said "...we've tried different programs but ultimately, we can't put a gun to anybody's head."

Nor should they, even metaphorically.

The market relies on incentives to change or affect behaviour, for one very simple reason. Incentives work. And I'm not talking about the gun to the head type.

The CWB fails to translate market signals to farmers. It prefers the bureaucratic approach of trying to control everything through edict. But it can't control everything (nor should it). And regardless, the CWB is still sending signals, although often they are counterproductive.

For instance, the CWB lost control of a lot of high quality durum this past summer and fall because the domestic feed market was paying \$4.50/bu when the CWB wasn't accepting any deliveries and later, when it did, the Initial Payment was only \$1.70/bu. Also, you could sell all you wanted at \$4.50 whereas with the CWB you are told how much you can sell – and it ain't much. Although not what the CWB is trying to say, the market message received is “we don't need your durum right now – if you need to sell and another buyer is willing to pay more, that's a better option right now”.

The CWB can try to persuade farmers to deliver through an increased PRO or talk of increased Initial Payments, but ultimately cash is king. The CWB came out with a Guaranteed Delivery Contract (GDC) on durum but it was a case of too little too late for some farmers.

This can get really ugly when, because of cash flow needs, farmers sell more canola or peas or oats or whatever – than the market really needs at the time. So far this year (up to the week ending Nov 12, or put another way, a period covering 28% of the crop year), farmers have delivered 19% of the wheat crop and 40% of the canola crop. Canola inventories in the system have been increasing and now sit in excess of 1.5 million tonnes.

Price is the dominant factor used by the market to entice more demand (through lower price) and more supply (through higher price). At the farm level, in an open market, higher prices are used to attract deliveries (increase supply) into the system and lower prices to slow deliveries (decrease supply).

The CWB sets a fixed price on delivery and uses a much more passive system to get deliveries – they just open up the contract calls and hope the grain will flow. The problem is it fails to recognize that farmers still respond to price and delivery opportunities.

Compare recent FPC prices and canola prices (in Alberta).

- The FPC for #1CWRS 13.5 yesterday was \$7.06/bu, Since the FPC appears to be the best deal right now, let's go with that as the best option for wheat right now.
- On FPC's the CWB will make an incremental payment for deliveries later in the crop year, supposedly reflecting the time value of money. According to the CWB website, if you lock in today's FPC and don't deliver until April, you will be paid an additional 1.8 cents/bu, for a total of \$7.078/bu.

Now let's look at canola. Bunge in Ft. Saskatchewan posted these prices yesterday:

- Spot delivery \$11.44/bu
- April delivery \$12.06/bu

- By selling today for April delivery, you'll get paid an additional \$0.62/bu over today's spot price.

The signals are clear – they're telling farmers to deliver wheat right now as there's no benefit to holding it, and to sell canola for deferred delivery, because there is a substantial incentive to store it.

But because of poor cash flow with CWB grains, many farmers are forced to ignore the market signals and sell canola, disrupting (distorting) the canola market. Even at increasingly lower prices, canola deliveries continue out of necessity.

So when it comes to the CWB and its impact on Western Canadian farmers, you can run, but you can't hide. You may think you're going around the CWB, but you're not really.

The CWB has an impact on all Western Canadian farmers. No one's holding a gun to your head, but all Western Canadian farmers need to vote in the CWB director elections.

#38 Did You Know We Aren't Doing Anything Like This in Canada? (Nov 30, 2010)

BARLEY Australia has introduced a new "food barley" classification for varieties that fail the malting category but are better than stockfeed.

It comes just a week after the barley industry organisation announced, much earlier than expected, that the popular hindmarsh variety had failed commercial malting tests.

The decision would have meant hindmarsh was downgraded to a feed barley, although buyers were willing to export it as malt to some markets.

Hindmarsh had shown potential as a variety suitable for the shochu market in Japan.

Barley Australia executive manager Neil Barker said the new "food barley" grade would enable hindmarsh and other future varieties with unique food processing or biochemical characteristics to be recognised independently of current malt and feed barley classifications.

"The food classification will create opportunities for both growers and marketers to cater for these special markets," Mr Barker said.

Grain industry figures have been arguing for some time for a food or general purpose category for good varieties that fell into the gap between malting and feed categories.

Wimmera Grain Co. director and Rupanyup farmer David Matthews said there was a need for a food grade for those varieties that failed malting testing for technical reasons but still had other benefits to warrant them being paid more than the feed grain price.

Last week, the differential between the malting and feed grades was a massive \$64 a tonne.

[By the way, in Canada, based on the PROs, the malt premium is only \$21/tonne. ...De Pape]

Many growers had their hopes pinned on hindmarsh barley, which had the highest uptake of any new variety in the barley industry.

GrainCorp and Viterro were offering premiums above the feed price for hindmarsh barley.

Mr Matthews said hindmarsh was an "outstanding" variety agronomically.

"Describing hindmarsh as feed did not reflect the reality of a diverse international marketplace," he said.

"Farmers and the grain trade know that many thousands of tonnes of hindmarsh will be exported for malting purposes.

"Classifying this variety as 'feed' immediately undervalues its potential use and sends the wrong signal to the market."

Mr Matthews said describing hindmarsh as "food grade" as GrainCorp did, sent a much stronger signal to customers and allowed marketers to negotiate a discount from a malt barley price.

"It is better to offer a discount to the malt price rather than a premium to a feed grade price," he said.

"The starting point should be the malt price, rather than the feed price."

Mr Matthews said that having a grade in between the feed and malt categories and, as a consequence, a discounted malt price would make a significant difference to the returns.

Plant breeder David Moody said the key characteristics the brewing industry wanted from varieties were higher processing speed and high alcohol yield.

Mr Moody, who bred hindmarsh and now worked for Intergrain, in Western Australia, said enzymes could be used to overcome these problems if, as in the case of hindmarsh, a variety failed to meet accepted levels of either characteristic.

He said many Chinese brewers readily used enzymes but premium brewers from around the world did not.

Mr Moody said the food barley classification might help varieties, such as hindmarsh, extract a better price.

But he said if there was an abundance of malting barley in the world, overseas buyers would probably opt for the better varieties and those that fell into a food grade would probably end up as feed.

#40 Why Does the CWB Treat Its Customers Better than Farmers? (Dec 7, 2010)

There are opportunities out there to market barley into niche markets based on unique characteristics. The CWB needs to either change the way it looks at these markets or allow others to run with it. You know....lead, follow, or get out of the way.

Did you know ... that the CWB will defer (delay) shipping on a contract to a customer, at the customer's request, at no additional cost? (I've heard they will defer shipment by as much as a year at no cost to the buyer.)

Yet farmers have to pay for the privilege. To roll a basis contract (BPC) from one futures month to the next, the farmer pays the spread in the futures; to buy out of a contract, a farmer is assessed a buyout cost plus an administration fee. Also, if a farmer is in default, he is fined.

Did you know ... that the CWB will ship higher grades than what the customer's contract specifies with no increase in price?

Yet the CWB will often not accept lower grades from farmers, even with a lower price. And if a farmer delivers a lower grade than what was contracted, he is often penalized harshly.

Did you know ... that the CWB will sell to customers on a true market-based unpriced basis, for deferred delivery at the buyers call?

Yet the CWB does not buy from farmers on a true basis. The basis in the BPC is not market based; it is a derivative of the market PLUS the impact of the sales previously made by the CWB (including both basis and futures) PLUS arbitrary adjustments by the CWB to reflect its view of risk.

Did you know ... the CWB borrows at government rates (call it 0.5% for argument's sake) and offers credit to customers at "commercial" rates (call it 4%)?

Yet the CWB does not offer credit to farmers. (The Cash Advance Program is a federal government program administered by the CWB).

It can be argued that EPOs are a form of credit since the CWB is advancing you money that, under normal circumstances, you wouldn't get until much later. If you think about the EPO payment above the Initial as credit, the discount charged by the CWB can be considered as the cost of that credit – or interest. So the additional payment on delivery on a 100% EPO on feed wheat, for example, costs an estimated 11.0%. (The irony is it's your money in the first place.)

On FPCs, the CWB pays "incremental payments" for deliveries called later in the year. According to the CWB these are reflective of the time value of money. They work out to about 0.3% - a far cry from the true "time value of money" for farmers.

Bottom line - it's better to be a CWB customer than a CWB "supplier".

Price Comparisons

#4 Deferred Delivery Premiums (Oct 3, 2010)

The May wheat futures contract in Minneapolis is about \$6.70/tonne higher than the December contract – the market is willing to pay that much more right now for wheat to be delivered in May instead of delivered in December.

In its Fixed Price Contracts, the CWB pays an “incremental payment” to compensate farmers for wheat delivered in later months. Farmers delivering CWB wheat on their FPC in May get \$0.60/tonne more than those delivering in December.

If the market is paying a \$6.70/tonne premium for deferred, why does the CWB only pay \$0.60/tonne?

#7 The US Market, Part 1 (Oct 7, 2010)

We often look to the US to see what the world would be like without the CWB single desk, for better or for worse, depending on your point of view. Many arguments have no apparent resolution.

Defenders of the CWB argue that if we lost the single desk, wheat would begin to flow in great quantities to the US and the US would slam the border shut to Canadian wheat. (Although the argument is often made about the loss of the CWB, really the issue is the single desk – the control of the CWB over the marketplace.) There is a great irony in this argument. Defenders of the CWB believe that the control of the CWB is needed to ensure a mutually agreeable wheat-trading relationship with the US – with no trade actions. Yet, every trade action by the US involving the CWB was about the CWB itself – specifically CWB control and market power – and not about wheat imports per se.

Beyond that, there’s something more mundane at play here (or at least should be). Specifically, the reason wheat would want to flow south in the first place is the attraction of higher prices. Think about it. Today’s street price for spring wheat in Berthold, ND is \$6.39/bu, (in Canadian dollars). At the same time the CWB’s Fixed Price Contract (FPC) – which is as close as the CWB gets to a spot price – is roughly \$6.14/bu in SK and \$6.29/bu in MB.

Also, the FPC price includes an “adjustment factor” of \$2.78/t (7½ cents/bu) which adjusts the FPC price to reflect earlier sales made prior to sign up. Since this adjustment factor is positive, it means the earlier sales were made at a higher price. Disregard the adjustment factor and you get closer to what the CWB figures the spot market to be for Canadian wheat. In this case, it’s \$6.06½/bu in SK – about \$0.32½/bu below the spot North Dakota price. (The difference is often much greater. If you want, I can show you the data.)

Is that enough to start trucking south? Perhaps. Perhaps not. But I'm not terribly interested in whether wheat will flow south or not in an open market. As in other open (less-regulated) markets, grain will move as little as possible in order to satisfy the demand. If it doesn't need to move south, it won't; if there is a need, it will.

I look at prices south of the border – not so much as a possible destination for wheat, but rather as a proxy for what our market values could be. Look at it this way. Both Canada and the US are large producers of wheat and typically the two largest exporters of wheat, often going head-to-head in offshore markets. When we see consistently higher prices south of the border, it's not so much a question of wanting to sell into the US, it's more a question of being competitive with the US in offshore markets and wanting to find a way to get the same kind of farm gate returns as they do.

Here's another irony. We compete with the US in many offshore markets. Sometimes they win, sometimes we win. When we win, the CWB insists it earns "premiums". And yet, the average US farmgate price is higher than ours. If you can figure out how that can happen, please let me know. We need to fix it.

#12 Let's Compare Premiums (Oct 14, 2010)

Intuitively, the concept of the single desk makes sense. Farmers should benefit from collectively negotiating from a position of strength and the potential for better prices seems almost obvious. But the evidence doesn't match with the expectations. In fact, analysis of most available evidence tells a substantially different story.

The Guardians of the single desk argue that the CWB gets "premiums". For example, for wheat in 08-09 the CWB reported a "net per-tonne price spread realized by the CWB compared to competitors' values of \$6.65/tonne". I'm pretty sure this means that on the whole pool, the CWB got on average \$6.65/tonne more than what the competition would have sold (premium) on the same day.

I'm not going to argue against this because I have no evidence to say it's wrong. But I have doubts because of how competitive the industry is; even the CWB says it needs to be price competitive. If buyers are paying more for Western Canadian wheat it may be for better quality, something for which the single desk cannot take credit – but that's another story.

The CWB is like a hired resource to market grain on behalf of farmers. To me, the true test of this arrangement is not whether it got a better price on the day it sold; rather, it should be measured on how it did compared to what prices were available over the crop year. Does it really matter if it got \$10/tonne more than everyone else on the day it sold if it sold the whole crop at the bottom of the market?

It should be pretty straight forward to get average prices over the year - just sell equal amounts throughout the year. You don't even need a single desk to do that. If you're going to pay someone to market your grain for you, you should expect greater than average returns over the

crop year. If your hired marketer doesn't get at least average prices, you might be inclined to replace him or simply do it yourself.

So I compared average market prices to the CWB final pool return for a standard grade of spring wheat. As a representative of the market price, I used the CWB's own selling quotation it uses to sell wheat into the domestic milling market. These prices are meant to reflect US competitive prices so they really reflect the whole North American market. Since the pool return has some direct costs and revenues that aren't factored into the selling price at the time of the sale, I adjusted the selling quotes accordingly to make sure there was nothing that would skew the results; apples to apples.

For 08-09, the final pool return for #1CWRS 13.5 was \$311.36/tonne.

The adjusted average market price for #1 CWRS 13.5 was \$366.91/tonne.

The average CWB sales price for #1 CWRS 13.5 was \$55.55/tonne below the average market price for the crop year.

If we accept that the CWB achieved average premiums of \$6.65 over the competition on the day of the sale, then we can see that without that premium, the average CWB sales would have been \$62.20/tonne below the average market price for the year.

This analysis doesn't refute the CWB's claim of premium prices. But it's pretty tough to argue that the CWB gets any kind of premiums on sales when the pool return is so much lower than the average market price for the year.

How can that happen? There must be an explanation; and farmers deserve one.

Stay tuned.

#13 More Price Comparisons (Oct 17, 2010)

My last commentary was about how the CWB's final pool return was much lower than the average "market" price for the year. It created a bit of a stir and discussion so I want to add to it.

I used the CWB's daily selling price as a reflection of the market price – it's the price they quote to domestic millers. Someone suggested that price wasn't actually the "market" price – I should use a US price, suggesting that the price I was using was just the CWB's asking price. He said that the CWB could be selling below the "asking price".

DTN collects cash prices from over 300 elevators in the Northern Plains of the USA (mostly North Dakota and Montana) each and every day, then publishes the average. Most consider this to be a very good representation of the market. Comparing the pool return to the annual average of the DTN prices and the 08-09 pool return showed the pool return was \$37.18/tonne below the average DTN price. Although this is better than the \$55.55/tonne below the average Canadian offering prices, the pool return is still substantially below average for the year.

Now, for the benefit of you doubting-Thomases, this was not a one-year event. Over the seven years ending in 08-09, the final pool return was, on average \$32.23/tonne below the DTN average. The worst performance was in 07-08 when the pool was \$63.21/tonne below the US average; the best was in 04-05 when it was \$11.36/tonne below the US average.

I asked it before. I'll ask it again: Are below average prices good enough?

Pro-CWB director's candidates explain their support of the CWB - because it's a "marketing advantage" (Stewart Wells), "the CWB has clout" (Allen Oberg), or "it provides the best opportunity for farmers to maximize their returns" (Kyle Korneychuck). How do these comments fit with these price comparisons?

I would sincerely like to see the CWB explain this. Remember, the CWB says in its Annual Report that it achieved average premiums in wheat over the competition of about \$7/tonne. How can you get premiums when the final pool returns are consistently so poor relative to the North American market? Is there something else in the pool calculation that isn't apparent?

#15 The US Market, Part 2 (Oct 21, 2010)

I'm being told my price comparisons (CWB pool returns to US average prices) aren't fair. Two issues were mentioned:

"the market doesn't sell all year round. Usually, the market is lowest when the most tons have been sold."

"...you do not have the average price that was actually received by the American farmer who sold on the open market."

The CWB uses what they call the Wheat Pool Pricing Model which establishes the pricing pace for the pool. (Page 45, 2007-08 Annual Report). If they can't sell (and price) grain to keep to the pace, they sell futures. If they're selling more than the pace allows, they buy futures. They don't say explicitly that they're shooting for the crop year average, but I doubt the approach would take them far off it.

From the September 23 commentary for the 2010-11 PRO:

At the time of this PRO, the CWB has priced approximately 24% of the expected 2010-11 crop year deliveries of wheat. A pricing level of 60% is anticipated by the end of January."

24% priced at 15% through the crop year; 60% priced 50% through the crop year. Are they skewing pricings early in the crop year? Is that what you would do this year? Just asking.

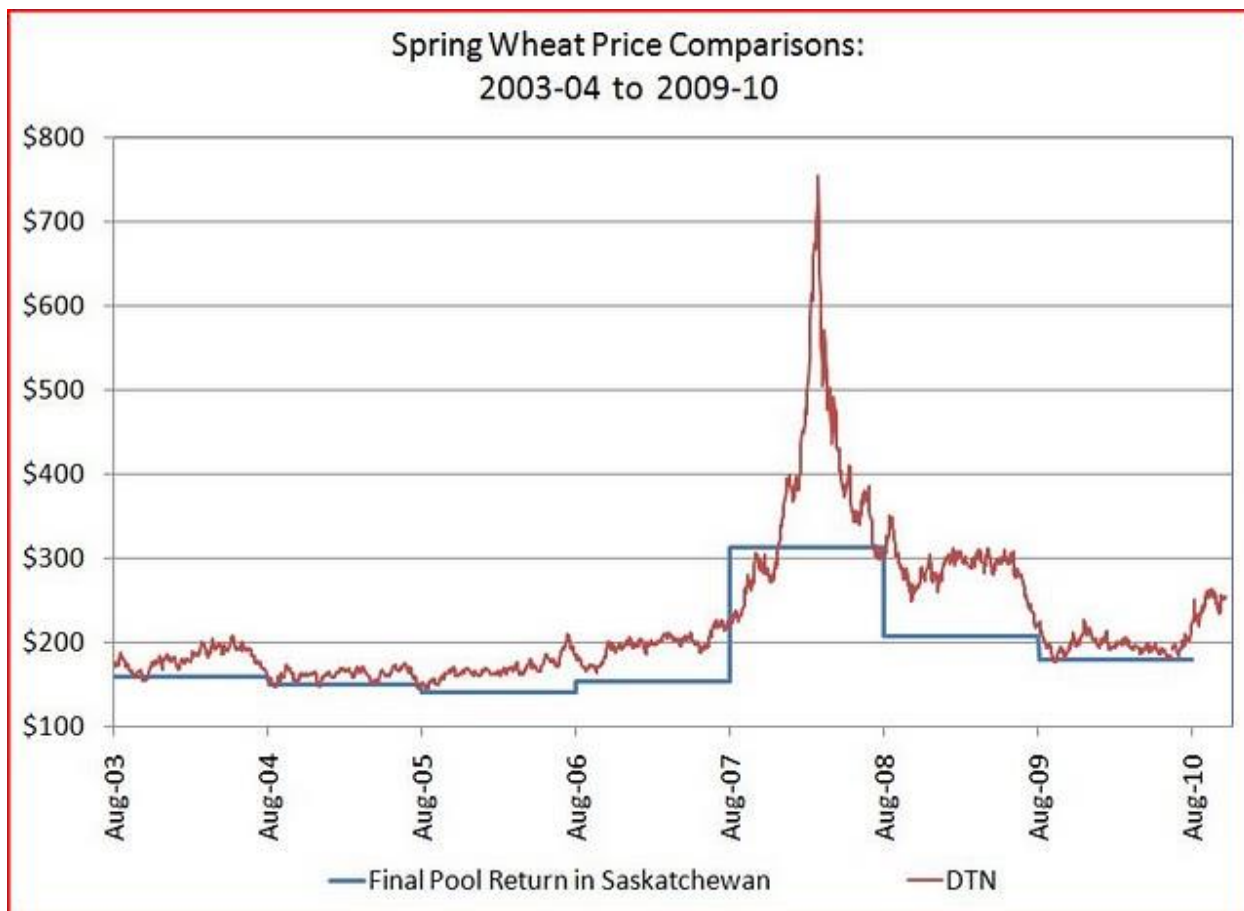
Based on the pricing model and that they say they get premiums, it would be reasonable to expect better than average pricing from the CWB.

The other comment said I hadn't considered what the US farmer had sold for. That's right; why should I care what the US farmer does when I'm not arguing to get rid of the CWB. I look at US

prices to get an idea what the average market price is – not because without the CWB you could sell into the US and not because without the CWB, that’s what you could expect. We compete with the US in offshore markets – why do they get more on average? I figure you deserve better than average from the CWB and it doesn’t matter how you spin it, you ain’t getting’ it.

Forget about averages for a minute. I would like someone to explain why the pool return isn’t just below average; it’s often below the lowest market price (DTN) for the year. Take a look at this chart. Practically every year the Final Pool Return (the blue line) is below – or well below the lowest DTN price (the red line). Most years, the US farmer could sell it all at the lowest price of the year and he’d still be getting better prices than you.

To those who think I’m trying to dismantle the CWB – I’m not. I’m trying to help you make more money. If you can figure out how to do that with the CWB, so be it. But the way I look at it, if you want to keep the CWB, you better start looking at it more critically, instead of just accepting it as gospel.



#43 The CWB Misses the Point on Price Comparisons – Again (Jan 12, 2011)

Recently the Western Canadian Wheat Growers Association released a price comparison that showed US farmers enjoyed better spring wheat prices last year than Western Canadian farmers. CWB Media Relations Manager, Maureen Fitzhenry responded to the Wheat Grower analysis in a radio interview and unfortunately, continued much of the diversion from the points being made that we are accustomed to hearing from the CWB.

The Comparison

The Wheat Growers showed that the final pool return for #1 CWRS 13.5 protein in Manitoba was about \$185.87 per tonne. Part of this price is a result of the CWB's Wheat Pool Pricing Pace Model which establishes the pricing pace for the wheat pool. Pricing is a combination of actual priced cash grain sales and sales of futures (if cash sales are not sufficient to meet the pace). The Wheat Growers decided to see what a US farmer's average price would be if he priced his wheat on the same basis as the CWB.

The results are not insignificant. If a US farmer priced his crop the same as the CWB priced Western Canadian wheat, the US farmer would achieve an average price of about \$209 per tonne – about \$23 per tonne than his Canadian counterpart received through the CWB. By matching US farmer sales to the CWB's Pricing Pace, the futures component of the prices are equated and therefore, taken out of the equation leaving only basis related factors. This is a powerful counter argument to the notion that the CWB gets premium prices when making sales.

The CWB's Counter Argument

Ms. Fitzhenry's argument on behalf of the CWB was classic CWB misdirection; either she doesn't understand the Wheat Growers' argument or she intentionally argued past it to divert attention from the results and to appear to have a sound argument against it.

In her argument, Ms. Fitzhenry conjures up CWB rhetoric about basic economic principles – but then stretches them or misinterprets them. For example, she suggests "The CWB single desk is a kind of a price supporting structure within the North American marketplace, and that's a major point that's always ignored in these kind of things."

We've heard this argument before; it is meant to say, don't look to the US markets, thinking that you would get those prices if there was no single desk, because without the single desk, those prices would be lower and therefore, less attractive.

The Reality

Ms. Fitzhenry is missing a number of points. By equalizing the pricing pace so both the US price and the CWB price use roughly the same futures levels, the comparison by the Wheat Growers takes the futures component out of the comparison. This leaves just basis considerations and shows the CWB system provides lower prices than the in the US; under the circumstances, it's tough to argue that the CWB gets premiums. If it did, it would show up in this comparison by

showing the Canadian farmer getting a higher price when both the Canadian and US farmer are pricing at the same pace.

Ms. Fitzhenry is trying to say the US price would be lower in the absence of the Single Desk. What she fails to mention is that, according to CWB theory, the Canadian price would be lower too. And if both Canada and US prices were lower, then the US farmer would still be getting a higher price. That is of course, unless Fitzhenry wants to argue that the Single Desk supports the price in the US more than in Canada, but I doubt she would want to.

Ms. Fitzhenry is disingenuously skewing an incomplete analysis to support the CWB's argument.

The point she is missing is this – the CWB is supposed to bring value to Western Canadian farmers but when we look at the US market that value is not apparent. The Wheat Growers analysis is not saying “without the CWB we would get US prices”; rather, it's saying “looking at the US market we don't see the benefit of the CWB”.

Another related argument by Fitzhenry is the common CWB argument that multiple sellers in a market push prices lower. In the radio interview, she states, “...in a pure open market, the law of economics is that there becomes a single price – things tend to arbitrage down to the lowest, sort of, possible value.”

Really? Does the CWB really believe this? Or is just Fitzhenry not understanding basic economics?

First, she uses the term “arbitrage” improperly. Markets don't “arbitrage down to the lowest possible value”. Arbitrage is actually the market force that keeps markets from going too far in one direction or another. In an open market there are many buyers as well as many sellers. The CWB would like you to believe that in an open market, because there are many farmers selling, that the price would get driven in only one direction – down. What Ms. Fitzhenry and the CWB fail to present is that there are many buyers as well, whose market activity would stop the drive of prices lower and would even drive prices higher when warranted.

In an open market, many buyers and many sellers interact to find a point of equilibrium – a price where they transact. Nowhere in any economics textbook or journal does it say that prices in an open market are driven to their “lowest possible value”.

The Wheat Grower comparison is very much relevant and reasonable. It shows, as other comparisons have shown before, that the Western Canadian farmer gets paid less for his spring wheat under the CWB system than US farmers do in a more open market.

In her role at the CWB, Maureen Fitzhenry has been thrust into a position of discrediting other views and promoting the image of the Single Desk, using the flawed logic and rhetoric of the CWB. I'm sure it must be awkward position to be in.

It's like bringing a knife to a gun fight.

#64 Some Price Comparisons (May 30, 2011)

All US prices are prices as delivered to an elevator in west/central ND or MT (as indicated) and have been converted to Canadian dollars per bushel. All Canadian (CWB) prices are as reported by the CWB as an average SK price, delivered to an elevator, also in Canadian dollars per bushel.

Spring wheat					
		Spot		New crop	
North Dakota	DNS 14.0	11.67		9.42	
		PRO	Flex	PRO	FPC
CWB	#1 CWRS 13.5	7.79	9.22	7.76	8.41
Difference (US higher)		3.87	2.44	1.66	1.01

Milling durum			
		Spot	New crop
North Dakota	milling durum	11.72	11.72
CWB PRO	#1 CWAD 14.0	6.75	8.33
Difference (US higher)		4.97	3.39

Low end durum			
		Spot	New crop
North Dakota	Low end durum	8.31	8.31
CWB PRO	#3 CWAD	5.23	6.81
Difference (US higher)		3.08	1.50

Feed barley		
	Spot	New crop
North Dakota	4.64	4.64
non-CWB	4.40	n/a
CWB PRO	3.56	3.98
Difference (US higher)		0.24 0.66

2 Row malt barley		
	Spot	New crop
ND / MT	5.16	n/a
CWB PRO	3.96	6.09
Difference (US higher)		1.20 -

Canola		
	Spot	New crop
North Dakota	12.70	12.21
MB	13.24	12.62
Difference (Canada higher)		0.54 0.41

Specific Crops

#1 Feed Barley Exports (Sept 29, 2010)

You've probably heard by now that the CWB is selling feed barley overseas for as much as \$1.00/bu more than what farmers are getting paid on delivery.

Holding back a portion of the sale price is the way the CWB manages risk – whether in the pool accounts, the Producer Pricing Options or through its cash trading. On the latest feed barley program, the CWB has said that farmers will get “all the margin that’s in there” after the season, as kind of a “top-up” or dividend (net of costs and after all sales returns are pooled).

Keep an eye on this one. Past experience has shown that the CWB doesn't always pay out all the margins made on these sales. Two years ago, using a similar program (Guaranteed Delivery Contracts), the CWB kept from farmers about \$1.00/bu from its feed barley trading program. About \$20 million from feed barley cash trading went straight into the Contingency Fund to cover losses from discretionary trading in wheat the year before. Last year, it kept about \$5 million from the farmers that sold malt barley through CashPlus programs.

There is a better way to do this that would provide farmers with more upfront cash and less (if any) would be diverted away from farmers and into the Contingency Fund. The CWB needs to be open to new ideas.

#3 The Feed Barley Pool B for 2009-2010 is a Bust (Oct 1, 2010)

Every month since November 2009 the CWB issued a Pool Return Outlook (PRO) for Pool B. Starting at \$152 in November, the PRO dropped to \$150 in Feb and to \$143 in March where it stayed until July. With each PRO, the CWB commented on how the global barley prices were under pressure and not expected to move higher. The next release was the PRO final in Sept – but there was no B pool PRO reported. At that time, the CWB explained it this way: “Due to low offshore values relative to domestic feed values, there were no deliveries to the 2009-10 feed barley Pool B.”

So, even though there was no barley in the pool, each month the CWB still published its estimated return – the PRO.

How can the CWB calculate a meaningful PRO when there is no barley in the pool? Perhaps an even more important question is: Why release a meaningless PRO? Right or wrong, good or bad, it is still a market signal. In this case it's a really bad one.

I know it must be tough to feel as though you need to put out a PRO even when there is no grain in the pool, but, really!? The CWB should make it a policy that, if there is no grain in the pool,

along with each PRO, it reports there is a zero balance in the pool. That way we will all know just how meaningless the PRO really is and we can pay even less attention to it than we do now. The way it is now, the PRO – as meaningless as it is – still runs the risk of distorting domestic prices.

Or better yet, don't pool barley at all.

#5 Does the CWB Get Premiums in Barley? (Oct 5, 2010)

They say they do. They have studies that say they do. The one they refer to the most was done in 2005 by Drs. Schmitz, Schmitz and Gray (I'll call them SSG).

SSG says the CWB gets more from malt barley sales than a "multiple-seller" market environment would. They say that between 1995-96 and 2003-04, the CWB earned an average "additional earning" of \$35.25/t on 6-row malt barley and \$40.29/t on 2-row malt barley. Dr. Richard Gray (the "G" in SSG) told me that the study showed that the CWB gets no premiums for feed barley. According to Dr. Gray, these additional earnings on malt barley are part of the malt premium over feed barley. SSG says that without the CWB, these "additional earnings" – the malt premium – will disappear.

SSG took a theoretical, econometric approach to this problem. I took a simpler approach. I compared the pool returns in each of the years they studied and compared them to the average domestic feed barley price in central Saskatchewan (around Saskatoon), which is about as close as you can get to the lowest priced feed barley in the country. If the CWB prices are going to shine, this is where they will shine.

The CWB's 2-row malt barley price averaged only \$7.38/t over feed and the 6-row malt barley price averaged \$6.98/t under (yes – UNDER) the lowest priced feed barley in the country.

This data shows that the CWB "malt premium" over feed is the smallest malt premium of any major barley producing region in the world.

If, as SSG says, the malt barley price would drop \$35 to \$40/t without the CWB, this means that, without the CWB, the malt barley price in western Canada would be lower than the feed barley price.

That doesn't happen anywhere else in the world; why would it happen here?

When a study using a sophisticated economical model says one thing (such as big premiums) and a simple look at real prices says another (such as no premiums) which should we believe?

We also need to ask the farmer-elected CWB directors – what are they doing to improve the malt premium over feed?

#10 Why Barley? (Oct 12, 2010)

In the last four years the feed barley pool has dropped from about a million tonnes to a mere 30,900 tonnes in 08-09 (both A and B pools combined). Previous years have also seen very low tonnages in the barley pool. Although the 09-10 results have not yet been reported, the CWB has already stated that there were no deliveries in pool B.

Most of the pooled feed barley goes through an EPO and the number of producers using the EPO is reported in the Annual Report. Using the EPO participation numbers as a guide, I would say a couple of thousand producers – at best – have been delivering to the feed barley pool. More recently, it's even less; practically all the barley in the 08-09 Pool B was delivered by only 113 producers.

It's a tougher number to estimate, but I'm going to stick my neck out and guesstimate that the number of producers selling malt barley to the CWB is around 10,000 each year (works out to about 240 tonnes per producer).

The CWB says they work for 75,000 Western Canadian farmers. But when it comes to barley, I figure with less than 2,000 farmers using the feed pool and 10,000 selling malt barley, more than 87% of the producers out there are not participating in the CWB's activities in barley. (The CWB's cash trading in feed barley doesn't count; it's a drag on domestic prices, hurting all barley producers, whether they sell to the CWB or not.)

Last June, the CWB surveyed 900 Western Canadian producers. In that survey, 48% said they "prefer" "solely the CWB" to be in barley marketing. But if 87% of producers aren't even using the CWB for barley marketing, that leaves 13% that do. And we know that many producers that sell barley to the CWB would prefer not to.

It seems that instead of 48%, less than 13% of Western Canadian producers prefer the CWB in barley (demonstrated by actual deliveries).

So instead of survey results that show the CWB has 48% support in barley, I prefer to look at the estimated 13% of Western Canadian producers that market barley through the CWB as an indication of CWB support in barley. The other 87% either don't grow barley or don't find what the CWB has to offer as beneficial or attractive.

How would the CWB board of directors react to less than 13% support in barley?

How should they react?

#11 More on Feed Barley Exports (Oct 13, 2010)

I know I've been here before but there's just so much of this that's just not right. For instance, one thing I didn't mention before is that the way the CWB operates in the export feed barley market may actually limit how much volume it does. The CWB first tenders to grain companies for supply. Only when the barley is "in the showcase" does it sell the barley. In the time lag

between originating the barley and offering it for sale, the market price can drop and that's why the CWB goes to the farmer with a discounted price.

Talk in the trade suggests the CWB may have missed sales because of this approach. By the time the tenders go out, the grain companies respond, and the CWB tries to sell, the buying interest may have been satisfied from other sources.

Let me summarize the situation (I have mentioned some of this before):

- The CWB is the only one that can sell feed barley for export.
- It may miss business because of the way it operates.
- It shows farmers only a portion of the price – as much as \$50/tonne is missing.
- It won't guarantee that farmers who sold barley will get any of the rest of the sale value.
(Did you know that this is the third consecutive year that the CWB has had this kind of cash program on feed barley? And did you know that farmers never received the full sales value in the previous years?)
- The CWB buys barley through company-specific tenders with a specific sign-up window. These contracts are not well promoted or widely publicized so many farmers don't know about them or even have access to them.
- Because the export price is not transmitted to the country, domestic prices for feed barley and even feed wheat are artificially held down.

The loss to the western prairie economy is well into the hundreds of millions. Even Jim Flaherty should sit up and take notice.

I can accept losing business because you didn't have the right price, the right quality or couldn't execute in the required shipping period. That's the nature of the business. But to lose business simply because of the way you choose to operate is unacceptable, especially when you won't let anyone else try. Combine this with keeping a portion of the value from farmers and the loss in real revenue at the farm gate on all feed barley and feed wheat and this becomes downright mind boggling.

Anyone who either defends or deflects criticism of this program is blinded by ideology. Make no mistake - the single desk has cost farmers millions here and has been a drain on the western economy. I can only hope that those that defend the single desk will see this for what it is and will now engage in a more meaningful debate.

Even if you're a staunch CWB supporter, it's OK to be madder than hell about this. Now that there's a CWB directors' election going on, farmers should demand from candidates what they would do to improve this situation for farmers – all farmers.

#17 The CWB Misses the Point on Feed Barley Debate (Oct 25, 2010)

Late last week, the CWB commented on the feed barley debate. Unfortunately, they still don't get it.

The CWB explained its feed barley program back in 2007-08 by saying it sold several hundred thousand tonnes purchased directly from the trade. This is quite different than buying from farmers using Guaranteed Delivery Contracts (GDCs), as they are doing this year – but in most respects, the result is the same.

On these trades it has been estimated that the CWB made about \$50.00/tonne. To explain why it didn't distribute this excess profit to producers, the CWB said: "It would have been extremely difficult to determine which farmers contributed to those cash sales and at what prices, which is why the margins were directed to the CWB's contingency fund..."

I have to ask: Why did the CWB choose to buy from the trade and not from farmers?

First, if they bought directly from farmers using GDCs, they could have distributed the excess profits to the farmers that participated in the sales.

Second, using this program, the CWB created the same major problem in 07-08 that we're seeing right now. In both years, the CWB's actions are directly responsible for keeping the export values from having a positive impact on the domestic price of feed barley. Since The CWB made \$50/tonne in excess profits on these export sales, it's only natural that, with efficient price transparency as there would be in an open market, the domestic prices would have moved higher to compete. At 1½ tonnes/acre, that works out to \$12,000 per quarter that you could've had.

And it doesn't stop at feed barley. If you made more from selling feed barley, you'd have less cash-flow pressure to sell canola. Less selling pressure on the canola market means higher prices on canola.

A majority of The CWB board of directors feel farmers are better off with the CWB single desk. They argue that grain companies "would (naturally) buy feed barley at prices just above the domestic value, sell it at the higher international values, and retain the profit margin."

This argument is based on what would happen if you suddenly changed the rules, shut down the single desk one day and opened up the market the next. It's based on the assumption of the current dysfunctional market structure – ineffective price discovery, no appropriate hedging tools, few players and no active arbitrage between markets. The CWB fails to factor in competition and arbitrage between markets.

I argue that the market would evolve very quickly from its current makeup. We would see the rapid development of vibrant futures and options markets, active cash brokerage/trading, multiple participants (not just the big grain companies) and effective arbitrage between markets.

Competition would drive handling margins lower, just as we've seen in other non-CWB commodities.

Ironically, I see the CWB playing an important role in a dual market, particularly in the early stages, in price discovery, discipline and arbitrage.

The crucial point the CWB is missing is that the rest of the barley market suffers by the way the CWB operates. And the CWB is completely myopic when it says that if there was an open market, farmers would lose.

They don't get it. Doing it the CWB way, everyone loses.

#18 Is This the Deal You Want? (Oct 26, 2010)

Durum should be the Jewel in the Crown of the CWB. We produce consistent high quality; we grow more durum than any other single country in the world; and we are the largest exporter in the world with about 50% market share. Yet the durum market in Western Canada is in utter shambles right now.

Using real rough numbers because everyone's experience is a bit different, I estimate it takes about \$140 an acre to produce a crop of durum. A typical yield might be 40 bushels/acre. The CWB organizes deliveries into the grain handling system through a "contract call" system. Most farmers sign up 100% of their production for acceptance into the grain handling system, but the CWB decides how much you get to deliver and when.

Last year's (09-10) durum producers saw the following:

- Initial payment was roughly \$3.50/bu in Alberta and Saskatchewan
- First Contract Call (Series A) was for 25% of contracted tonnage (this means you could deliver 25% of the amount you contracted with the CWB)
- Second call of Series A (Dec 17) was for 15% (for a total of 40% of your crop by this point)
- There likely won't be a final payment, so the Initial is all there is.

Using a typical yield of 40 bu/acre, this means that prior to Christmas, durum farmers could only deliver 16 bu/acre and receive the equivalent of about \$56/acre. With cost of production around \$140/acre, the typical durum farmer was about \$84/acre short against his durum expenses. That's more than a \$13,000 deficit on a quarter section.

The next Contract Call (in Series B) was on April 20 for 20%. Since only 40% was taken in Series A, the balance is rolled into Series B and included in this call – the net effect is that this call is for 12% of the original contract. This allowed delivery of 4.8 bu/acre and netted about \$18/acre. Total payment at this point was about \$74/acre.

And that was it: the CWB accepted only 52% of the crop. This means the typical durum producer received a total of about \$74/acre for a crop that cost him \$140 to produce. Durum farmers were left with a deficit of about \$66/acre, or about \$10,500 per quarter of durum.

This year's (10-11) Initial Payment is about \$1.74/bu to farmers in Alberta or Saskatchewan. So far, the CWB has called for 50% of what has been offered. Assuming the same yield of 40/bu acre, this means that all a durum producer can sell is the equivalent of 20 bu/acre and receive about \$35/acre.

Assuming the same cost of production as before, this year's durum farmers have a deficit of \$105/acre, or about \$17,000 per quarter section.

If you grew the same acreage and same yield of durum in both of the last two years, on a quarter section, you have:

- produced a total of 12,800 bushels
- sold 6,500 bushels
- stored 6,300 bushels
- paid production costs of \$44,800
- received from the CWB \$17,200
- a hole in your bank account to the tune of \$27,600

On a full section the hole is much bigger - \$110,400.

Right now the CWB is looking for #1 and #2 Durum and it appears that they are having trouble getting it. The fact of the matter is that many, many durum producers have sold their high quality durum into the domestic feed market to generate cash. And now it seems the CWB could struggle to cover sales because they were counting on the durum that was stored on farms.

One more thing. The street price for durum right now in Montana is \$8.60/bu. In Canadian dollars that's roughly \$8.77/bu. And the US durum farmer can sell his whole crop right now. At 40bu/acre, that's \$344/acre, or \$55,000 per quarter. Not only can he pay his bills, he can put some money in the bank. And before you suggest that the US support programs have anything to do with this price – they don't. The loan levels are so far below this price that they will never kick in.

If the CWB system is so good, and we're so dominant in the global durum market, why can't Canadian durum farmers even cover their cost of production with revenue from growing durum while American producers can (and even earn a tidy profit as well)?

#23 Current Durum Situation (Nov 2, 2010)

Did you know?

The CWB is scrambling for high quality durum right now. Partly because of the late fall and partly because of the poor quality crop. In addition, there may be less of last year's higher quality crop available than the CWB was counting on as much of it was sold by farmers into the domestic feed market to satisfy cash flow needs.

Terms on sales to Japan include a high protein content, something the CWB is struggling to satisfy right now. I'm told that the terms will be adjusted for the new crop but the new terms won't kick in until Jan 1, 2011. This is just one more problem for the CWB this fall.

These struggles are showing up in Vancouver. On a vessel that the CWB shared with Cargill, the CWB loaded 10,800 tonnes of durum and Cargill loaded 14,700 tonnes of canola. Cargill loaded the canola in about two days and the CWB took another 21 days to load the durum. The CWB (farmers) will pay the demurrage bill on the whole vessel.

Another durum vessel (60,500 tonnes) has been in port since Sept 19 and has yet to finish. I'm told it'll be another week before it's loaded. It's been in port long enough for a hefty demurrage bill. This will be the first time in a very long time that a vessel arrived in September and didn't leave until November.

There is a rumour that the CWB has shipped high grade durum against a sale of feed wheat to South Korea. The CWB is indeed shipping durum on this sale, but its #4 and #5 durum, which is applicable on most feed wheat sales.

Delivery calls on Nos. 1 and 2 CWAD are now in place and the CWB will terminate the first 25% call effective Nov. 29, 2010. (This is a signal from the CWB to get farmers to deliver; it's thought that the prospect of losing the delivery opportunity will get guys to deliver.)

In addition, a Guaranteed Delivery Contract (GDC) with 100% acceptance has been announced for Nos. 1 and 2 CWAD.

But there's another factor. I'm hearing many producers are angry and frustrated with the poor movement and poor prices on durum; many have said that they believe the CWB dropped the ball on the very high prices we saw a year or two ago. Whether they did or not is a topic for another debate; in frustration, these growers are saying they refuse to deliver any high quality durum to the CWB until they see a full (and attractive price).

Whereas I understand the frustration, holding grain back will not solve the problem. The CWB will either find the durum somewhere else, or adjust contract terms and possibly pay penalties. In the process they are already paying demurrage. But when I say the CWB will pay, it really means durum farmers will pay. It could also mean the loss of confidence in Canada as a supplier and the loss of future sales to our competitors (remember, the US has a lot of durum right now). It may be satisfying to hold back to send a message to the CWB, but it will come at a hefty cost to you. Ironically, it's your choice.

The CWB recently released a commentary where they say "recent negative commentary has been circulated to farmers painting a highly misleading picture of the realities of international durum marketing and the decisions made by the CWB as Prairie farmers' durum marketer." Obviously I thought they were referring to my commentary "Is this the deal you want?" Reviewing that commentary, I saw that it only spoke of the realities of poor cash flow from durum under the CWB system and what that means to farmers. I guess there must be some other "negative commentary" out there that I'm not aware of.

From a farmer's perspective, the durum situation is definitely in a shambles. But there is good movement available right now and all durum producers should take advantage of it.

The best place right now to send a message is in the director's election.

#26 Current Feed Wheat Situation (Nov 5, 2010)

Did you know?

Farmers are struggling with feed wheat cash flows. Let's look at the numbers (these are all \$/bushel to a farmer in central Sask):

- The Pool Return Outlook (PRO) for CW Feed Wheat is \$4.63/bu.
- The Initial Payment for feed wheat is \$0.49/bu.
- There is an interim (or adjustment) payment in the works, reportedly in the \$50 to \$70/tonne range (\$1.36 - \$1.90/bu) but we don't know when it will be available; once it is, the Initial will go up to about \$2.12/bu.

Delivery and pricing options:

- Pool account: As of Nov 2nd, there is a Series A 25% contract call on feed wheat. (Assuming the CWB will accept 100% of what is offered, this means farmers can deliver 25% of what they offered.)
- Guaranteed Delivery Contracts (GDCs: Similar to the GDCs on feed barley, these are based on company-specific tenders, provide 100% acceptance and delivery in a defined time frame. The tonnage is limited but not made public. Also, the price is not set until the delivery date.
- FlexPro: If you signed up on a FlexPro contract (sign up deadline was July 30, 2010) you can apply feed wheat on your contract but at the prevailing spread to feed wheat from the reference grade on the day of delivery.
- BPC/FPC: If you signed up for a Basis Price Contract (BPC) or a Fixed Price Contract (FPC), you can apply feed wheat on these contracts too. Here too, the discount for feed wheat is the prevailing spread on the delivery date.
- Feed discount: currently \$0.55/bu. It changes periodically; it has been as low as \$0.35/bu and as high as \$0.57/bu.

Cash flow implications:

- Assuming a yield of 40 bu/acre, the most you will be paid right now delivering on the Series A contract call is roughly equal to about \$4.90/acre. On a quarter section that works out to about \$780 in total.
- Including the pending interim payment, the price on delivery moves up to about \$2.12/bu. This works out to \$21.20/acre, or about \$3,400 per quarter
- FlexPro, BPC or FPC: the price you will receive is based on your contract price and the feed discount on the day of delivery.

- FlexPro: the contract high is \$6.88/bu. With a 25% call, this works out to \$68.80/acre or about \$11,000 per quarter.
- FPC: the contract high is \$6.70/bu. This works out to \$67/acre or just under \$11,000 per quarter.

To put this in perspective, a rough estimate of cost of production is \$32,000 per quarter.

In terms of delivery, GDCs give the best opportunity to deliver – if you can get one. (Even the CWB advises that Series A is a better deal for farmers than the GDCs since not all farmers can participate in the GDCs.) In addition, you don't know the price until you deliver.

In terms of price, the FlexPro appears to be the best option – but you had to sign up early and delivery is limited to delivery contracts (contract calls).

I can understand why the feed discount moves – the CWB sold milling wheat and now has feed wheat being delivered to it and the spread between milling and feed wheat is variable. What doesn't make sense is that the CWB will only set the price on the day of delivery. There is no difference to the CWB in terms of risk when pricing feed wheat – they can do it before delivery by the farmer as well as on the day of delivery. In fact, pricing ahead of delivery takes a lot of guess work and risk out of the equation for farmers, particularly when they can sell feed wheat into the non-CWB market.

Is the CWB managing risk to the CWB or risk to the farmer?

Possible solutions include opening up delivery with better premiums for deferred delivery. Some farmers have the financial ability to hold grain in storage and, if appropriately compensated for storing, they will. This will open the door for those that need the cash flow to deliver more wheat without overwhelming the system. This would also mean less canola would need to be sold for cash flow, having a positive impact on canola basis levels.

Regardless of whether you want the status quo, get rid of the single desk or even the whole CWB, the CWB needs to change to put farmers and their business needs front and centre, starting with cash flow. In any language, these programs don't cut it.

#31 Malt Premiums with a Voluntary Pool (Nov 15, 2010)

Proponents of the single desk fear that if the CWB lost the single desk on malt barley, the malt premium over feed barley would erode to next to nothing. We've all heard it before – the malt premium will be “bid down” to just above the price of feed barley.

Let's look at this. First, what is the premium anyway?

The CWB has said it “shoots for” a \$1.00/bu premium over feed. But as I've shown before, in practice the malt premium is much lower. The CWB's 2-row malt price averaged only \$0.16/bu over domestic feed prices in Saskatchewan. The 6-row malt barley price averaged \$0.15/bu UNDER the lowest priced feed barley in the country.

So, let's put this in perspective. We're not arguing over a \$1.00/bu malt premium. We're arguing over a 16 cent premium in 2-row and a 15 cent DISCOUNT in 6-row.

The malt barley market is not like domestic feed barley or canola. Whereas buyers of those crops have street price bids practically every day, the malt industry wouldn't be expected to do the same. In other malt barley markets, maltsters contract for acreage/production early in the year to ensure supply. There is no reason to believe that Canadian maltsters would act any differently in a voluntary CWB scenario.

At least one malt barley buyer in the US buys barley on a basis contract to spring wheat futures. The logic is sound; the maltster is trying to "buy" acres and must compete with alternate crops. In this case, its spring wheat. They set a basis that makes malt barley attractive to farmers when compared with prospects for spring wheat.

If a farmer signs up malt barley on a basis contract, he can keep it unpriced until later or price it right away.

In Western Canada, maltsters could price malt barley against competitive crops such as canola or wheat. The maltster's challenge would be to come up with a price that would attract contracted acres away from canola or wheat.

Maltsters will want to work with farmers to get the right varieties in the ground and they will want an assurance of supply. Since the signals they will want to send will be around seeding time, they have a greater interest in being competitive with crops like canola and wheat. We all know how feed barley pencils out against the major crops in terms of per acre returns. Putting their contract bids just pennies above feed barley as some fear, won't buy the acres the maltsters will need.

#41 The Single Desk is Impotent in Barley (Dec 22, 2010)

The latest PROs came out last week and in my view, the barley PROs tell an unfortunate and discouraging story.

The 2 Row malt PRO was lowered by \$1.00 while the feed barley pool B was raised by \$3.00. This goes counter to everything we're reading about the global malt barley markets. With the poor quality crop in Canada as well as around the world, the malt premium (over feed price) everywhere else is getting larger – not smaller. For example, I read recently that in Australia, the malt premium is now sitting at \$100 over feed, double its traditional level. Here in Canada, the spread between the CWB malt PRO and the CWB feed PRO is now at \$27 after starting the year at \$58. The malt pool return is going the wrong way.

Here's the problem.

The CWB has already sold a fair amount of malt barley for this year. And, if you've been following the market at all, you will know that the CWB would have sold this tonnage at prices considerably lower than what could be sold today.

Add to that the problem of the crop quality; with the lousy crop this year I've heard that there is little more than 700,000 tonnes selected for malt this year, and the CWB does not expect more. Compare that to a typical year of around 2 million tonnes.

So the CWB has sold early and there's little if anything left to sell at higher prices. In fact, prospects look so bad that there will likely be imports of malt barley into Canada.

The malt PRO is dropping because in earlier PROs the CWB would have factored in expected higher prices to be sold later in the year; now that it's apparent that they won't get the barley for these higher priced sales, the PRO needs to be adjusted downward. I expect it to drop even more by the end of the year.

Now complicate this with rising domestic feed barley prices. The current malt premium will erode further if the feed prices continue to rise making it even more difficult to find additional malt barley.

Let's look at a little history.

In 08-09, the CWB closed the malt pool to any new selections in Jan 2009 – the market price was dropping and the CWB wanted to keep new sales from eroding the pool return. All selections after that point were only offered through Cash Plus contracts, at much lower prices than the pool. Even though it provided lower prices to farmers, CashPlus became the only game in town.

Now, in 10-11, the CWB reported in December: "Going forward, there will be a limited volume of 2010-11 malting barley left to market". The CWB is sold out and the pool is practically done. Unlike 08-09, the market price is soaring. A CWB official confirmed that there are no CashPlus contracts being offered right now – but if they were, the price would be substantially above both the feed barley price and the malt PRO.

This time, the only game in town is the lower-priced pool. But with bullish feed barley prices and outlooks, and the knowledge that malt prices should be higher, many farmers are likely to opt to sell their barley as domestic feed, effectively starving the pool.

The fact that the CWB is not offering CashPlus contracts tells us a lot about what drives the CWB is following. CashPlus would not only provide farmers with good prices and signals, it would also make the PRO look lousy. And, if the CWB is short (committed more malt barley than what they've been able to select) they will want to make sure any more malt barley that is found covers the CWB's commitments through the pool – even if it is at a lower price.

If there was ever a year that farmers need good price signals, it's this year. There is a shortage of good malt barley and providing market prices would be instrumental in finding any additional stocks that are out on the farm. From the farmer's perspective, it would be valuable to know what his barley is truly worth before dumping it in the feed bin. Unfortunately, from the CWB's perspective, the best thing is to mute real prices.

Let's face it – pooling barley in Western Canada simply does not work.

Every year, the CWB struggles to compete with the domestic feed market on feed barley. Some years – like this one – the CWB’s malt pool price struggles to compete with a rising feed barley market. In fact, the way the CWB executed its feed barley export program kept domestic feed barley prices down, and, whether intentional or not, kept feed barley prices from threatening the malt pool.

And now, it’s clear that the CWB can’t afford to offer CashPlus because it needs to protect the failing pool.

The CWB can no longer assume it will obtain the barley it has sold. Because of this and other challenges such as opposing market forces, the CWB is forced to act to protect itself and manage its risk in the malt barley pool account at a considerable expense to producers. The barley producer loses in both price and opportunity. We saw it earlier this year in feed barley, now we’re getting it in spades in malt barley.

It’s time for the new CWB board of directors to face the reality that pooling and the single desk don’t work for barley. The board needs to go to the Federal Government to demand a change in the CWB Act to free barley from the single desk. If that means to have barley farmers vote in a plebiscite, then do it.

#42 The “Benefits” of Pooling and the Single Desk are wasted on Feed Barley (Dec 23, 2010)

Did you know...

When the 2009-10 CWB final payments were announced, feed barley wasn’t mentioned in the official release by the CWB. You had to look at the full payment document and go right to the end of the 12 pages to find this statement:

NOTE: Feed Barley Pool A and Pool B received no deliveries so are not shown above.

This is historic. This is the first year ever that the CWB received absolutely no deliveries to the feed barley pools. Zero. Zip. Zilch. Nada. Nuttin’.

And yet, in its “end of year” presentation, the CWB reported feed barley sales of 99,000 tonnes to Saudi Arabia and 133,000 tonnes to Japan in 09-10. A review of all CWB Bulletins from 09-10 shows no reference at all to any feed barley programs such as a Guaranteed Delivery Contract (GDC) or Guaranteed Price Contract (GPC). It’ll be interesting to read in the Annual Report how the CWB secured these supplies – and from whom (could have been bought directly from the trade). I wonder if they made any money for the Contingency Fund.

It’s no wonder no one sold into the pools with the Initial Payment for Pool B at \$92 instore (\$33/tonne in SK, or \$0.72/bu). (I can’t find any reference on the CWB website to the Initial Payment for Pool A; it’s as if it never happened, which I guess is true. I will assume it was similar to the Initial for Pool B.)

If farmers aren't taking advantage of pooling, I guess the other pillars – the government guarantee and the single desk – are pretty much of little value to them as well.

Now look at this year.

The CWB is reporting a Feed Barley PRO, so there must be a pool available. But the only way to sell into it is through a GDC or GPC, depending on the CWB's choice of the day.

On December 15th, Sask Ag reported the domestic feed barley price was \$144.04/tonne (\$3.14/bu) basis instore Saskatoon. At the same time, the CWB Pool A PRO was \$161.68/tonne (\$3.52/bu) and the Pool B PRO was \$154.68/tonne (\$3.37/bu). Also, there are GDCs reported on the CWB website for a "Net Expected Value" of \$212 instore Vancouver; this works back to SK at about \$153/tonne (\$3.33/bu).

So if you can find them, there are some CWB contracts out there for feed barley at better prices than domestic. And, although it's not saying it now, the CWB had said all profits from these sales would go to farmers. Now that they are going through the pool, I guess the "profits" will show up there.

The critical question is, what value is the single desk in all this?

When the CWB sells offshore, it must be competitive. The big market – Saudi Arabia – won't pay a premium for Canadian origin simply because someone said they had to. If its price is as little as \$0.50 over a competing offer from Australia, Saudi camels will be munching on Aussie barley.

The domestic price is moving higher due to various factors – higher competing commodities such as imported corn and DDGs, tight barley balance sheets and the prospect of the potential of export movement at better prices. However, the export market is muted by the way the CWB is contracting out each sale to selected companies and not making it public or liquid.

I maintain that an open market would provide timely market responsive price signals that everyone would respond to – exporters, domestic buyers and farmers alike. And it would encourage competition, which would drive costs out of the system. The current CWB system does not allow that to happen, and it comes with its own inherent costs – all at a huge expense to barley farmers.

Those that think multiple sellers in an open market will push the price lower - think about why the CWB is so cautious when it sells feed barley – it buys the barley first (at large discounts to the potential sale value) because it's concerned that it may not be able to buy in what it sold. Why would a grain company sell below a publicly reported market price when they would know they couldn't buy it in cheaper? Why doesn't it happen now in domestic barley? Multiple buyer and multiple sellers – it's called competition, and it's a good thing.

And to those that think grain companies will sell at the premium offshore prices and just buy at the much lower domestic prices (keeping the higher prices hidden), think about this. The only reason there is a large gap between domestic and export prices right now is because of the CWB system. Get it out of the way and multiple sellers and multiple buyers will arbitrage the markets together.

Get the single desk out of the way and let the market work for the benefit of barley farmers.

#46 Barley Prose - Farmers Not Getting the Right Signals Again (Jan 28, 2011)

The January PROs were released this week, along with the usual market commentaries on each.

I agree with the CWB's comments about the global feed barley scenario. There are ample market factors leading to higher global prices. We need to be watching to see if the CWB can transmit these prices transparently to the domestic market more effectively than in the past; we shouldn't have to rely on strong imported corn prices to underpin the domestic barley market.

On malt barley I disagree with the CWB. They say "Maltsters who still have outstanding barley requirements will reduce quality specs to use any barley that can feasibly be made into malt, which has worked to soften the price response to the tight supplies of higher quality."

OK – I agree with the first part – the part where maltsters are lowering their specs. I've seen it first-hand. But the second part – about the price "softening". Really? Softening?

It appears that this is meant to explain why the malt PRO rose only 4 cents a bu even though the feed barley PRO (B pool) climbed 22 cents and domestic feed barley prices in SK rose about 15 cents.

Let's look at malt pricing in terms of a premium over feed. Back in October, the "CWB malt premium" over domestic feed barley in SK was about 93 cents. Now it sits at about 25 cents – a "softening" of 68 cents.

In southern Alberta, the malt premium – about 65 cents in Oct – has all but disappeared. Now that's soft.

Even over the CWB's own feed PRO, the "CWB malt premium" is "softening" – it was 72 cents over the feed PRO in early October – now it's 41 cents, for a loss of 31 cents.

In contrast, the malt premium in the US has risen from 48 cents in Oct to where it sits right now at 72 cents over feed. While Canadian malt barley premiums have "softened" by all comparisons, in the US they have gained 24 cents per bushel. And well they should, given the tight supply of quality barley.

If the feed barley market is hot and moving higher and the "CWB malt premium" is small already (no matter what market you compare it to), why would maltsters reducing their quality specs, effectively digging into traditional feed barley, "soften the price response to the tight supplies of higher quality"? The way I see it, the malt price should be climbing right along with everything else – but it's not. At least the CWB PRO price isn't. Even while they say that malt barley prices are "softening" because of acceptance of lower quality, the CWB offering price for domestic brewing has moved higher from about \$288/tonne in Oct to \$329/tonne last week. That works out to about 89 cents a bu higher – not softer – while the PRO dropped 13 cents.

The PRO is “soft” because it reflects the proportion of low priced sales made early in the year (before the rally) which were proportionally larger this year due to the reduced size of the pool.

There is no doubt about it; the PRO cannot be relied upon to effectively maintain the malt premium as a price signal.

New Crop

Next month the CWB will issue the new crop PROs. These are critically important in terms of giving farmers price signals – and this year, competition for acres will be extreme. The challenge for the CWB will be to provide a meaningful and competitive PRO. And if they do, they are likely going to signal farmers to carry their 2010 malt barley (what’s left of it) into 2011, keeping it away from the maltsters when they need it. Stuck between the old rock and a hard place. The CWB will need to rely on CashPlus – warts and all – to give the price signals the malting industry needs.

So why pool barley at all?

#53 Is the CWB Competing with Itself? (Mar 30, 2011)

The CWB has two systems in place to buy malt barley – conventional pooling and *CashPlus*.

CashPlus was first offered in 2007-08 as a response to pressure by maltsters and farmers, urging the CWB to solve the problem of the malt PRO being unresponsive in volatile markets. That year the markets were quite strong and domestic feed barley prices rose throughout the year, exceeding the malt barley, making the domestic feed market a better deal than malt. This had happened before and maltsters were again experiencing serious challenges attracting malt barley deliveries. Concerned that this was becoming a recurring problem, the malting industry asked the CWB to help solve the problem.

The CWB came up with *CashPlus*, meant to be “a pricing program that offers farmers an upfront, market-based cash price for their malt barley.” It was aimed at a number of specific value propositions:

- More security of supply for buyers at a price at which the business would be executed.
- Pre-seeding contracts where farmers would commit to growing malting barley and both sides would know the price and other elements of the contract.
- Flexibility for buyers and farmers to negotiate other contract terms – for example, special quality terms.

CashPlus contracts are based on actual sales; the CWB determines a guaranteed minimum price for the buyer to pay farmers. Typically, this price is about 85-90% of the sale value. The CWB holds back this portion of the sale price as a risk precaution and to cover its expenses. Once the contract has been completed and the full expenses are known (including some money at times going into the Contingency Fund), the CWB pays the farmer what’s left. As the market price moves, *CashPlus* pricing to farmers tracks closer to the market than pooling, providing a closer view of market prices (not perfect, but closer).

Interestingly, whereas *CashPlus* is more responsive to market dynamics, keeping pace with malt barley markets and domestic feed barley values when needed, the CWB now competes with itself – the malt barley pool now competes with *CashPlus*.

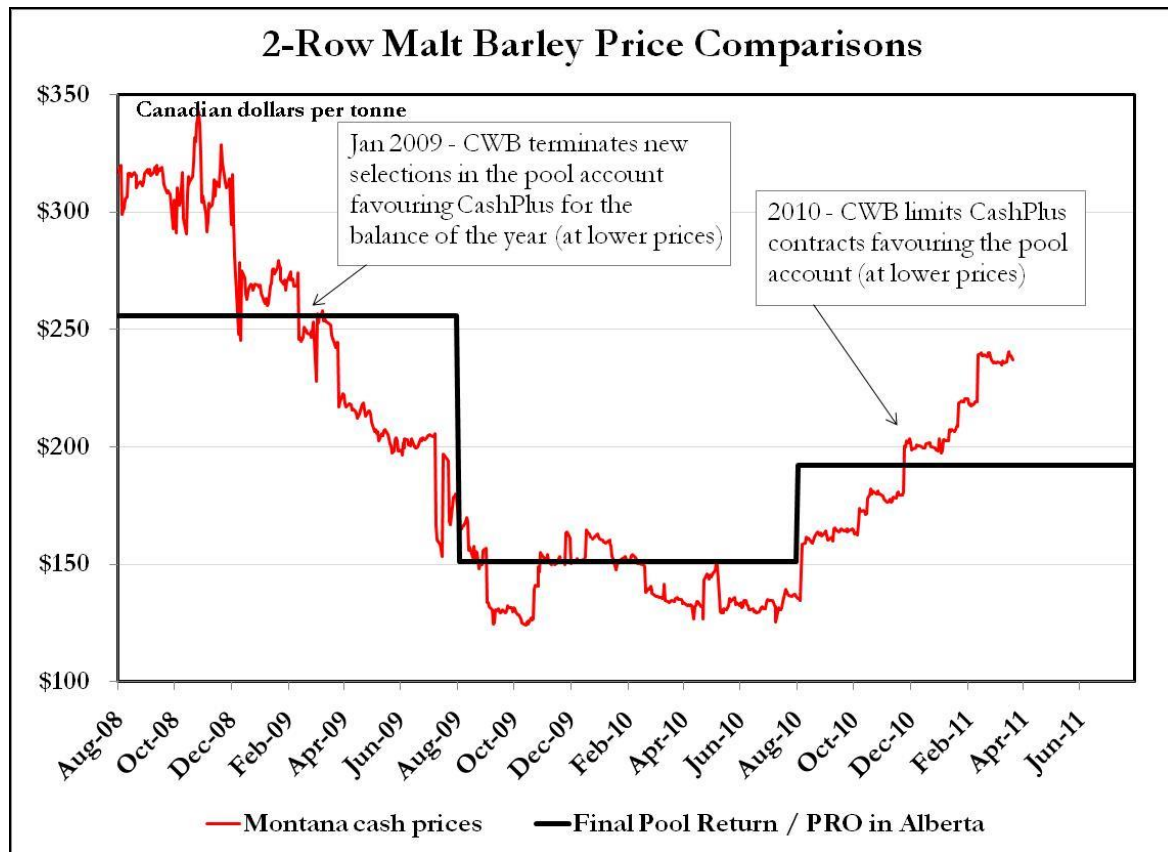
This became obvious in 2008-09, the second year of *CashPlus*. The malt barley market had been very strong as a hang-over from the strong markets of the previous year. But, prices started to come off; the 2-row malt barley PRO dropped \$40 per tonne by December 2008. In January 2009, the CWB announced it would not accept new selections in the pool for the rest of the crop year; all new selections would be through the *CashPlus* program only. The reason was that any new selections or sales in the pool would be at lower prices and would drag the pool return down. This move caused an uproar at the farm level; single desk and open market supporters were united in their concern that this was contrary to the purpose of pooling – averaging all sales so farmers share in both the highs and lows of a market. Those that didn't have their malt barley selected were not going to benefit from the higher priced sales. Although most of the malt barley pool is nearly completely selected by this point in the crop year, closing the pool still created winners and losers – something pooling is meant to avoid. (And there really wasn't much left to select anyway. The CWB reported on *CashPlus* in its Annual Report: "Effectively all of the trading activity in this account occurred in a short period prior to the start of the crop year." It makes you wonder why the pool was shut down at all; a few more selections would have had minimal impact.)

CashPlus contracts – the few that were offered – were at much lower prices than the final pool return.

In 2010-11 the situation is reversed; this time the market has been quite strong. Poor growing and harvesting conditions meant that very little malt-quality barley was produced. The CWB malt pool is usually over 2 million tonnes; this year the pool is reportedly less than 1 million tonnes and the CWB and maltsters are searching for barley to satisfy commitments already made in the pool account. The CWB appears to be limiting the amount of barley through *CashPlus* because this year, market-based *CashPlus* prices would be much higher than the PRO; buying through *CashPlus* would starve the pool account at a time when more barley is needed to satisfy sales already made.

The chart below shows the CWB Final Pool Return for 2008-09 and 2009-10 and the latest PRO for 2010-11, all for Alberta farmers (straight black lines). It also shows, as a reflection of the open market, the street prices in Montana (in Canadian dollars per tonne). It clearly shows how the open market was dropping in 08-09, supporting the CWB's view that further sales in the pool would bring its value down. It also shows how the open market prices are rallying in 2010-11; *CashPlus* contracts based on current market prices would be higher than the PRO. Favouring the pool accounts and not offering *CashPlus* is meant to drive malt barley selections into the pool. This serves two purposes. First, it is aimed at covering the CWB's early sales of malt barley that were undoubtedly made when prices were lower. Second, once any shortfall is covered, additional sales made through the pool account (if any) will be at higher prices which will support

the pool returns. This is particularly important right now since domestic feed barley prices are threatening to exceed the malt PRO.



There are a number of problems created with this approach of the CWB periodically selecting one program over another:

- It provides farmers with only the lowest priced option.
- The risk management element of pooling through sharing all high and low sales is diminished when the pool is closed early.
- Access to market prices is lost when CashPlus is not offered.
- Changing the rules midstream creates uncertainty; farmers used to have confidence that the malt barley pool would always be available – but not since 2008-09. And farmers that appreciated the market-based pricing of CashPlus are left wondering why there is none offered.
- During a year when this choice between programs is made by the CWB, less malt barley is offered to maltsters as more of it moves into feed channels. This makes things even more challenging to maltsters.
- Ultimately, this approach to malt barley pricing to farmers does not help to attract malt barley acres, particularly important as crops increasingly compete for land.

Solutions

The CWB should either go with a conventional pool OR go with *CashPlus*. Wait – that won't work. We've seen that pooling malt barley doesn't work because at times it can't compete with the domestic feed market; that's why *CashPlus* was invented in the first place. And *CashPlus* on its own? Think about this:

Because *CashPlus* sales are meant to reflect the market, there is the real possibility that you have two buyers on the street with different prices – set by someone else. You can say that the buyer with the lower price could simply raise his price to compete. Sure – but that's a problem when you've already sold malt based on the CWB price for barley. It has been said that in this kind of situation (yes, it has happened), the CWB tries to equalize things by lowering the farmers' guaranteed price on the higher priced sale. If that's the case, can you really say that the *CashPlus* contract is market-driven?

Another option is to devise a program where the malt prices are based on a futures contract. It's done in the US; malt barley is priced to farmers on a basis to Minneapolis spring wheat futures. It's a neat idea since malt barley needs to compete with spring wheat; as the price of spring wheat rises, so does the price of malt barley – until its priced by the farmer.

Here's something that'll work. The CWB could treat malt barley like it treats organic grains. For a fee paid to the CWB, farmers could sell malt barley directly to any buyer.

Or open up barley marketing completely and totally which would allow the market to figure out the best approach.

#54 Who Wants the CWB to Market Canola? (Apr 6, 2011)

The MCGA just launched a producer survey that takes an interesting yet biased approach to the question of the CWB marketing canola. The questions don't allow you to just say "no thanks". Here are the questions:

- Do you presently load producer cars?
- Would you load producer cars of canola if they were available?
- How many tonnes of canola do you produce annually?
- How many tonnes of canola would you be interested in having the CWB market on your behalf?

Unfortunately, this survey is badly flawed – and not because of the way the questions were asked (although there are problems there as well). The biggest problem is that anyone can respond (not just farmers) and you can respond as often as you like. For example, you could go through your local phone book and submit a response in each person's name. Because of this alone the survey results will be totally worthless. (I've responded twice already; you just clear your computer cookies between each submission.)

But beyond that, the questions are really structured for those that like the idea of the CWB marketing canola in the first place. After reading the questions, those that don't support the idea may simply assume that the questions aren't for them and not submit anything. Take a look at the last question; it asks how many tonnes of canola you would like the CWB to market for you. You could say "zero" but I think many will just not respond. The risk is in the "results"; if the MCGA announces that the vast majority of those responding support the CWB's involvement, it will be a serious misinterpretation and miscommunication.

Producer Cars

The questions are also about producer cars; specifically about loading canola producer cars. It almost appears that the MCGA is drawing a connection between CWB involvement in canola marketing and opportunities to load canola producer cars.

Let's look at this a little closer. The reason why farmers load producer cars is financial. Loading a producer car you avoid about \$13.00/tonne country elevation, or about \$1,200 per car or more. This is possible only because you are going around a portion of the high cost CWB system. There isn't the same gain on canola; according to data from the Federal Grain Monitor and Canadian Grain Commission, it appears that grain companies make their "handle" on terminal elevation and cleaning and make very little at the country elevator, no doubt due to stiff competition from local crushers. There just isn't the high country elevation to avoid like you see in wheat; I don't know what a guy needs to make loading a producer car attractive, but I'm sure you won't get it from canola – with or without the CWB.

The value of canola marketing by the CWB

This opens the door to a discussion concerning the CWB's value proposition to farmers and end-users.

- First off, the MCGA question is regarding the CWB marketing canola on a voluntary basis – not through a single desk. So the things that the CWB suggests are the strengths of the single desk – market premiums through market clout and "strategic marketing" – don't even come into play here, regardless of your beliefs.
- The CWB talks about its "customer relationships" as a strength; it has none in the canola industry.
- CWB pooling is a form of risk management. Voluntary pools already occur in other crops; the heavy CWB structure is not needed to form a pool.
- The CWB offers pricing options. Pricing options on canola are already available through grain handlers and crushers and work very effectively. In fact, studies have shown that they are more effective and efficient than the pricing options available through the CWB. What's more, they are simple to use and understand. It's hard to imagine what the CWB will bring to the table here.
- The CWB acts as farmer advocate on various issues; marketing canola would add nothing to this activity, nor would this activity benefit the CWB's marketing efforts in canola.

- The CWB says it “ensures farmers benefit from accessing the lowest-cost and highest-value port and terminal options”. The canola sector is highly competitive and data show that canola handling costs are much lower than CWB wheat handling costs. How will the CWB’s involvement shrink canola handling costs further?
- The CWB engages in market development and branding on wheat. In canola, the Canola Council of Canada has done a remarkable job at promoting canola and developing markets. Again, it is very difficult to see how the CWB’s involvement, even at a “voluntary” level, would add to the exercise.
- Let’s not forget that the CWB comes at a cost; data shows that the CWB cost to market wheat comes in at around \$10.00 per tonne, above and beyond the higher system costs.

The Bottom Line

There is no benefit in having the CWB involved in canola marketing. What’s more, it would undoubtedly come at a cost to farmers. If you like the idea of pooling and want to try it in canola, remember you can do it without the CWB. If you like the idea of averaging out sales over the crop year, you can do that without the CWB too; simply sell an equal amount once a week or once a month throughout the crop year. The CWB’s Wheat Pricing Pace Model does essentially the same thing – there’s no reason why you can’t do it as well.

Come to think of it, if the canola industry can succeed so well (including farmers) without a single desk, and at a much lower system cost, with an industry-wide organization promoting and developing the market, and you can mimic much of what the CWB does, doesn’t this beg the question: why couldn’t the barley and wheat sectors do the same?

Regarding the seriously flawed MCGA survey, it is so seriously flawed, it is meaningless. The only good thing about it is, it has allowed a good discussion about what the wheat and barley markets could be like if they were allowed to function like canola.

#55 Shipping Wheat from Thunder Bay to Vancouver (Apr 13, 2011)

Sometime in the middle of March, trade chatter started about a shipment of wheat by the CWB – from a Thunder Bay terminal to a Vancouver terminal. Sources indicated that the CWB loaded “about 100 cars” of high quality spring wheat in Thunder Bay and shipped them west across the prairies to Vancouver to satisfy a sale to Japan.

This isn’t the first time the CWB has shipped wheat from eastern terminals all the way across the prairies to the west coast. In 2004-05, the CWB shipped wheat from Churchill and Montreal, both to Vancouver. Explaining the situation then, the CWB stated:

Weisensel noted there have been significant transportation problems in the last couple of months, including mudslides, continuous rain and extreme cold weather, which have delayed grain movement and delivery. In order to ensure

sales commitments were met, the CWB moved 280 cars of grain from other ports to the West Coast.

"This is the power the single-desk gives western Canadian farmers," Weisensel added, noting international customers have clearly identified the CWB's reliability as an important factor in making it a preferred wheat supplier around the world.

"Prairie farmers achieve premiums based on this reputation, and in my opinion, maintaining our good standing is extremely important."

I certainly don't dispute trying to keep your reputation, but does it really make sense to ship grain sitting in eastern ports all the way across the country to do it?

First, it comes at a high cost. Rail freight from Thunder Bay to Vancouver isn't a normal "tariff item" but since grain freight rates are fundamentally determined by distance, there's a pretty good chance the freight bill was somewhere around double the rate from Saskatchewan to Vancouver – call it \$80 per tonne. Add to that the added costs of inward elevation and outward loading into railcars in Thunder Bay – call it \$13.00 per tonne. All told, the added cost could be close to \$100 per tonne.

Second, if you have to "pay up" to get the grain in position, it makes more sense to pay the extra cash to farmers – not CN and not grain companies for handling grain twice. The CWB may take the position that the high protein wheat it needed is not out in the country but have they tried everything to find it?

What does this mean in the big picture?

In 2005, the CWB said that it shipped grain from eastern terminals to the west coast to protect its reputation. But it could still protect its reputation with buyers by paying farmers a premium to get the grain. It might even improve their status among farmers if they did. But - through this exercise the CWB appears to prefer to manage its supply-chain challenges without upsetting the "equity cart".

If a grain company finds itself short against a commitment, it improves its price to farmers, taking a loss if necessary. It may even buy from its competitors but usually that's a last resort. Even in the rare situation where a grain company ships out-of-position grain to satisfy a sale, the company pays for its mistake – not farmers.

Last time that we were aware that the CWB shipped wheat cross-country (2005), members of the grain trade indicated to the CWB that high quality grain was still available on farms and that a financial incentive paid to farmers would work to find it and bring it in. It was suggested that the CWB tender to grain companies for this grain; the grain companies would bid on the tender on the basis of what they felt they would need to pay farmers to get the high quality grain.

The onus would be on the grain companies to go out and find it. If they misjudged and a greater premium was required, they would pay it (not the CWB, not farmers).

The pool account would still pay to solve the problem, but some farmers would get more than others. Perhaps that's why the CWB didn't do it – it's not equitable.

The CWB seems to think it's better to have the pool account pay something pushing \$1 million to the railroads and grain companies than paying premiums to farmers totalling potentially much less in order to accomplish the same thing.

All for the sake of maintaining its reputation.

The Media

#37 When it comes to the CWB, Why is the Media so Unbalanced? (Nov 29, 2010)

For some time now I have felt the media hasn't given CWB issues an even break. Too often it appeared that reporters didn't understand the issues or didn't know all the facts – or worse, had a bias that they couldn't contain. The CWB is very good at getting its message out and the media seems to pick up on it, ignore other ideas, and report with a bias toward the CWB's perspective.

The Western Barley Growers Association and the Western Canadian Wheat Growers Association often challenge the CWB in press releases but far too often, their positions or analysis don't get balanced coverage in print. This concerns me; the media's job is to report what is happening, and if there are two sides to an argument, the media's responsibility is to give readers the opportunity to see both sides – give both sides equal air time. But that just doesn't happen when it comes to the CWB.

With this year's CWB election approaching I thought I could contribute by providing facts that are often overlooked. Via email I started to distribute daily commentaries and analyses using mostly the CWB's own figures, asking only that my comments be forwarded to as many people as possible. I made sure that the media – the farm press in particular – received these commentaries. I indicated to the media that if they wanted to do a story around anything I had written, I would be happy to discuss with them the information, sources and analysis – in the interest of getting a balanced story.

The Western Producer

Last week, I asked Barb Glen, editor at the Western Producer about their coverage of the CWB election. She acknowledged they “really hadn't done a very good job of it”. When I asked about my blog she replied that she had been reading my articles daily. She added that my blog had shown her and others at the Western Producer that “there's a lot more to the CWB than the single desk issue.” That was refreshing and disappointing at the same time.

Unfortunately, this new appreciation for the various current CWB issues by the Producer never emerged in its election coverage.

The Manitoba Co-operator

A couple of weeks ago I got a call from Allan Dawson, a reporter with The Manitoba Co-operator. We got into a lengthy discussion about the election and the question of honesty and integrity among the five candidates that have not declared their position on the future of the single desk. It was clear that Allan felt that the five candidates in question were being dishonest.

I told Allan that he was missing something; I suggested there's much more about this election than the future of the single desk. Allan's disagreement and singular, undying focus on this one issue showed his bias. Much like the candidates that say the single desk must be protected, to Allan Dawson, the future of the single desk is the only issue.

I asked Allan if he had looked at any of my commentaries. He said he had only scanned them; even so, he felt it was "all the same old stuff" that the Wheat Growers have been pushing for years. If Allan had chosen to actually read these pieces with an open and enquiring mind, he would have seen that the analysis and the specific issues were all new – and relevant.

When I explained much of it has never been presented before, and certainly not in this form, he just said there was too much – "it's overwhelming".

I find this fascinating; he only "scanned" what I wrote – over 30 different articles clearly identifying many shortcomings of the CWB – and he dismissed them all, but picked up two quotes buried in a couple where I give my opinion on the single desk position of these five candidates. I guess he found what he was looking for; and the other material didn't interest him.

It was clear his mind was made up. He would not consider any of my analysis - or any other input - as worthy of his ink. His article, "Some mum on single desk versus open market" confirmed this. As a colleague said, "That's typical for Allan – editorials masquerading as news".

Dawson allowed his pro-CWB bias to get in the way of an important story. To him, the story is how candidates misled farmers by not declaring a position on the single desk. He indicates they are all well known to be supporters of a voluntary CWB and by not declaring this in their platform they are being less than honest.

I suggested to him that none of the other eight candidates have commented about the questions of marketing performance by the single desk. They all have a position that the single desk is fundamental to the power of the CWB yet, not one has ventured a comment, solution or even a disagreement concerning the current, serious problems related to the single desk. Now really – who's being disingenuous? When someone says your business model isn't working and asks what you plan to do about it, the least you can do is answer.

To me, the real story is this: if the "open market supporters" aren't talking about taking away the single desk (as Dawson seems to have expected them to), don't we want to know why? What has their attention so strongly that "marketing choice" is not even on their radar?

News reporters go by the W5 rule of reporting. Let's test it on Dawson's story:

Who?	CWB candidates
What?	Didn't declare their position on the single desk
When?	Now
Where?	Western Canada
Why?	According to Allan Dawson, because they're dishonest.

Dawson failed the W5 test in this article. He came up with his "Why?" answer even when faced with other potential answers. I asked him what he thought had grabbed the attention off these

candidates; what is so important that they have chosen to put the future of the single desk to a lower priority? It must be something important. But even faced with many substantial reasons, Dawson wouldn't even go down that path.

Dawson and others in the media, supposedly reporting news stories, too often show their bias. This is a real disservice to Western Canadian farmers who deserve a balanced conversation on the issues with full disclosure from both sides.

But they're not getting it from the media, particularly from the Manitoba Co-operator and the Western Producer. Pity.

#39 Decisions, Decisions. Knowledge is Power (Dec 1, 2010)

Laura Rance is the editor of the Manitoba Co-operator and also writes a weekly article in the Winnipeg Free Press. Her Free Press article last Saturday, called "CWB candidates silent on big issue", was along the same lines as Allan Dawson wrote in the Co-operator, so I felt it was overkill to include them both in my earlier article.

But upon second review, another issue emerged.

Rance's article was an editorial so, unlike Dawson's piece in the Co-operator that was presented as a news article and shouldn't feature Dawson's opinion, to read Laura's opinion was expected. It's her opinion so she's free to share it. But she should present it as her opinion, not as an irrefutable fact.

What I have a problem with is how Rance and others speak with supposed authority on a subject that they really have none.

For example, Rance wrote "It could be they've realized the logic of analysis that concludes a dual market scenario would simply be a slow death for the CWB. Without capital and without its own grain handling facilities, the board would be unable to compete for farmers' grain against the multinational grain companies."

There are actually two schools of thought on this topic – that's why this issue is so polarized. Rance demonstrates an affinity for the position pushed by the CWB and its single desk supporters, but seems to ignore the other one that states that the CWB could indeed survive, and if managed properly, flourish, even without facilities.

Since she's stating this as fact, I would like to know upon what evidence she's basing this "fact". (And I do mean evidence – not just someone else's opinion.)

And why does she dismiss contrary evidence as if it doesn't exist?

Farmers need good information to make good decisions

When someone who has a deep and detailed understanding of these issues – on either side of the argument – presents sound analysis and conclusions, I take note. But when someone like Laura

Rance writes about the CWB and its single desk with apparent authority on the subject but without the commensurate knowledge, I find the whole article lacks credibility.

Unfortunately, Rance's article is indicative of the tripe many of the CWB defenders have felt is good enough for farmers. Whether its Laura Rance, the CWB Alliance, or individual pro-single desk candidates, none of them actually refer to any real data, real analysis, real examples or real experience. None of them even acknowledge there are serious problems facing farmers right now. Are they not paying attention or are they diverting attention on purpose?

Farmers are facing real tough challenges right now on CWB grains – poor cash flow, higher than necessary costs, poor movement – the list goes on and on. They need good, sound information upon which to base decisions on a daily basis; the CWB election process is no different. They don't need the additional risk of a board of directors that can't even acknowledge the problems.

Rance's blind faith as a CWB defender doesn't help.

All eligible farmers should vote

Laura Rance wrote "The board plays a pivotal and unique role co-ordinating the entire grain-industry value chain, from policy through to logistics." I don't see it quite the same way as she does, I'm sure. However, the CWB's impact on the industry is indeed unique – it touches every farmer who grows a crop in Western Canada - any crop. Those that think the CWB is not "their issue" because they don't deal with the CWB are mistaken.

To those that are afraid of candidates who support change (because they might get rid of the single desk), think about this. The most the board of directors can do is ask Ottawa for a plebiscite on the issue. And most farmers I know – on both sides of the argument – would welcome that.

Right now it's up to all eligible farmers to vote for directors that will make a difference – because a difference is exactly what is needed.

Better get 'er done - the deadline is this Friday.

#78 Who Writes this Stuff? (Aug 4, 2011)

Two letters to the editor in this week's edition of the Western Producer look very similar.

Vic Althouse from Kelvington, SK, apparently wrote, in part:

Under the open market ... producers will price their grain through **possibly one of three companies and in some areas only one** company.

Kyle Korneychuk, from Pelly, SK (and also a CWB director), apparently wrote, in part:

Under the open market, they won't be marketing their grain, but essentially only pricing it through **possibly one of three companies and in some areas only one**.

Coincidence? I don't think so. Perhaps Vic wrote his and shared it with Kyle, allowing Kyle to copy bits of it. Or, the other way around. More likely though, the CWB has ramped up its rhetoric machine to the point of writing letters for others to submit. I can see the CWB's PR department writing for one of its directors (although even that is a bit shady when he doesn't identify himself as a director), but it seems they could be writing for others who submit the letter as if it's their own – which, if true, is really shady.

When you submit a letter to the Western Producer, they call to confirm that it was indeed you who wrote and submitted the letter. I wonder what Vic and Kyle said when asked “did you write and submit this letter”? Makes you wonder how many of these letters in support of the single desk were really written by those that submitted them and how many were “edited” by someone else.

Not only is the CWB spending farmers money on a useless plebiscite, on “town hall conference calls”, regional meetings, and an ad campaign, it now seems to be using its salaried employees to write letters for others to submit as their own.

In this week's edition of the Producer, there are only five letters to the editor; one from David Anderson, MP, in support of the removal of the single desk and four others – all arguing against the government plan. And even though the Producer has told me they print everything they receive, I know of at least one letter (mine) that would be in support of the government's plan, still not printed after two weeks. It becomes hard to see the media as taking a balanced approach on the CWB when they print two very similar letters and don't print a clearly different viewpoint.

Welcome to the CWB debate, where much from the CWB is not as it appears and voices of dissent are muffled by a media that gets spoon-fed by the CWB and has the appearance of favouring one side of the debate. To see the main stakeholders (farmers) of an industry that is reliant on sound, timely information, treated like mushrooms by the very institution meant to serve them, is disheartening to say the least. The irony is that the CWB does such a good job at it, many farmers continue to fight blindly to allow it to continue to mislead them.

The Lakers

#48 So the CWB Wants to Buy a Couple of Lakers (Feb 11, 2011)

Surely this wasn't just an impetuous reaction to the federal Government's removal of a 25% tariff on imported vessels (announced on Oct 1st, 2010). I give the CWB board more credit than that; I'm certain they've been developing this for a long time – long enough to have talked it over with farmers well ahead of making the decision.

Even though the CWB has had ample opportunity to discuss the concept with farmers, it failed to do so. So what are we supposed to think when we read this quote from Maureen Fitzhenry in a recent news article?

"What we need to know is what the actual farmers of western Canada are thinking. That's why we have farmer satisfaction surveys, the annual producer survey, e-polls, accountability meetings and that's why we collect feedback from our front line staff," she said.

They clearly didn't want to know what "actual farmers of western Canada are thinking" about investing in lakers.

If they had asked, I wonder how many farmers would have said "no, I don't want you investing my money". If given the choice, I wonder how many would have voluntarily invested. The CWB is stepping over the line, taking money it holds in trust on behalf of farmers and investing it against their will and their individual interests. They shouldn't be surprised with the outrage we're seeing and hearing.

Is the CWB board so focused on some unspoken agenda that they're willing to accept a little collateral damage?

Did you know...

One of the CWB's partners in this venture is Upper Lakes Group, which, among other things, owns Soumat, which in turn owns:

- Mission Terminal, operating a terminal in Thunder Bay, two primary elevators in the prairies, and with financial interests in a number of producer car loading sites and short line railroads.
- Les Élévateurs des Trois-Rivières Ltée, a CGC-licensed transfer elevator located on the St. Lawrence River at Trois-Rivières, Quebec
- Les Grains Lac Supérieur Ltée, a grain trading company originating and distributing grain and by-products from Western Canada, Ontario, and Quebec to domestic and export markets.

And did you know...

The CWB already has a very close relationship with Upper Lakes:

- Adrian Measner, ex CEO of the CWB, became President and CEO of the Upper Lakes Grain Group (Soumat) in October 2007.
- Mission Terminal is the largest producer car administrator, most of which are for CWB grains. I've been told that the CWB ships 60% of its grain destined for Thunder Bay to Mission Terminal, even though it has only 10% of the capacity in the port. The CWB favours Mission so much, in fact, that Mission applied to the Ontario Provincial government for \$1 million to expand its capacity. (This seems quite ridiculous when you consider there is excess capacity in Thunder Bay already and the other terminals would gladly (and efficiently) handle more CWB grain if given the chance.)
- Soumat's grain trading company, Les Grains Lac Supérieur Ltée, includes CWB grains (red spring wheat (CWRS) and durum (CWAD) on their list of "products" they trade. However, they are not listed on the CWB's website as an Accredited Exporter. (So what are they doing for the CWB on CWRS and CWAD?)
- Soumat's transfer elevator in Trois Rivières handles CWB grains (among others). Before Adrian Measner became responsible for this elevator, it handled an average of 1.4% of all CWB exports going east (via Thunder Bay and/or transfer elevators). Under Mr. Measner's leadership, its handle of CWB grains has increased to an average of 7.7% of all CWB eastern exports. To put it in tonnage terms, prior to Mr. Measner's appointment, the terminal handled an average of 69,000 tonnes annually. Following his appointment, the average annual handle has risen to 469,000 tonnes – a 580% increase. (Is this good business or just a good "relationship"?)

Looking at everything that has gone on before, I have to ask: is partnering with Upper Lakes on these vessels just a coincidence, or is it part of a larger strategic plan for the CWB? One that they haven't shared with farmers.

Of course we don't know the answer. But we should. If this investment is based on such a good business case as Allan Oberg claims, why is the CWB using farmers' money without consultation? Why has so much business been diverted to Upper lakes' terminals (Mission and Trois Rivières) in the last couple of years? If it's commercially driven, then what has changed? There appears to be more going on here than just the purchase of two lakers; what is the strategic plan that encompasses all this?

The CWB has a dominant position in the grain industry with significant countervailing power over grain companies, railroads and laker operators. Used properly, this power can ensure competitive forces keep costs in line - and that's a good thing. However, what the CWB has done with Mission Terminal goes well beyond exerting market dominance to ensure competitive forces work to the farmers' benefit. Is the CWB doing the same sort of thing at Trois Rivières?

The idea is to get better service and rates through leverage of countervailing power; ignoring the other terminals in Thunder Bay to the point that Mission needs to expand demonstrates an unsettling disregard for the health of the industry that serves farmers. Taken to its ultimate conclusion, it drives competition away – and that's not good for farmers.

The CWB could have accomplished a similar financial result on behalf of farmers without using their money by negotiating an agreement much like they did with Mission Terminal. And it seems to work there. You know the old saying: “Why buy the cow.....”.

On a personal note - the only upside to this whole thing is that this will give me loads to write about for months to come. Stay tuned.

#50 Kevin Hursh Steps into the Laker Debate (Feb 15, 2011)

Ag commentator Kevin Hursh has defended the CWB’s decision to buy lakers with farmer’s money by saying that the CWB directors are elected to make decisions on behalf of producers.

Yes, to a degree they are. However, very few farmers – even some supporting the single desk – ever expected the board of directors to make the decision to take the CWB outside of its conventional role as grain marketer. Even fewer expected the directors to make the decision to use farmers’ money to buy something not required to market grain – without even asking. (You can argue you need transportation services to market grain; but, you don’t need to own them.)

Mr. Hursh suggests that the price tag of \$65 million “pales in comparison” to the money the CWB makes or loses in marketing decisions. His comments align with the CWB’s condescension that this is no big deal, since it represents only \$1.00/tonne. To one farmer I talked to, \$1.00/tonne over 4 years is equal to \$16,000 – money that he would rather see come his way because of a total crop failure last year.

Hursh also suggests that buying vessels should be acceptable since the CWB already owns a fleet of 3,400 railcars. He calls it a precedent but it’s not.

The situation back then was completely different – the fleet was made up of broken down boxcars and they weren’t going to last much longer. Somebody had to buy railcars because the railroads refused, since there was no money in hauling grain under the Crow. It was the Federal Government that bought the cars and made the CWB the owner.

Back then, nobody took farmers’ money to buy the cars, like the CWB is doing to buy the lakers. Also, railcars had to be bought by someone but nobody wanted to. That is not the situation with these lakers; remember, Algoma and Upper Lakes are buying 6 lakers themselves.

Mr. Hursh likens the purchase of these lakers with the CWB’s investment in computers or staff training. The difference he misses is that computers and training are required to sell grain – the CWB doesn’t NEED lakers to fulfill its mandate of selling grain.

But he misses an even more important point. Farmers are being forced to pay for these lakers but they will never own them. The CWB will own them, but farmers don’t own the CWB.

I guess in an ironic way this is proof that you can actually benefit from something without owning it.

Hursh really misses the message in the tea leaves when he suggests “The true, but unspoken reason for most of the opposition is probably the distaste for the CWB expanding its sphere of influence.”

Farmers are angry because the CWB is taking their money to spend it on something they don’t see as necessary and without being asked; they would rather invest in their own farm operations or their local communities – or pay bills. It’s like being forced to pay for a B-train even though you’ll never own it and you prefer to use custom haulers anyway.

As one farmer put it, “I don’t even let my kids spend my money. And I love them.”

I’m John De Pape

#51 Full Steam Ahead on the Laker Debate (Mar 1, 2011)

It’s been almost a month since the CWB announced its purchase of two lakers. And there’s still lots to talk about.

CWB Mandate

An argument by the CWB (and some journalists) is that it’s well within the CWB’s mandate to make these investments. But what is the CWB’s “mandate”? Dictionary definitions of “mandate” include two that fit here:

1. Authoritative order: an official command or instruction from an authority.
2. Support from electorate: the authority bestowed on a government or other organization by an electoral victory, effectively authorizing it to carry out the policies for which it campaigned.

“Authoritative order”

First, I think it’s safe to say that with the CWB, the “authority” is the CWB Act. Although the Act does not use the word “mandate” it does clearly present the purpose of the CWB:

“The Corporation is incorporated with the object of marketing in an orderly manner, in interprovincial and export trade, grain grown in Canada.” (underline emphasis is mine)

The Act also empowers the CWB to purchase “personal property”:

6. (1) The Corporation possesses the following powers: ...

(d) to acquire, hold and dispose of real and personal property, but the Corporation shall not acquire or dispose of any real property without the approval of the Governor in Council

So the CWB has the “power” to buy real and personal property, but it has never been made clear that this particular purchase is consistent with the mandate (object) of the CWB.

Is the purchase of lakers by the CWB necessary to fulfill its mandate of “marketing in an orderly manner?” Does owning these vessels contribute to orderly marketing?

“Support from electorate”

According to the second dictionary definition of mandate – that is, “support from electorate”, the CWB board is authorized to carry out policies for which its elected members campaigned. Not one elected director campaigned on the policy of purchasing assets with farmers’ money – not in the last election, nor in the one previous. Therefore, not one director has the “support from electorate” to buy anything using farmers’ money. By this definition, they do not have the mandate.

I checked the platforms of all sitting farmer-elected directors. Not one sitting farmer-elected director ran on a platform of making investments – of any kind.

The farmer-elected board members did not receive a mandate from their electorate to buy vessels.

Apparently, farmers don’t need to be consulted

Some have taken exception to the idea that farmers should be consulted. According to Laura Rance in the Manitoba Co-operator, “Boards of directors ... should not be expected to seek the approval of their shareholders ..., even ones requiring major investments.”

This doesn’t apply here. Farmer-elected board members have the obligation to receive a mandate from their electorate (farmers) and they didn’t. And Rance is kidding herself if she thinks farmers are “shareholders” of the CWB. Shareholders choose to invest their money in the organization and choose to sell their shares if they don’t agree with the direction of the organization. Last I checked, farmers couldn’t sell their “share” in the CWB.

Farmers should be consulted on decisions that take the organization in new directions.
Remember, farmers can’t opt out if they don’t agree.

Oberg’s Position

Allan Oberg, Chairman of the CWB board of directors, stated in an article “The CWB's mandate is to maximize the financial return to farmers from the marketing of their wheat and barley.”

There is no reference in the CWB Act to maximizing the financial return to farmers. And a review of CWB Annual Reports comes up empty as well. There is no way to connect the dots from “CWB mandate” to “maximize financial returns” to “owning lakers”.

No one closely observing the CWB would ever get the message that it has the mandate to buy lakers.

But it's such a great deal

The CWB using farmers' money to buy these lakers is like a married man using his wife's money (without asking) to buy her a new sports car and he thinks she should be OK with it because it was such a good deal. And then he's surprised when she wants a divorce.

If the CWB had the mandate to spend farmers' money on lakers (which they don't), there would be less of an argument here. Good deal or not.

And who's going to own these ships anyway?

According to the CWB's news release, "Prairie farmers will become owners of ships that move their wheat on the Great Lakes, under an agreement reached today between the Canadian Wheat Board (CWB) and shipping companies Algoma Central Corporation and Upper Lakes Group Inc."

Wrong. Although Prairie farmers will pay for the vessels, they will never own them. The CWB will own the vessels but farmers do not own the CWB.

Survey results

Shortly following the announcement of the purchase, I launched an open survey by email to Prairie farmers, asking the simple question: "Do you support the CWB's purchase of lakers as reported by the CWB on Feb 8th, 2011?"

I asked farmers to respond by return email, simply answering yes, no, or maybe (don't know). With well over 600 farmers responding so far, the results are:

NO	90.0%
YES	7.5%
DK	1.5%

Even self-identified single desk supporters are dead-set against the purchase of these lakers.

The resounding concern among farmers is the use of their money without their choice.

What if participation was voluntary?

What if the CWB allowed farmers to choose to invest? After all, that's what the big deal is about – choice. The CWB could offer the financing of this deal as a private placement to those farmers that support the idea and want to, and are able to, invest. These investors would then get a return on their investment in the form of interest. Once the purchase price is recouped through operating the vessels, all farmers would benefit in the ongoing operation of the vessels.

If the CWB asked for voluntary participation and farmers chose not to, should it go ahead with using farmers' money to purchase the lakers anyway?

The CWB Plebiscite

#69 When is a plebiscite not a plebiscite? (June 30, 2011)

When it's a survey.

Unless you're living under a rock, you've heard the arguments almost every day – the CWB Act requires a producer vote to make any changes to the CWB and not allowing farmers to vote in a plebiscite is taking away their democratic rights.

Take a close look at Section 47.1 of the Act:

Minister's obligation

47.1 The Minister shall not cause to be introduced in Parliament a bill that would exclude any kind, type, class or grade of wheat or barley, or wheat or barley produced in any area in Canada, from the provisions of Part IV, either in whole or in part, or generally, or for any period, or that would extend the application of Part III or Part IV or both Parts III and IV to any other grain, unless

- (a) the Minister has consulted with the board about the exclusion or extension; and
- (b) the producers of the grain have voted in favour of the exclusion or extension, the voting process having been determined by the Minister.

This says that if the Minister wanted to exclude any grain from the control of the CWB, there are things he must legally do, including provide a vote for producers. The CWB and its friends keep harping on this "requirement" for a vote. But they're either misinformed or misleading.

The Minister has made it clear; he is not excluding anything from the Act, he is not making a change to the Act, he is shutting down the Act completely. This is what governments do from time to time; they change the law. Nothing in the Act can supersede the government's authority to change the law.

Let's be clear; this "plebiscite" is nothing more than a survey. Not only is it not required, it doesn't even comply with the Act that it's relying on; according to Section 47.1 of the Act, the voting process has to be determined by the Minister. You can be certain that he is not determining anything here except that this plebiscite is irrelevant.

Besides that, there are some serious problems with the CWB's own plebiscite:

1. The voter's list will be defined by the CWB. Even with the CWB elections, the voters list is fraught with problems. This one will be no different. If you're not a CWB supporter, you may not even be on the list.

2. The CWB has said it will be a vote of wheat and barley producers only. All crops suffer from the single desk, and therefore, if you must have a vote, all producers should have a voice – not just wheat and barley producers. If you don't support the CWB and show it by what you choose to grow, there's a good chance you're not on the list.
3. The questions presented by the CWB do not even contemplate a role for a voluntary CWB. The CWB's own surveys over the years have shown that many, many producers believe there is a role for a voluntary CWB. Excluding this option disenfranchises all those farmers that would look forward to a voluntary CWB. Because some of the board members don't believe in a voluntary CWB, those producers that do, don't get a voice.

Fundamentally, the whole idea is counter intuitive. What the CWB is saying is the majority of farmers should decide for everyone. Even if 90% of farmers want the single desk, it makes no sense that they should dictate how the other 10% manage their affairs.

Bottom line: the CWB's "plebiscite" is nothing more than a survey, is not binding and fraught with bias. It is a complete and utter waste of time and money.

If you like what Minister Ritz is doing, if you are looking forward to the open market – with or without a voluntary CWB – then show your support of an open market by NOT voting in the CWB "plebiscite" (survey). In the infamous words of Allen Oberg, "Why bother?"

The most powerful statement a producer can make is to say nothing at all.

#70 CWB Producer Surveys vs the CWB Plebiscite (July 5, 2011)

The CWB conducts producer surveys twice a year. The most recent one was conducted between April 1st and April 15th and released June 29, 2011. The next one is planned for the fall. They ask loads of questions. The ones I'm interested in are those that relate to the question of marketing freedom.

On the question whether you want the status quo (single desk) or the open market (presumably without the CWB in any form) for wheat, 59% of farmers say they want the status quo.

When the question offers a third option – the "dual market", the support for the status quo drops to 41%; the dual market option picks up 45% approval – more prefer the dual market idea to the status quo. (The rest want an open market without the CWB at all.)

On barley, farmers faced with just two options – status quo or open market – showed only 37% support the status quo. (It's been this low for years; makes you wonder why the CWB has never listened to farmers and given up barley. But that's an argument for another day.)

When the question offers a third option – the "dual market" – the support for the status quo drops to 29%; the dual market option picks up 40% approval. (The rest don't want the CWB involved at all.)

The CWB has constantly and consistently said that the concept of a “dual market” is impossible. Under the “myths” section of its website, the CWB states: “The dual market is a myth. There either is or is not a single desk.” According to Allen Oberg, “the CWB is the single desk”. No single desk – no CWB.

I believe there are many things the CWB could be doing in an open market, if it only had the vision to see past its single desk. It seems that close to half the farmers out there agree.

I think farmers understand the “dual market” idea – the idea that the CWB could perform services even without the single desk. Restated, the three optional answers to the question are (1) the status quo (no change) – “solely CWB”; (2) a voluntary CWB operating in an open market - the dreaded “dual marketing”; and (3) an open market with no CWB in any form – the “open market”.

Much of the 59% and 37% support for the single desk on wheat and barley, respectively, is soft support. It’s clear that many of them would have opted for a voluntary CWB – if given the choice.

There are two points to be made here:

1. Assuming the CWB surveys over the years have been conducted in a fair and reasonable manner, and the “plebiscite” is also fair, there is no reason to believe that the results will be any different. Why do we need a “plebiscite” that is really just another survey?
2. The CWB’s own surveys have shown the majority of farmers want a choice including a different CWB – not the status quo. You can be sure the CWB’s plebiscite won’t reflect that.

None of this really matters. Not the surveys, not the plebiscite. Voting on how someone conducts his personal business is not the same as voting in an election. One is a vote on how to run the affairs of an organization; the other is a vote on how to run your affairs.

This plebiscite is one really big red herring. It’s a stall tactic. Why else engage in a big, expensive exercise that will not mean anything in the grand scheme of things.

The CWB is conducting the “plebiscite” to draw attention to what they are saying is the government’s rejection of farmers’ “democratic rights”. They’re hoping people will feel badly for the poor farmer and put pressure on the government to back down.

They’re saying farmers need to be able to decide for themselves (by a vote) how their grain is marketed (not government). How ironic. Those that want marketing freedom from the CWB have been saying that is all they’ve ever wanted – the freedom to decide for themselves.

You don’t make decisions for yourself by a vote; that’s how you make decisions for others.

Quote of the day:

I wish there was a way of getting the message out to people... IF 99% of farmers voted in favour of keeping the single desk, what right does that give those people to say where and who the rest of the 1% must sell their wheat and barley to or through!!! This has been driving me nuts for years!

JM

#71 Top Ten Reasons to Keep the CWB (July 6, 2011)

10. Pooling. It's an equitable distribution of wealth – some win, some lose. Get over it.
9. Equity. Everyone gets the same price. It's lower than you'd get otherwise – but at least everyone gets the same. Would hate to see someone get ahead.
8. Monopoly / single desk. Everyone welcome; you don't even need to sign up. "You can check out any time you like, but you can never leave."
7. Fewer processors ruining the prairie view. If I wanted all the noise, dust and traffic, I'd move to the city. This way, my kid has to move to the city to find work. Great – gets him out of my hair.
6. Variety registration. The CWB makes sure farmers can't grow those pesky US varieties of wheat. Who needs fusarium resistance anyway?
5. Premiums. Let's see – premiums of \$6.65/tonne and marketing costs of \$10.40/tonne. I guess they make it up in volume.
4. Cash flow. If you ask for more, you're just being selfish.
3. Protection from nasty multi-nationals. Don't you just hate it that you're forced to deal with them on canola - just to pay your wheat and durum bills?
2. Discretionary Trading. Where else could you lose close to \$350 million speculating and still keep your job? (2007-08)

And the number one reason for keeping the CWB:

1. That Darn Plebiscite. My neighbours decided for me.

#73 If you pay for the CWB, you get a vote? Then I want my ballot (July 8, 2011)

In the CWB's new document, "Dismantling the Canadian Wheat Board: what's at stake", it talks about how CWB operations are made possible by federal government guarantees:

"The guarantees underwrite initial payments for farmers and the organization's financial borrowings. The CWB and its investors have never had to call upon the borrowing guarantee. The guarantee on initial payments is rarely used. Taxpayers do not fund the CWB."

So, the government guarantee (taxpayers) covers deficits in the pool accounts that occur when the CWB miscalculates and ends up paying farmers more than what was generated in sales.

In a recent letter to farmers, CWB Chairman Allen Oberg explained why he and others on the CWB board believe that farmers should decide on the future of the CWB:

"...we pay for the CWB, we run it through the farmer-controlled board of directors, and we should decide its future."

Put another way, “taxpayers don’t fund the CWB”, and those that “pay” for the CWB, get to vote in the CWB’s survey that they like to call a plebiscite.

BUT, did you know...

Since 1968, the CWB has had a total of 12 individual pool deficits totalling \$1.349 BILLION.

Let me say it again, with a different spin:

Canadian taxpayers from Newfoundland to BC have paid \$1.349 BILLION to the Canadian Wheat Board because it made a few mistakes in pricing to farmers.

Still want to say taxpayers don't fund the CWB? Still want to say only farmers pay for the CWB?

#75 Top Ten Reasons Why the CWB Plebiscite Will Prove Nothing (July 22, 2011)

10. Ballots have been sent to deceased people. The problem starts with permit books as the basis of the CWB voters list. At times, permit books of deceased people are kept open until all accounts are settled. I doubt there is an efficient means of vetting these out of the voting process, so they still go out.

I know an open market supporter who received a ballot for his deceased father. Since he won’t be voting at all, you can be certain he won’t be voting for his father. On the other hand, a single desk supporter, anxious to show support for the single desk, will more than likely submit a vote on his deceased father’s behalf as well as his own.

9. Some people get multiple ballots. I heard one story of a couple who farm 1,000 acres received a total of 6 ballots. For the same reason as above, single desk supporters will vote with every ballot they can, and open marketers that don’t see the point, won’t vote with any ballot, regardless of how many they received.

8. Some don’t get a ballot at all. MNP says producers that didn’t get a ballot can get one by: Securing confirmation from the 2011 CWB Plebiscite Coordinator that they made deliveries of wheat or barley to the CWB in 2006-07, 2007-08 or 2008-09, but did not have an active 2009-10 or 2010-11 permit book, or

Completing an “Application to Vote in the 2011 CWB Producer Plebiscite”. Producers must provide support to confirm their eligibility, such as:

- a statutory declaration witnessed by either a Commissioner for Oaths or a Notary Public, or
- a copy of a grain delivery receipt or a cash purchase ticket from a licensed elevator or grain dealer that provides evidence of production in the 2006-07, 2007-08, 2008-09, 2009-10 or 2010-11 crop years.

Single desk supporters deliver to the CWB and likely received a ballot. If you haven’t been delivering to the CWB, you probably don’t support it and would need to apply for a ballot. But

those that don't support the CWB aren't likely to go to all this trouble just for a ballot in a meaningless plebiscite. This leads to more single deskers voting than open marketers.

7. Many open market producers are not going to vote at all. Mostly because it is meaningless and will not accomplish anything. This again means single desk supporters are more likely to vote than open marketers.

6. Some producers have said they will be sending their ballots to Ag Minister Ritz or Prime Minister Harper. Again, you can be sure that these won't be single desk supporters.

5. The question doesn't consider a voluntary CWB. It's clear to anybody not in a coma that the government is planning an open market and is willing to support a "voluntary CWB". To its credit, the CWB is now exploring options for a "voluntary CWB". On top of that, the CWB's own producer surveys show the majority of farmers prefer the "voluntary CWB" option (dual market).

But the "voluntary CWB" option is conspicuous by its absence on the ballot. The CWB has failed to ask the question that will allow farmers to show support of their preferred market structure. It's like Tim Horton's asking if you prefer tea or milk, then proclaiming that, based on its survey, most people prefer tea. ("Well, I drink coffee, but if that's the question, I guess I'll say tea.") Just imagine what would happen if it then dropped coffee and sold only tea!

4. A vote on barley? Really?! The CWB producer survey shows the majority of farmers reject the single desk on barley – by a wide margin. Allen Oberg says the CWB board will respect the results of the plebiscite; I just wonder why, when they haven't respected the results of more than ten years of surveys.

3. The CWB message is misleading. Consider this statement from the CWB website:

"Producers will hold their own plebiscite on the future of the CWB..."

The plebiscite is not on the future of the CWB. Saying so creates the false impression that it's important to participate if you support the CWB.

2. Only wheat producers vote on wheat and only barley produces vote on barley. This disenfranchises all those producers who stopped growing wheat (or barley) because they don't support the CWB. The CWB's impact is felt by all producers, regardless of what they grow – CWB or non-CWB. If you're going to give farmers a vote, all producers deserve a vote.

1. This is a vote on personal property. If you support the idea of the mandatory single desk you will see no problem with voting – because you have no problem with 60% of the producers out there telling the other 40% how to run their business. But if you don't support the idea of the single desk, you may very well find the whole process of others deciding on how you manage your own affairs, as repugnant. If so, you're not likely going to vote.

No matter how you slice it, whether intentional or not, this plebiscite is not unbiased and clearly favours the single desk. Regardless that the results undoubtedly will show the majority of ballots show support for the single desk, it will not be a true reflection of the views of producers. With so many problems with it, it couldn't possibly.

So much is pointing to rejection of the process by the open market supporters, that we should expect participation to be low. If so, regardless of the proportion voting in favour of the single desk, this alone should be seen as a rejection of the single desk. But will the CWB see it that way?

This plebiscite is so fatally flawed its results will prove nothing.

#80 How to Vote for a Voluntary CWB (Aug 13, 2011)

If you look at the CWB website, it will tell you – to the second – how much time you have left to submit your plebiscite ballot. As I write this it says 11 days, 11 hours, 39 minutes and 12 seconds. So those farmers that have yet to decide what to do, there's still time.

The plebiscite question is quite straight forward - pick A or B:

- A) I wish to maintain the ability to market all wheat, with the continuing exception of feed wheat sold domestically, through the CWB single-desk system.
- B) I wish to remove the single-desk marketing system from the CWB and sell all wheat through an open market system.

There are the same options on barley.

Unfortunately, these two options don't explicitly include a voluntary CWB option. Even so, the CWB's own annual producer survey includes a question that offers a voluntary CWB as an option. In the most recent survey released this spring, the CWB asked the question (with results in brackets):

"If you had to choose between three different approaches to marketing wheat, which of the following would you prefer?"

- A Solely CWB (40%)
- B Dual marketing (45%)
- C Open market (13%)

On barley, the results were similar:

"If you had to choose between three different approaches to marketing barley, which of the following would you prefer?"

- A Solely CWB (29%)
- B Dual marketing (40%)
- C Open market (22%)

Anyone I've talked to about this understands "dual marketing" means you can sell your grain to anyone you like, including to the CWB. It's obvious that this means that the CWB would be an option - a voluntary option. It does not mean – as the CWB suggests – that the CWB has its single desk in a completely open market. I agree with them when they say that that's impossible (quite ridiculous to even suggest it, actually); but an open market with a voluntary CWB is clearly

possible – and that is what most people understand to be a “dual market”, regardless of what the CWB says.

The CWB survey shows 45% of farmers support a dual market in wheat and 40% in barley; in other words, they support a voluntary CWB. These are not insignificant numbers. A very large proportion of farmers support the removal of the single desk if the CWB (or whatever it becomes) is voluntary. This compares with 40% and 29% for wheat and barley respectively supporting the single desk when a voluntary CWB is an option. (Those supporting Option C, an open market, (13% and 22% respectively) also support the removal of the single desk. All in all, when presented with reasonable and realistic options, around 60% opt for the removal of the single desk.)

So what gives with the plebiscite question that doesn't give that option, even though the CWB knows that so many farmers would support it? It's simple; those running the CWB don't like the idea of a voluntary CWB and are doing everything they can to discredit the idea. But since it's pretty clear that that is the direction we are going, it would make sense to gauge farmer's real interest.

How do I vote if I support a voluntary CWB?

Although I've said that it's a waste of time because it's non-binding, I have received emails and calls from people saying "I really feel like I should vote – but I don't like the options – CWB or no CWB."

If you really think you should vote but prefer to see a "voluntary CWB", vote for the only one of the two options that would allow that; a voluntary CWB fits in an open market because it would not have a single desk.

So if you feel compelled to vote, choose:

B I wish to remove the single-desk marketing system from the CWB and sell all wheat (and barley) through an open market system.

You still have 11 days – or thereabouts.

Of course you could still not vote or send your ballot to your MP or to Minister Ritz. There are many ways to express your position against the single desk.

#81 Now the Pollster has it Dead Wrong (Aug 16, 2011)

On Aug 13th, I issued a commentary I called “How to vote for a voluntary CWB”. It now sits on my blog where anybody can offer their own comments.

This particular piece attracted the attention of none other than David Herle (or someone saying he's David Herle), the Principal Partner of the Gandalf Group – the firm hired by the CWB to conduct its producer surveys. And it's my comments about the survey results that caught his attention.

The gist of my comment was that the recent CWB producer survey shows 45% of farmers support a dual market in wheat (a voluntary CWB). This compares with 40% supporting the single desk on the same question. Those supporting an open market, (13%) obviously also support the removal of the single desk. All told, around 60% opt for the removal of the single desk in one form or another.

Mr. Herle's comment, in part, (which is also on my blog) is as follows:

"The CWB has always maintained that a dual market is a logical impossibility. In that regard, the results you cite are interesting in that they point out that only 13% of farmers want the position you advocate - a wheat market without the CWB as they know it."

The CWB – and therefore Mr. Herle – is wrong. The CWB is not listening to farmers – or anyone who opposes the single desk, for that matter. And Mr. Herle, taking the CWB's view as irrefutable fact is not being objective, which is unfortunate for a pollster.

Mr. Herle states the CWB position that a "dual market is a logical impossibility" and then postulates on that basis that only 13% (those choosing the "open market") want "a wheat market without the CWB as they know it". The only way he could come to that conclusion is to assume that, as ludicrous as it sounds, the CWB maintains the single desk in a dual market. Is this what the CWB told him was the "logical impossibility?"

If Mr. Herle's understanding of the CWB's "logical impossibility" of a dual market is one where the single desk competes in an open market, then he would get no argument from me - that would indeed be impossible. But, no one is talking about that "logical impossibility".

Let's put this one behind us once and for all – a dual market means the next generation CWB operates without the single desk or monopoly. How it operates, and what value it offers, has yet to be determined. But we know for certain – it won't have the single desk in a dual market.

In the survey question, the only response where the CWB is assumed to be "as we know it" is Answer A – "Solely CWB", logging in with 40% of the vote. The other two answers assume either a different CWB or no CWB at all; either way, no single desk. Any way you look at it, these two options are votes for, as Herle put it, "a wheat market without the CWB as they know it".

Perhaps I need to be clearer.

Answer C - the "open market" - is simple enough. It's just an open market (no CWB).

Answer B – the dual market – is where farmers could sell to anyone, including the CWB if they chose (which makes it voluntary, not mandatory as it is now). This means the CWB is not as we know it, because it wouldn't have the single desk. This is not your father's wheat board.

Mr. Herle's own survey shows farmers understood, why doesn't he? In the survey, those that said they support dual marketing for wheat were also asked:

"Why do you support dual marketing instead of the single desk (for wheat marketing)?"

Responses (with my comments in brackets):

- 59% said “more options/choice to sell independently or to the CWB”. (You see, farmers get it. They understand that in a dual market, the CWB would operate without a monopoly; not “the CWB as they know it.”)
- 21% said “competition is good”. (Again – they get it. You can’t have competition when one player has a monopoly.)
- 13% said “could lead to higher prices / better market”. (How would that happen? Perhaps through competition – no monopoly.)
- 11% said “like the freedom / sell to whom I want”. (Need I say it?)
- 9 % said “eliminates any form of a monopoly”. (What can I say?)
- 8% said “forces the CWB to be accountable” (I assume through competition, the CWB would need to provide value - with no monopoly.)

How is it that Mr. Herle cannot see that a dual market means a different CWB when his own survey shows that farmers understand it? Is he telling the 45% that voted for the dual market that they don’t understand what a dual market is (and the CWB does)?

What is a supposedly independent pollster doing taking what appears to be a biased position on the results of his own survey? Especially when his conclusion requires that he accept his client’s narrow and “logically impossible” view of one option.

Why do I get the impression that Mr. Herle is taking sides on this debate and would really like us to support the CWB and its fight to keep the single desk?

Bottom line- farmers understand a dual market means no single desk. And more than half would support a market like that.

#86 Can the CWB Honour the Plebiscite Results? (Sep 1, 2011)

Something just doesn't add up.

On the one hand, Allen Oberg, Chairman of the CWB board, has said that it is the fiduciary responsibility of the CWB board of directors to act in the interest of the current CWB in its current state. At a CWB meeting in Camrose on Aug 16th, Mr. Oberg stated:

“On the task force that Deputy Minister John Knubley has commissioned; originally, we were asked to co-chair that task force. That’s something we didn’t think was appropriate. ...”

As directors, whether elected or appointed, our fiduciary responsibility is to the current organization. And we must always act in this organization’s best interests, and as the single desk is the Canadian Wheat Board’s most valuable asset, it’s our duty to protect that asset.”

And it’s not just Mr. Oberg. At the CWB meeting in Medicine Hat, Jeff Nielsen, CWB director – and an open market supporter – declined to express his opinion, saying he was bound by his

fiduciary duty as board member not to do anything that would damage the current CWB's interests.

Therefore, they're saying they can't work on the development of the CWB's replacement organization, or even the transition to that new organization.

On the other hand, Mr. Oberg has said many times that the CWB board has agreed to abide by the results of the plebiscite. In a recent letter to the editor (probably in many papers, but I found it in the Winkler Times) Mr. Oberg says:

“The CWB's board of directors will respect the results of this plebiscite. If a majority of farmers wants to end the single desk for barley or wheat, we will actively support the transition to an open market.”

It's not clear what he means by “actively support” but it certainly sounds like it means they will work with the government with the transition from the current CWB and in developing its successor.

As far as I can tell, the results of a non-binding plebiscite can't remove the fiduciary responsibility of the board. If it truly is the board's legal responsibility to act in the current CWB's best interests before the results of a non-binding plebiscite, it certainly is afterward as well. They can't change horses mid-stream and arbitrarily decide to dismantle the CWB. Don't forget, this plebiscite is non-binding because it is non-compliant with the CWB Act. Therefore, it is an arbitrary action and the board's reaction to it will also be arbitrary.

Even so, let's go with it for a minute. This whole story is of particular interest to the barley market. If the plebiscite result on barley is anything like the CWB's own surveys (and why wouldn't it be?), then the CWB board will be facing a situation where, to be true to their word, they will have to give up the fight on barley and “actively support the transition to an open market”.

It also quite likely that the plebiscite results will show a majority of farmers voting to keep the CWB intact on wheat. So what does the CWB do? Do they “actively support the transition to an open market” in barley and yet “spend all available resources” to keep and protect the single desk on wheat?

Even board member Jeff Nielsen, when asked in an interview with Shaun Haney of Real Agriculture, couldn't say exactly what the board will do in that situation. Mr. Nielsen didn't say that the board wouldn't follow through on barley; rather, he said that the CWB survey results have consistently shown a majority of farmers want marketing freedom on barley, and in light of the fact the board has never done anything to satisfy them, to ask how can we be confident they will this time, is “a good question”. To be fair, there are a number of ways the board can respond to the plebiscite and Mr. Nielsen can't be expected to answer for the rest of the board, particularly when you consider he is among the minority on the subject.

I can't say I agree with this fight for survival in any case; I certainly don't agree with the plebiscite. Even if you ignore the plebiscite as an inconsequential and arbitrary act, the right thing to do is to

give up barley (12 years of surveys should stand for something) and to make the case early and clearly. On Sept 9th, immediately following the public release of the plebiscite results, they could announce that effective immediately, zero-cost export licences on barley will be made available to anyone who requests one.

If the plebiscite supports an open market on barley, keeping barley under the single desk until it is pried from the CWB's hands at end of the crop year will do nothing to support their cause. I suspect they will be looking for any support they can get as they fight for their wheat life. The don't need barley to keep the CWB and keeping barley will not win any friends.

But if the plebiscite results support the single desk on barley, we'll know just how badly flawed the plebiscite really was.

The Fight to Keep the Single Desk

#66 Manitoba Government Steps in It (June 15, 2011)

Since Manitoba Premier Greg Selinger wants to get in on the Canadian Wheat Board debate, paying for an ad campaign with public money, I sincerely hope he looks at the issue with his eyes wide open and reviews all the facts, not just the rhetoric from the CWB. So far, it seems he's not paying attention. Consider these facts:

- In 2002-03, domestic maltsters in Alberta imported malt barley from Denmark because of price signal failure by the CWB, costing Canadian farmers an estimated \$40 million.
- In 2007-08, the CWB lost about \$90 million in the Producer Pricing Options due to inappropriate hedging in addition to losing \$226 million in the wheat pool account due to "discretionary trading" – what most people call speculating.
- In 2009-10 the CWB accepted only 52% of the durum crop. Facing poor delivery opportunities and low Initial Payments, farmers began selling high quality milling durum into the domestic feed market. Cost to farmers: many millions.
- In 2010-11, the CWB initiated a feed barley export program that hid much of the export value from farmers. Cost to farmers: in the hundreds of millions.
- In 2008-09, Western Canadian average "net-backs" (handling, cleaning, CWB expenses, etc - excluding freight) were reported to be \$28.91/tonne on wheat and \$5.65/tonne on canola. (The reason canola is lower – competition and no CWB costs.) Even a \$20/ tonne difference is worth about \$400 million annually.
- Every year, non-CWB crops are sold in the fall to pay for input costs, including those for CWB crops. It has been estimated that canola farmers receive in excess of \$60 million LESS annually due to this excess selling pressure. Include all non-CWB crops, and the cost to farmers is closer to \$100 million annually.
- Add to that the cost of additional on farm storage required for CWB crops that can't be delivered, and the cost is even higher.
- CWB pool prices net to farmers are consistently below crop year average farmgate prices in the US northern plains. Considering the last 7 years, the pool returns on spring wheat and durum have consistently been below the lowest US street price. Applied to the whole pool, this totals over \$3 billion in revenue below what average US prices would have provided.

PWC Study

In 2005 Price Waterhouse Coopers was commissioned by the CWB to study the impact of the CWB on the economies of Winnipeg, Manitoba and Western Canada. Its report stated that the

CWB contributed “a \$1.6 billion annual gross output impact on Canada’s economy” and an \$86 million impact on the City of Winnipeg.

The study has some serious flaws.

First, the study included “premiums” as reported to it by the CWB. As much public data and information has refuted the idea of the CWB earning premiums, this part of the study is highly suspect as well.

The study included in its analysis, economic activity that would take place even without the CWB. Looking at the CWB’s “direct costs” – things like freight, storage payments, terminal handling, inventory financing, and “other grain purchases” – PWC estimated over \$800 million in “gross output impacts”. I don’t dispute the calculations, but PWC failed to recognize that all this activity would happen without the CWB. About 20 million tonnes of grain goes through the CWB annually; that grain will get shipped and handled even without the CWB. As a result, this study is a gross exaggeration of the CWB’s impact on the economy.

Rather than give the CWB credit, it would be preferable for the authors to simply say thank you to all Western Canadian farmers.

According to PWC, the CWB is a “very large user of commodity hedging and foreign exchange hedging instruments offered through major exchanges and highly rated financial institutions”. What PWC – and therefore the CWB and Premier Selinger – fail to note is that very little (if any) of this activity takes place in Winnipeg. The CWB has chosen to favour hedging in US markets as opposed to the Winnipeg Commodity Exchange (now ICE Futures). In fact, history shows that it was the establishment of the CWB that started the decline of the grain trade in Winnipeg. Where Winnipeg was once host to the largest wheat market in the world – Chicago of the north, some called it – once the CWB came to town, the multitude of grain-related businesses in Winnipeg shrivelled in size and importance. Just think of the economic activity of all those companies that no longer exist or left town. The idea of Winnipeg losing over 400 CWB jobs and possibly many other jobs with the loss of the single desk is nothing more than fear-mongering; logic suggests the quite the opposite impact.

Saying that the CWB is responsible for all the economic activity reported in the PWC study grossly exaggerates the impact of the CWB and insults the contribution made by Manitoba’s farmers and the remaining supporting industries.

Are you saying farmers should vote on the future of Winnipeg?

Selinger argues that the CWB should be preserved because of its alleged importance to the Winnipeg and Manitoba economies. But then he argues that farmers should get to vote on the future of the CWB – including farmers in Alberta and Saskatchewan. Perhaps he doesn’t realize it, but what he’s really saying is that the fate of Winnipeg and Manitoba should be left up to Western Canadian farmers, of which 80% live outside of Manitoba.

Let's face it. The economic impact of the CWB on Winnipeg, even if they were right (which they're not) is an absurd argument in support of a farmer vote. Particularly when most of the farmers that would be voting live outside the province.

What Selinger should be looking at protecting and supporting is the health of one of the largest economic engines in Manitoba – agriculture. His focus on the CWB and a farmer vote indicates a lack of understanding and leadership. Not knowing the facts is inexcusable.

#79 The CWB Alliance has it Dead Wrong (Aug 13, 2011)

Many of you know by now that the Canadian Wheat Board Alliance has produced and released a new YouTube video about the CWB plebiscite. It's a very well done, professional music video with the lyrics of the song written just for the CWB's survey / plebiscite-wannabe. And it's those lyrics with which I have an issue.

The song is about the plebiscite being farmers' last chance to have their say. For the Alliance and what they stand for, this is a not at all unexpected.

But it refers to a "tide of evil that is sweeping 'cross our land". It calls those in Ottawa "bandits" and it calls "strangers that want to mess" with the CWB, "thievin' bastards that can "go to hell".

"A tide of evil"? Really?!

Bandits and bastards?! You cannot be serious.

"Go to hell"?! It's pretty hard to respect someone who shows so little respect for others they don't even know - just based on a difference of opinion.

And here's the difference of opinion:

The Alliance believes in the single desk but doesn't think they need to rely on real facts to support their view. They are so blinded by their passion for the idea of single desk market power that they refuse to acknowledge facts that refute their position; instead, like the NFU, to support their position, they use unsubstantiated numbers like \$1.5 billion in annual benefit from the CWB, based on flawed analysis. I've seen the detail and it is fraught with errors and misconceptions.

My position - as a "thievin' bastard" - is that sound decisions should be based on facts, not passion. If there was true value in the single desk, it would show up in real data, but it doesn't. And those of us in the marketing freedom camp believe that this is fundamentally a personal property issue; farmers should not have their business decisions made by other farmers.

To give an idea of how wide this chasm between views is, consider the time I told a CWB supporter the fact that the CWB's reported marketing costs are higher than the premiums they report (for a net cost). His response; "I don't believe you." I give facts provided by the CWB itself and he doesn't believe it, I can only assume because it doesn't support what he wants desperately to be true.

Back to the video; I believe in artistic license as much as anyone but just like I tell my kids, if you can find a way to make a point powerfully without being disrespectful, you gain more credibility. I'm sure they really don't care what I think, but from my perspective, with that video, the Alliance just lost a whole dose of credibility.

And ironically, this video came out on the heels of Allen Oberg's recent blog where he says the debate is getting strident and we should "keep the lines of communication open" and "keep it real and keep it civil."

Oberg has it right. The Alliance has it dead wrong.

#82 Spending Other People's Money (Aug 17, 2011)

It seems that two factors involved with the removal of the CWB single desk are on a collision course.

I'm hearing more and more from producers who are saying they plan on storing this year's wheat crop until they can sell it without going through the CWB. One said he plans on contracting his 2011 crop as soon as he can for delivery in August 2012. Others are saying they will only sell wheat for feed or ethanol (around the CWB). Clearly most producers can't store grain for a year - they need the cash flow - but I know that some can, and likely will.

Also, the board of directors of the CWB has made it clear that they will use all resources at their disposal to fight to keep the single desk. Basically, that means money in the pool accounts or the Contingency Fund, and they don't seem to be shy about spending it on the plebiscite, the conference call with producers, the advertising campaign, and the seven producer rallies (so far).

On his blog, about the plebiscite, Allen Oberg has said:

"We would ask the federal government to also respect the plebiscite results - if they do, there really isn't a question of spending any additional funds."

I think what he's saying is if the plebiscite results show support for the single desk (which it is skewed to do) and the federal government ignores the results (which they have said they will), then the CWB will continue to spend producers' money fighting it. (Probably best to count on it.)

Now put these two issues together; if the pools are smaller due to some producers boycotting them, those remaining in the pool will each be burdened with an even greater share of the growing cost of this campaign.

This could be considered by some to be appropriate since CWB supporters will remain in the pool and pay for their portion of the campaign based on their deliveries to the pool. But, many who don't support the CWB, the single desk, or the campaign, will have no choice but to deliver to the CWB and will have no choice but to pay for a share of the campaign that is completely contrary to their interests. The smaller the pool and the longer the campaign, the more each producer in the pool will pay.

The CWB is using money from all producers delivering to the CWB whether they support the single desk or not; whether they support the “save the single desk” campaign or not. This is true whether producers hold back this year’s crop or not. How can the CWB logically – or morally – take money from producers for a campaign to undermine their interests, knowing full well that they would never agree to it if they were asked?

It reminds me of that old Bill Cosby stand-up routine where he told the story of when he would get into trouble and his father would say, “Go get me your belt so I can beat you.” That was funny; this isn’t.

Allen Oberg has said on his blog (aimed at Minister Ritz):

“Maybe it is time to move beyond the sound bites and start listening to farmers – all farmers, including those who have different views...”

This is hypocrisy at its finest. Mr. Oberg, as representative of the CWB board of directors should take his own advice. The CWB needs to stop playing politics with the bottom lines of producers that have “a different view” than eight of the board of directors and don’t support its efforts, whether marketing efforts or quasi -political “save the single desk” efforts.

A good start would be to allow producers to decide whether they want to pay for the campaign.

It would be a very easy task for the CWB to allow farmers to indicate that they either approve of the campaign and wish to contribute to it, or that the campaign is fighting against their interests and therefore they don’t want to contribute to it. At the end of the year, the CWB will know the damage to the pool accounts from the campaign and, those that chose to support it could have their fair share of the cost apportioned to their final payment. Those that didn’t support it would have their final payment left intact without the extra deduction for the campaign.

Alternatively, the CWB could leave the pool accounts alone and use only money in the Contingency Fund (which they say isn't producers' money. I disagree.) That would be a tough one though, since they seem to see the Contingency Fund as the nest egg for the “New Generation CWB”, the organization they are fighting to avoid.

Either way - allowing producers to opt out of paying for the campaign, or using Contingency Fund money - seems fair to me. If the CWB forces all producers to finance the campaign, not only is it hypocritical, it is a blatant abuse of power.

#83 Any Means to an End (Aug 18, 2011)

The “save the single desk” campaign by the CWB is all about changing minds. Not just producers’ minds – but the minds of the general public. CWB directors in favour of retaining the single desk would undoubtedly like to get as many people from all walks of life to believe that the producer isn’t the only one with something to lose. I’ve already heard calls to write to your MP and tell him/her how you support the CWB - and not the government - on this issue. The hope is that if

Conservative MPs get enough grief from their electorate, they will pressure Prime Minister Harper to slow down, or better yet, stop altogether.

So it was no surprise to hear Allen Oberg, representing the board of directors of the CWB, on a call-in show in Regina (620 CKRM) answering questions from both producers and city-folk. But the following exchange blew me away.

Kate (caller): I'm wondering if the wheat board goes, is there any guarantee all that good quality Canadian grain is going to be available for me when I'm buying flour, and pasta and all that sort of stuff, or is it just going to be grain sourced from anywhere that's maybe not that great a quality?

Allen Oberg: Well, that's certainly a concern that has been raised. ... I think that in an open system, companies will be looking to source grain from ... any source and put that to any destination. So that is a concern, that our quality system and that reputation that's taken years to build up and maintain, whether that will be preserved.

.... There's no doubt that the US produces far more wheat than we do here in Canada, but when we're talking a high quality production – number one and two CWRS that market is a lot smaller and we have customers that specifically request that quality and are willing to pay top dollar for it.

Jim Smalley (host): Kate, you're the key part because you're the consumer and you want that high quality wheat which is what Canada, and particularly Western Canada, produces. It provides a beautiful loaf of bread, unsurpassed in the world. So I hope, Kate, you'll continue to buy prairie grain.

Kate: Oh, I will. Thanks.

Allen: And I hope it's still available.

Does Mr. Oberg really believe that high quality wheat won't be available in Canada without the single desk? Or does he just want the likes of Kate to think that?

I chatted with my contact at a major baker in Canada and asked him what he thought about Oberg's comments. He said they get the quality they order from the millers they buy flour from regardless of whether they are buying flour from US wheat for their US operations, or flour from Canadian wheat for their Canadian operations. (And yes, sometimes they buy flour for their Canadian production that is made with US wheat.) In other words, the CWB is not a factor when it comes to quality.

But I think most people knew that already.

Mr. Oberg, representing the CWB board, has started down a dangerous path, saying just about anything to sell people on the virtues of the CWB – or to vilify the open market.

In his recent blog (Aug 15th), Allen Oberg wrote about what he calls a “Rural Myth”:

“The dual market is a western Canadian rural myth. It doesn’t exist anywhere in the world and it won’t exist here. A single desk is an all or nothing deal, and I feel like it is very important that we are honest about that.”

Yes, let’s be honest. I agree that “a single desk is an all or nothing deal”. But what we’re talking about is a “new generation” CWB without the single desk, a marketing agency offering unique value and services; most likely pooling. A while back I wrote about how voluntary pools work and gave the Viterra bean pool in southern Alberta as an example. Since then, I have been reminded that there are others in Canada successfully offering voluntary pools: Ontario Wheat Producers’ Marketing Board, Ontario Bean Producers’ Marketing Board, and PEI Elevators Corp. It would surely make sense for the CWB to contact these groups to see how they do it before Mr. Oberg says they can’t exist.

The indiscretions don’t stop there. The CWB paints grain companies with a particularly harsh brush. Time and again the grain companies – particularly the larger ones – are vilified as the enemy, just waiting to take advantage of the poor hapless farmer.

The CWB tries to get away with portraying big grain companies as nameless, faceless companies that will drive the price down so they can make more and farmers make less. The people that work at the local elevator are friendly, honest, hard working stiffs just like the rest of us. Their kids go to school with customers’ kids and they play hockey or ball together. Most employees grew up in the community. They don’t get up every morning and go to work with the intention of screwing farmers. (The CWB Alliance produced a video where these companies are described as “thieving bastards”. Mr. Oberg stated on his blog that he thought the video was “excellent”.)

It’s amazing to me just how far they will go. I guess the gloves are off and anything goes; unfortunately that means saying whatever they think they need to, whether it’s true or not. And when the plebiscite results are announced on Sept 9th and they show a majority in favour of the single desk, you can be sure the rhetoric will be ramped up even further.

#84 Why don’t CWB supporters want Voluntary Pooling? (Aug 29, 2011)

All this talk of how voluntary pools won’t work has got me thinking. Allan Oberg, CWB chairman, has said it at all the CWB producer rallies and in the media. Others repeat the same mantra. Even the media itself, through editors like John Morriss of the Manitoba Co-operator, has tried to define the voluntary pool as impossible.

Thanks to a media that, for some reason, has failed to show both sides of this issue, all we hear is how it can’t work because it’s never worked before. They say voluntary pools in Australia and Ontario don’t work. They don’t even talk about the ones in Alberta and PEI. But they haven’t even talked to the people involved in these pools to get their views and to find out what is

working. With a little research, they would find that although they're not on the scale that the current CWB operates, these voluntary pools are providing value to those that use them.

The voluntary pool is the basis of the dual market. The dual market is an open market with the added option of pooling offered by an organization like the CWB. The CWB website refers to the dual market (the voluntary pool) as a myth. For example, the CWB reports that in the dual market of 1936-37, open market prices were higher than the initial payment of the pool, so the CWB received no deliveries from the 1936 crop. And, in 38-39, open-market prices were lower than the initial payment and so the CWB got all the wheat deliveries and ran a deficit of \$61.5 million.

So, obviously, if we go back to voluntary pooling, the same thing will happen again, right?

I don't think so; before you can reasonably come to that conclusion, you must make the assumption that the pool and the market it is operating in, would be structured the same as before. This has a familiar ring to it; do the same thing over and over again and you should expect the same results. It would be insanity to think otherwise.

Doing it differently is something that hasn't been considered. We haven't heard how it might work – or what we need to make it work. It makes me wonder if CWB supporters even want it to work.

So, do it differently: think outside the bin.

Considering what hasn't worked and the benefits and options producers would want, I have designed a voluntary pool; I call it the Voluntary Independent Producer Pool (VIP Pool). And, yes, it's structured and designed quite differently than the voluntary pools the CWB offered before 1943. Here's what I believe the VIP Pool would offer:

- It will provide better than average returns over the crop year.
- It will provide cash flow when needed.
- Delivery into the system will be a function of dynamic system needs (not passively through a programmed schedule like contract calls). However, it will allow producers to have input into the timing of deliveries in conjunction with the needs and commitments of the pool.
- It will serve all farmers – big and small.
- It will work for producer car loaders.
- Producers will benefit from storing grain when appropriate and will deliver when appropriate.
- It will compete effectively with the spot market. (It will not be starved of deliveries in a rising open market like in 36-37, nor will it be overwhelmed with costly deliveries like in 38-39)
- It will encourage grain buyers to compete for deliveries through price incentives such as protein bumps, trucking premiums, better basis levels and grade promotions.
- It will allow individuals to reap the benefit of strong local basis levels relative to other regions. (For example, in canola we see stronger basis levels around Yorkton. Pooling canola deliveries in Yorkton with deliveries in, say, Calgary, adjusted only by freight (as with the current CWB pool) is not a fair or appropriate allocation of price.)

- It is a price risk mitigation tool and will not speculate; individual producers that want to take a position on the market (speculate), can do that independently outside the pool.

In a recent editorial, John Morriss said that you can run a voluntary pool without a wheat board, but you'd give up all the other things the CWB does. CWB supporters say that without the single desk, the CWB would not be able to develop markets and build customer relations, would not have a voice in grain industry policy, would not have an influence over grain transportation, nor act as producer advocate.

But let's face it; you don't need a wheat board with a single desk to do all these things either. What you need is an industry willing to work together toward common goals – and yet the greatest impact the single desk has had over the years is to divide and polarize the industry. Whether it's because of the single desk itself or the culture of the community that embraces it, it doesn't really matter. The industry will be well served by facing up to this fact when considering its future.

Everyone in the wheat industry can see how the canola industry has shown that working together is possible, through the work of the Canola Council of Canada, canola commissions and canola grower associations. If we can do it with canola, there is every reason to believe that we can do it with wheat, durum and barley.

If you're sincere in wanting the benefit of pooling, you need to look at what needs to be done differently to make it work. I urge all involved – CWB supporters and open market supporters – to think what is needed to make voluntary pooling work.

Will it work?

When we were designing futures contracts at the Winnipeg Commodity Exchange, we knew that even if we designed a technically superior contract, if nobody used it, it would fail. And the flipside of that is, if people used a fundamentally poorly designed contract, it would succeed. It is completely up to the users. Similarly, a well thought-out voluntary pool will work if people use it.

If you're a producer and would like to know more about the VIP Pool, would consider participating in it (or something like it) and would like to see one offered, please send an email to vip@depape.ca. Let me know who you are, where you farm, and what you want to see in a voluntary pool. When you think about it, what individual producers want is the best place to start.

#87 The Friends of the CWB vs the Government of Canada (Sep 9, 2011)

In June of this year a lawyer representing Friends of the Canadian Wheat Board (FCWB) applied to have a motion heard before The Federal Court of Canada. The application was for:

“...a judicial review in respect of the decision of the Minister of Agriculture in his capacity as Minister Responsible for the Canadian Wheat Board (the "Minister")

made on or about June 20, 2011 that he will not consult with the board of directors (the “Board”) of the Canadian Wheat Board (“CWB”) and conduct a vote of wheat and barley producers, in contravention of his statutory duty to do so under the Canadian Wheat Board Act, R.S.C. 1985, c. c-24 (the “Act”), including section 47.1 thereof.”

In plain English, the FCWB are saying that the Minister said he wasn’t going to hold a plebiscite and the Act states he must. So they are asking the Federal Court of Canada to instruct the Minister to hold a plebiscite.

The application for the review was heard by a judge this morning at a special public sitting of the Federal Court of Canada. The result that would make the FCWB happy is the granting of a court date; they got their wish.

I found it interesting that the FCWB (the Applicant) didn’t present anything; I assume the judge had read the application beforehand. The lawyer for the Government (the Respondent) argued on behalf of the Government for about 45 minutes. It seemed fairly informal, with the judge asking the odd question, or making a brief comment along the way; even so, it was the Government’s time to explain why it felt there were no grounds for this application and it should be dismissed.

The whole FCWB argument is based on one comment made by Minister Ritz. Shortly after the federal election in May, Minister Ritz was asked by a reporter if he was going to hold a plebiscite. His response was “we already did. It was the general election.” Based on this alone, the FCWB argues that the Minister is not adhering to the regulations in Section 47.1 of the CWB Act which stipulates that the Minister must hold a plebiscite if he is going to add or remove any commodities from the single desk provisions of the CWB.

The fact that the Minister does not intend to “add or remove” anything from the single desk, rather he intends to repeal the Act completely, seems to have been overlooked. Even by the government’s lawyer.

I listened to the government’s lawyer argue for the dismissal of this application by repeatedly explaining that the government hadn’t done anything yet (no bill has been introduced) to warrant such an application by the FCWB, and therefore there is no case. After all, he argued, the Minister has done nothing except talk about what he might do or not do. Surely you can’t take judicial action simply on comments he may have made. He repeatedly argued that there are many, many ways the Minister might act on this issue and we have no way of knowing in detail what it is he is planning – nor does the Applicant (FCWB). Therefore, there is no way to know whether the Minister will be required to follow the provisions of Section 47.1 of the Act (that is, hold a plebiscite).

I was very disappointed in this argument.

If it were me, I would have stated unambiguously and categorically, that the Minister does not need to call a plebiscite because he has made it quite clear – many times over – that he has no

intention of removing or adding any commodities to the single desk. His intent is to repeal the Act, which is substantially different. In fact, in many media comments and articles, the argument is around whether the Minister should be able to repeal the Act without a plebiscite (which, even the CWB has acknowledged that he has the authority to do without a plebiscite).

In my view, the argument that “we don’t know what the Minister might do” and “there’s many ways he might do it” is very weak. In a way, it left the door open to the suggestion that the FCWB might just be right.

To the lawyer’s credit, he did say at one point, however in a “cute” sort of way, that “the Minister is not removing anything from the single desk, nor is he placing anything on the single desk”; rather, he is removing the single desk completely. As good an argument that that is, it seems it was lost on the judge as the resounding argument heard over and over was “the Minister hasn’t done anything yet” and “we just don’t know what the Minister might do”.

In the end, the judge said he saw no reason to “strike” this application and agreed to a full hearing of the arguments. In other words, the FCWB will get their day in court, which is what they were asking for.

Although a date was not set, this judicial process will not stop the legislative process in Ottawa. The lawyers for the FCWB and the CWB suggested an earlier date would be preferred as the government is expected to introduce legislation in early to mid October – and once that happens they will be in a more difficult position. The judge did not seem to be concerned; although they did talk about selecting the court location that had the earliest court opening.

This is unfortunate. The grain trade – here in Canada as well as buyers overseas – are looking for clarity and certainty. Unfortunately they didn’t get it today. As long as this black cloud hangs over the industry, it will make a smooth transition to an open market harder to achieve. We all lost today – they may not know it but even the members of the Friends of the CWB.

So stay tuned. Unfortunately, this bit of theatre still has some life yet.

#88 All this uncertainty could cost a lot of money (Sep 11, 2011)

Fortunately or unfortunately - regardless of how you look at it – the federal government is moving ahead with legislation that will repeal the CWB Act. Although that sounds clear and certain, recent events have clouded things over.

First, last June the Friends of the CWB applied for a judicial hearing about how the Government is handling the reform of the CWB. Yesterday was the Government’s chance to explain to a federal judge why there was no case – but it failed. Now the “Friends” will have its day in court as it tries to stop the Government from removing the CWB.

Then there's the CWB's plebiscite. It will be a shock if this ill-conceived survey doesn’t show support for the single desk. With that result, the board of directors of the CWB (more specifically, eight of them) plan to carpet-bomb the country with its pro-monopoly rhetoric in an attempt to

sway public opinion as a “Hail Mary” play to get the government to reconsider. According to Allen Oberg, Chairman of the CWB board, even taking legal action against the Government is not out of the question.

These two events provide a generous dose of uncertainty over the next few weeks. While the CWB directors and their “Friends” are muddying the waters with attempts to stop the inevitable, the business of marketing grain goes on.

For example, by this time in the crop year, the CWB has usually offered pricing options to price next year's crop. But not this year. The CWB has announced that it will not offer the futures portion of the 2012-13 Basis Price Contract, and will not be offering the Wheat Storage Program or Churchill Storage Program for 2012-13, all due to the “uncertainty surrounding the CWB's future”.

This leaves a gaping hole in grain marketing opportunities

I was talking to a senior trader with a grain company earlier this week when he said, “You would not believe how much canola we are buying already for next year.” With historically high prices, farmers are locking in prices much sooner than they usually do. I figure if farmers had the opportunity to forward price wheat right now, they would.

A friend called yesterday from his combine and told me he usually starts to look at pricing next year's crop right around now. He has used the CWB programs in the past and is now in a quandary; he asked me “what can I do to lock in prices on wheat?”

Winter wheat growers need some price signals right away since they'll be seeding soon and malt barley buyers tend to lock in supplies early in the crop year. But it appears they'll see nothing from the CWB.

If the “uncertain future” is keeping it from making commitments to farmers it follows that it shouldn't make commitments to buyers either. But it should allow the private trade to market next year's crop now.

So what about the private trade? Why can't they offer Canadian wheat? Many of us have been through this before – the 1993 Continental Barley and Minister Strahl's “almost open market” of 2007-08. Still licking their wounds from those two nightmares, the trade is waiting until they are certain that an open market is really going to happen before they do anything. Sure, they're hiring additional staff (even leasing more office space), getting financing in place and revamping computer systems, but trade grain? Nope, not yet.

So, thanks solely to the CWB and its “Friends”, we have a huge gap in western Canadian wheat commerce where nothing is happening due to the uncertain transition from single desk to open market. A gap that will be filled by other wheat exporters like Australia, Argentina, the US and the EU. If the gap is left too long, we could have a pile of wheat to move next year when all the buyers will be partially covered by the time we get our act together. I can easily paint a scenario where movement and prices next year will be jeopardized because of uncertainty now.

Cynics will say that is what the CWB wants. They would enjoy a scenario where the new market without the single desk has low prices, poor movement and lost opportunities. They think it will allow them to say “I told you so”.

I would ordinarily find it hard to believe that those that support the CWB because of the market stability they believe it provides, are the ones that are causing so much uncertainty in the markets right now. But anything is possible, I guess.

The solution is easy – yet hard

To solve this, the CWB could voluntarily provide zero-cost export licenses on any business done for 2012-13 between now and the end of this crop year. It would have to state clearly and unambiguously that, regardless of how we transition to an open market, the CWB will not interfere with any trade that occurred this crop year with these export licenses (unlike past experiences).

It would be as easy as writing a news release announcing this as an “interim program”. Yet hard – perhaps impossible – for the ideologically entrenched eight board members who apparently would rather see disorder and turmoil than resolution and compromise.

And really, they wouldn’t be giving up anything. The CWB isn’t about to do the business so there is nothing to lose by letting someone else do it (without the potential of retribution). The CWB and its “Friends” could continue with their campaign to save the single desk. Actually, facilitating the market during the transition period and assuring there will be no retribution, would even earn the CWB a shipload of respect – an asset going forward as a voluntary enterprise.

If the CWB board doesn’t see it that way, perhaps the Minister could instruct the CWB to provide zero-cost licenses. And while he’s at it, he could relieve the current board of directors of their duties as soon as possible.

For no other reason than for the sake of a healthy market and a smooth transition.

#89 Contorting the intent and language of the CWB Act (Sep 19, 2011)

The group called Friends of the CWB are preparing for their upcoming day in court fighting the Government of Canada over the future of the CWB. Their goal is to have the courts force the Government to hold a binding plebiscite prior to repealing the CWB Act. This is one more distraction creating even more uncertainty through the transition to an open market.

It all has to do with Section 47.1 of the Canadian Wheat Board Act, which says the Minister shall not introduce in Parliament a bill that would exclude wheat or barley from the single desk, or extend the single desk power to any other grains, unless he holds a binding plebiscite first.

The Friends of the CWB have their own interpretation. They say: "The provision in the Canadian Wheat Board Act, Section 47.1 says the Minister shall not introduce into Parliament any

legislation altering the mandate of the Canadian Wheat Board without having held a plebiscite of farmers approving the change".

Truth is, this isn't what Section 47.1 states. The Friends are trying to convince a Federal Court judge that "excluding wheat or barley" or "adding grains" to the provisions of the single desk is "altering the mandate" of the CWB. The next step in this mind game is to convince the judge that even repealing the Act is "altering the mandate" of the CWB, and therefore requires a producer vote.

According to Anders Bruun, lawyer for the Friends of the CWB, "The Minister has said he's not changing the Wheat Board's mandate, he's repealing the Act as a whole. What that does is change the Wheat Board's mandate..."

This is how the Friends of the CWB have contorted the intent and language of the Act in order to thwart the will of Parliament.

How can ending the life of an organization be seriously seen as changing its mandate? A changed mandate means there is still a mandate. But how can there be a mandate if there is no longer an organization to execute it?

Imagine there's a regulation that says you can't castrate a bull without approval of others through a vote. You have a bull that will not satisfy your needs, so you plan to end its life. There is no need to call for a vote because you're not changing the mandate of the bull (by castration); you're ending its life. Would it be right for a small group of dissenters to get a judge to order you to hold a vote because they feel what you are planning doesn't comply with their interpretation of the rules? Would a judge reasonably think that killing your bull is the same as castrating it? (One ends its mandate while the other only alters its mandate)?

Minister Ritz has made it clear that he is not castrating the CWB. He is ending its life as the only bull in the herd.

A different angle

If the Friends win this case, it would mean the Act has effectively made the voice of some farmers more powerful than Parliament itself. It would force the government of the day to ask farmers for permission before it could be effective in its job as government. I doubt that is what Ralph Goodale and the Liberal government of the day had in mind.

Imagine what would happen at WTO negotiations.

WTO: "All parties agree that Canada must give up the single desk of the Canadian Wheat Board in fulfillment of its commitments to these negotiated agreements. Canada – any comments?"

Canada: "We agree in principle. However, before we can comply, we are required to hold a vote of Western Canadian farmers to get their approval. If they don't agree with repealing the Act, I'm afraid we can't go any further with these negotiations."

Clearly, that would be absurd.

Revisiting the logic of voting

The CWB's idea of a vote is based on a very suspect voter's list of CWB Permit Book holders. The apparent logic is that Permit Book holders have a vested interest in the CWB. But the flip side of that argument says those without Permit Books don't have a vested interest in the CWB.

Really? Alberta farmers who grow barley for the local feeding industry don't count, simply because they don't take out a CWB Permit Book? What about the people that work in the value added industry, like those that were laid off recently at Prairie Malt? Do they not have a stake in this industry? What about all the local employees of the grain companies? What about fuel and fertilizer dealers? Implement manufacturers and dealers? The list goes on; shouldn't they all get to vote on issues that impact their livelihood, such as the CWB?

The CWB Act gives farmers the right to vote on whether a commodity is included or excluded from the single desk. I get that. But when it comes to the CWB and its impact on the whole Western Canadian rural economy, farmers aren't the only ones with a stake in it. We elected a federal government that has the responsibility to ensure the health of the economy for the sake of all stakeholders (citizens). That's why Minister Ritz's plan to end the life of the current CWB without a plebiscite is the right thing to do.

Hopefully, the Federal Court judge hearing the Friends' case can see the difference between castration and ending a life, even through the wool that's been pulled over his eyes.

#91 The Code of the West (Oct 2, 2011)

I recently read an article about prairie virtues that featured "The Code of the West" which reads in part: "Ask no more and give no less than honesty, courage, loyalty, generosity and fairness."

It's high time some of the comments by the CWB and its supporters adhered to the Code. For example, a recent news release from the CWB features the ways the CWB says it saved farmers \$35 million in grain transportation. I understand an organization wants to present the best image it can, but it should do it honestly and fairness. Here's what I'm talking about:

1. The CWB states "every year, 17 to 20 million tonnes of wheat, worth between \$5 billion and \$8 billion, is shipped to Canadian ports and markets".

The CWB is overstating its size. Over the last ten years the combined wheat and durum pool accounts ranged from 12.5 million tonnes to 20.2 million tonnes, averaging just above 17 million tonnes. They got the top end right but were "selective" on the bottom end, favouring a higher value from a more recent year. Too bad they said "every year".

The dollar value or "worth" depends on what you're measuring – and where. Total sales values include all the costs to get grain to buyers, sometimes including ocean freight to distant markets. Since the CWB is talking about the benefits to farmers on grain being shipped to ports, it should show the value of the crop net to the farmer – not the delivered value to China.

The \$8 billion was the “total revenue” in the 2007-08 crop year. This includes barley (even though the news release was referring to wheat only) and includes all sales values including those made on a delivered basis (including terminal handling and ocean freight). Both these factors contribute to an overly “expanded” figure.

The real range of CWB returns at a farmgate level – net to farmers – is about \$1.9 billion to \$4.6 billion, averaging \$2.8 billion. A far cry from \$5 to \$8 billion.

Self-aggrandizement at its finest.

2. The CWB says farmers save between \$8 million and \$12 million a year through the CWB's use of the Port of Churchill.

This is about \$25/tonne of grain shipped through Churchill. The argument is based on the net cost of moving grain from the “Churchill Catchment Area” – northeast Saskatchewan and a small part of western Manitoba. The single car freight rates from these shipping points tend to favour Churchill over Thunder Bay by about \$4.00/tonne; the rest of the “savings” come from avoiding the cost of the St. Lawrence Seaway.

However, over the last eight years, the CWB program through Churchill was partly originated outside the Churchill Catchment Area; in fact, a portion came from as far away as Alberta. Particularly notable is that 17% of the Churchill durum program originated in Alberta. In 2004-05, 32% of the durum and 17% of the wheat shipped through Churchill came from Alberta. Much of this grain originated on CP rail in the south, meaning grain was shipped on three different railroads; loaded on CP Rail, transferred to CN Rail and then to Hudson Bay Rail. From these faraway points, Churchill is the highest cost route by as much as \$13/tonne over Thunder Bay and \$32/tonne over Vancouver (the more natural port for much of this grain). We assume there has been a similar shipping program from southern Saskatchewan, also at higher costs than suggested.

Also, something the CWB doesn't see or include in its value analysis for Churchill is the multicar shipping incentives. Whereas the typical 50-car and 100-car rates are \$4.00/tonne and \$8.00/tonne below the single car rates, to Churchill they are only \$1.50/tonne and \$3.50/tonne lower. Since, as we know, the grain companies pay out in trucking premiums about the same amount in total as they gain in multicar shipping incentives, this makes the value of shipping through Churchill less attractive by as much as \$4.50/tonne.

In theory, shipping through Churchill could save about \$25/tonne. In reality, the evidence indicates the savings are actually much lower than that. In fact, a disciplined assessment could show it actually costs farmers more for the CWB to ship through Churchill than through other ports. Bottom line is there is evidence to indicate that the costs of going through Churchill are much higher than what the CWB is saying and therefore the benefit is much lower.

So this news release by the CWB says it saves farmers \$35 million, but when you drill down and look at some related facts excluded from the release, the basic statement comes into doubt. This has been a mainstay of this debate – unsubstantiated “facts” from the CWB widely distributed by

the media and supporters while facts and analysis that tells a far different story are basically ignored.

Another good example of this is a comment by CWB director Stewart Wells speaking at a CWB meeting in Regina about farmers competing in a free market: "We are guaranteed to get the lowest price every time for our commodity." I think most rational people would agree that this is ridiculous, and yet I haven't seen it countered or challenged in any other public forum or media.

If you have to embellish, create and/or ignore facts, perhaps you should take a hard look at what you're really doing and ask yourself why you're doing it. If CWB-supporting farmers and politicians rationally considered all the facts that are available, would they still support the CWB as fervently (and at times, irrationally) as they do?

"Ask no more and give no less than honesty, courage, loyalty, generosity and fairness."

#92 Memo to Pat Martin, M.P. (Oct 6, 2011)

With the debate about the future of the CWB soon to hit the House of Commons, expect to be inundated with bombastic pro-CWB rhetoric from MP Pat Martin, NDP critic on behalf of the Canadian Wheat Board. We've already had a glimpse of his argument and there is no doubt we will get more of the same.

He says in various ways, how he believes that there is no economic reason for the removal of the single desk:

- "disastrous for the prairie economy";
- "He (Minister Ritz) has displayed a wilful blindness to ... economics";
- "Where is the business case? Where is the cost benefit analysis?"

Mr. Martin is very clear that he believes removing the single desk is a bad idea. And, although it seems he believes in basing decisions on sound analysis, it has never been clear what analysis he is using. What piece of analysis says that the removal of the single desk will be disastrous for the prairie economy?

Unfortunately, Mr. Martin appears to think that he is above the standards to which he is trying to hold the government. Mr. Martin wants the govt to make decisions based on cost benefit analysis yet he doesn't seem to think he needs to do the same.

Since he never refers to any analysis, I would like to share some that he and the NDP should consider as they prepare to defend the CWB on economic grounds:

1. The CWB wheat marketing costs have gone up 56% in the last eight years. In the same time period, grain company handling charges went up about 9% and rail costs went up about 21%.

Removing the single desk will remove these costs that farmers have no choice but to pay.

<http://cwbmonitor.blogspot.com/2010/10/rail-cost-review-how-about-cwb-cost.html>

2. The way the CWB operates in the export feed barley market keeps the domestic market artificially low; the cost to western barley farmers is in the hundreds of millions. In addition, the CWB often misses offshore opportunities because of the way it operates.

Removing the single desk will allow feed barley to be freely traded offshore and into the US.

<http://cwbmonitor.blogspot.com/2010/10/more-on-feed-barley-exports.html>

<http://cwbmonitor.blogspot.com/2010/10/cwb-misses-point-on-feed-barley-debate.html>

3. The CWB's annual pooled wheat price is often lower than the lowest US price in the same year. Applied to the whole pool over the last seven years, this totals over \$3 billion in revenue below what average US prices would have provided.

With an open market, it's pretty hard to imagine things being much worse than this.

<http://cwbmonitor.blogspot.com/2010/10/us-markets-part-2.html>

4. If the CWB system is so good, and we're so dominant in the global durum market, why can't Canadian durum farmers even cover their cost of production with revenue from growing durum while American producers can (and even earn a tidy profit as well)?

In an open market, farmers will be able to sell their durum or wheat as a cash crop, reducing the need to grow other crops.

<http://cwbmonitor.blogspot.com/2010/10/is-this-deal-you-want.html>

5. With the CWB system farmers pay both the CWB marketing costs and the grain companies their tariffs for handling. It's a double whammy.

Getting rid of the single desk will reduce total marketing costs dramatically.

<http://cwbmonitor.blogspot.com/2010/11/cwb-single-desk-vs-grain-companies.html>

6. The CWB risk management program has a higher cost than for non-CWB crops.

Marketing wheat in an "open market", competition will drive costs out of the system – as it has done with non-CWB crops like canola.

<http://cwbmonitor.blogspot.com/2010/11/myths-and-myth-representatons-about-cwb.html>

7. In 2007-08, the CWB lost a reported \$226 million in discretionary trading in the wheat pool account and \$90 million in the Producer Pricing Options (PPOs). (If Mr. Martin doesn't believe me, he can read about it in the CWB Annual Report.)

When the CWB loses money like this, farmers pay.

<http://www.cwb.ca/public/en/about/investor/annual/archive/>

The list could be longer. It's not hard at all to find evidence of poor performance or high costs or inefficiencies affecting all crops. Even if you assume the CWB does get the premiums it says it gets, the high cost of the CWB system overwhelms any potential benefits.

Add to this the lost opportunity in value added because of the single desk. For example, I'm sure Mr. Martin is not aware that three malt plants would have been built in Canada in the last decade but, because of the CWB single desk, all three major investments were made in the US. The cost to the Western Canadian economy is estimated in the hundreds of millions, including loss of potential jobs. Hopefully, once the single desk is gone, it won't be too late and we'll see interest in investing in processing return to Western Canada.

If Pat Martin and his NDP colleagues are going to challenge the repeal of the CWB Act, they should at least educate themselves on the issues first. They may not like the cost-benefit analysis featured here – even though much of the data comes directly from the CWB – but it's no doubt more than they've seen or done themselves.

Where is the business case to keep the single desk? Where is the cost benefit analysis?

It's your move, Pat.

#93 Wishful thinking (Oct 10, 2011)

When I heard the news of the Alliance Grain Traders proposed \$50 million durum and pulse processing facility, my first thought was "This is such positive news - what could CWB supporters possibly find as downside?" Well, they think they found it and it didn't take long before they were out in public spinning their version of the truth.

- Bill Gehl, Canadian Wheat Board Alliance chairman said: "If this company has a viable business plan, the single desk should not be an impediment to their project."
- Stewart Wells, CWB director said: "There's no reason why anyone with a good business plan wouldn't be able to build their operation and still have a strong Wheat Board that's getting a fair price to farmers for their grain."
- Terry Boehm, NFU president said: "It's perfectly possible to have a pasta plant whether the CWB is there or not. Unless, of course, you're building a plant with the assumption that when the CWB is gone that you'll be able to access durum cheaper than you could have through the Canadian Wheat Board, which means less money for farmers."
- Allen Oberg, CWB chairman said: "Distance from domestic and export markets – not the single desk – is the biggest impediment to value-added processing plants in Western Canada."

Although none have ever had anything to do with an agricultural processing enterprise, these "spokesmen" somehow feel equipped to explain why they think the single desk is not an issue and why locating on the prairies doesn't work. (And in the process, they insult Alliance Grain Traders CEO Murad Al-Katib by implying he doesn't know what he's doing.)

Gehl goes so far as to say transportation costs limit canola processing on the prairies: "Whether it is wheat flour, pasta, oil sands bitumen or canola, transportation costs have always limited what

can be done with value adding on the prairies." Perhaps he's had his head elsewhere for so long that he hasn't noticed that there are now ten canola crushing plants on the prairies, processing close to half the crop - and many are expanding as we speak. Domestic crush is clearly a dominant canola market influence. I would love to be a fly on the wall listening to Gehl explain to Cargill, Bunge, Viterra, Richardson and Louis Dreyfus that they've got it all wrong and shouldn't have built their crush plants on the prairies.

I'd also like to hear any one of them explain why oat processing is so successful on the prairies and why durum is being processed in North Dakota – both in the heart of production regions, miles away from the major consumptive areas. (And both without the CWB single desk in their way.)

Boeme suggested that the only reason a processor would locate in the prairies is to get cheap grain for his plant. Perhaps he should get together with Oberg and Gehl and decide which is the best argument for them - either it's good to locate in the prairies to get cheap grain or it's bad because of the distance to markets. If Oberg is right, Boeme is wrong. If Boeme is right, Oberg is wrong. Ironically, they're both wrong. Check out the price of canola around Yorkton where the two new crushing plants have certainly supported prices.

Actually, there are many factors that go into the decision of where to locate; reliable supply of feedstocks, greater control of quality and logistics are among the most important. Locating near a consumptive market means that you are out of position for other possible markets; locating near the supply of raw materials (like in the prairies) provides ready access to the materials you need while allowing you to serve more and varied markets.

More processing on the prairies is an effective counter to concerns over grain handling issues like terminal access, car allocations, and primary elevator congestion. Since the CWB and its allies have always seen these as big issues with an open market, you'd think they would recognize that a new processor on the prairies actually helps alleviate these potential problems.

And yes, the single desk is a deterrent to new investment. As any processor will tell you, they are running a factory, producing a product someone else is relying on. One of the most important factors in establishing a processing business is to be a reliable supplier; and what that means is control. One misstep and you could lose a major customer. An environment where your single supplier is also a regulator is not attractive to prospective investments. Open markets facilitate business by allowing you to respond the way you see fit; regulated markets frustrate business by being unresponsive or by changing the playing field without warning.

Western Canada lost three potential malt business investments due to the single desk. Under the circumstances, they all did the right thing. Because they were uncomfortable with the prospect of dealing with only one supplier (the CWB) they built in Montana and Idaho where they could access both local barley as well as imported barley from the CWB. The Canadian malting industry has even told both the CWB that as long as the single desk is in effect, they will not invest in any expansions in Canada.

The CWB and its allies wish the single desk was not a deterrent to new value-added enterprise in Canada, but it is. Their arguments lack substance or factual support and even go against conventional wisdom.

Through its actions, the processing industry has demonstrated the realities of dealing with both the single desk and the open market for years, showing its preference for the open market. Now, as we are beginning to see the response to an open market in wheat and barley, the CWB and its allies still fail to respect reality.

Actions speak louder than words. Saying something over and over hoping it to be true is just wishful thinking. And gentlemen, you don't build a prosperous industry on wishful thinking.

#94 Facts, Lies and the House Debate (Oct 22, 2011)

The debate over the removal of the single desk has gone to the House of Commons. And unfortunately, the lack of clear information remains as opposition parties appear to be dealing with less than a full understanding of the single desk. There's far too much material from the last couple of days of debate to catalogue everything, so here are just a few examples.

On government authority and responsibility

Nycole Turmel, Leader of the Opposition (NDP):

Mr. Speaker, here is what the law says: "The Minister shall not cause to be introduced in parliament a bill that will exclude any kind, type, class or grade of wheat or barley unless the Minister has consulted with the board, and the producers of the grain have voted in favour of the exclusion or extension." That is the law of the land. Why won't the Prime Minister respect the law, respect the producers, and keep the Canadian Wheat Board in place?

Ms. Turmel is paraphrasing Section 47.1 of the CWB Act. It appears she's saying that the Minister can't change the Act because a plebiscite was held and farmers seem to want to keep the single desk.

Prime Minister Harper's answer was bang on, saying, in part: "Mr. Speaker, the law of our system, our constitutional system, is extremely clear. A previous government cannot bind a future government to its policy." He said this because Section 47.1 only applies to adding or removing commodities from the provisions of the single desk. It does not apply to repealing the Act.

But Ms. Turmel wouldn't let it go:

Mr. Speaker, it seems the Prime Minister forget about the law of our government. I just read the law to the Prime Minister; it says: "that the Minister shall not cause to be introduced in Parliament a bill impacting the wheat board's mandate, unless the producers have voted in favour of these changes."

The second time she read the “law”, she changed it. Now she says it refers to “a bill impacting the wheat board’s mandate”, not just excluding a commodity. Really? Can you do that? When your argument is so weak, can you really make it up as you go along, even when it’s wrong?

And then Nicki Ashton (Churchill, NDP) had a go at it:

Section 47.1 guarantees farmers the right to vote on changes to the Canadian Wheat Board's marketing structure. The government not only ignored that plebiscite but is also ignoring section 47.1 of the Canadian Wheat Board Act, which states that farmers must have a say in any proposed plans to alter the operation of the Wheat Board.

Now, apparently, Section 47.1 refers to “any proposed plan to alter” the CWB. I guess if that’s what you need to say to make your argument, then that’s what you say, whether it’s true or not.

Hon. Ralph Goodale (Wascana, Lib.):

Section 47.1 of the existing act does not prohibit changes to the single desk. It does not prohibit even the elimination of the single desk. However, it makes it clear that the decision is one for farmers to take. It is not for politicians or bureaucrats, but for farmers themselves. Section 47.1 embeds in the law the principle that there ought to be a plebiscite, a vote, held among prairie farmers to determine whether or not the nature of the single desk ought to be changed.

I am utterly amazed that Mr. Goodale, the author and architect of the current CWB Act, would actually take the position that an Act that he wrote was meant to bind future governments to this policy, which would mean they can’t repeal the Act. Are we really supposed to believe that was his intent?

Astonishingly, in a moment of lucidity (outside of the House), Pat Martin set the record straight, contradicted Mr. Goodale, Ms. Ashton and his own party leader, Ms. Turmel.

Pat Martin (Winnipeg North; NDP):

I don’t actually buy the argument that section 47 precludes the current government from amending the Act. I think the Prime Minister is right. You would have a constitutional crisis ... It’s – it’s an impossible scenario. The Prime Minister is right. ... They have the right to amend legislation. That’s the nature of our whole legislative parliamentary democracy.

And that is why the government can repeal the Act, even without a plebiscite. And that is why all the opposition members who spoke on this are wrong; I can’t believe I’m saying this but Pat Martin has it right.

On the economics of the CWB

Over and over, we have heard opposition members criticizing the government for not doing a cost benefit analysis or providing any analysis on the impact of the removal of the single desk. Yet, this doesn’t stop them from taking their own firm stands on this issue without the benefit of

any analysis. Many spoke of the economic calamity that will befall the prairies with the loss of the single desk (with no analysis to back it up), but I'll pick on only one.

Mr. Peter Julian (Burnaby—New Westminster, NDP):

The Conservatives have no interest in disclosing whether they have done any studies, because they know full well that the end of the Canadian Wheat Board will lead to lower household incomes for farmers. It is not just farm families who will suffer from the economic impact, but also the entire community. The government has provided no figures.

Wheat producers in the United States have been at a serious disadvantage because there is nothing like the Canadian Wheat Board in place there.

I wonder if Mr. Julian would make these arguments if he knew that, in the last ten years (maybe longer) the US spring wheat farmer could sell his whole crop at the lowest price of each crop year and he would still get a better price than the Western Canadian farmer received through the CWB. The government may not have commissioned this analysis, but they are real numbers. Mr. Julian should try a different argument.

Others spoke of the premium prices the CWB supposedly gets.

Mr. Alex Atamanenko (British Columbia Southern Interior, NDP):

The fact is the Canadian Wheat Board currently seeks high-end markets for high-quality milling wheat and durum in over 70 countries, and does not have to pursue markets by reducing its prices. I might add that this obviously gives a premium to Canadian farmers.

Spoken with such certainty, such confidence, yet this is not obvious to Western Canadian farmers who consistently see higher prices just across the border in the US, even though the US sells into the same offshore markets. US farmers get premiums over what Canadian farmers get; why is that not obvious to Mr. Atamanenko?

Hon. Ralph Goodale (Wascana, Lib.):

There will be an imposition of new costs on farmers...

New costs? The CWB reports to the federally appointed Grain Monitor that its marketing costs on spring wheat are over \$10.00 per tonne and over \$30.00 per tonne on durum. Also, it is well documented that grain handling costs on CWB grains are substantially higher than on non-CWB crops like canola. Remove the single desk, and you remove all these costs. In fact, it has been argued that, with the removal of the single desk, total marketing costs will go down substantially.

The CWB and its allies never talk about the cost of the CWB system. Since the opposition parties in Ottawa don't either, perhaps they get their information from the CWB. But they should look at the costs; it's all there in black and white; you just have to read it.

The elimination of the Canadian Wheat Board has been the Americans' number one trade objective in North America for the past 20 to 25 years. Courtesy of the

Conservative government, the U.S. is about to receive its fondest wish and Canada will get absolutely nothing in return.

I don't get it. The CWB says that by holding back sales, even US farmgate prices are higher than they would be without the single desk. Remove the single desk, the CWB argues, and prices in the US go down. Why would Mr. Goodale argue that the US is about to receive its fondest wish? Does it wish to have lower prices? Or is the CWB wrong about raising the prices? Or is someone just really not well informed?

The Job of the Opposition

The Opposition is meant to oppose the government, which includes criticizing government legislation and actions, often providing alternative policies. Most of the time this is little more than criticism and attempts to publicly embarrass the government. But when they take aim at the government with no understanding of what they are really arguing and no facts to support, and worse yet, make it up as they go, they really do no more than embarrass themselves.

#96 Keep Calm and Carry On (Nov 8, 2011)



The grain marketing universe is unfolding as it should for the federal government, the three most western provincial governments, Western Canadian agri-business of all shapes and sizes, and the thousands of farmers looking forward to entrepreneurial freedom. However, the wheels are falling off the efforts of single desk supporters, leading to what appears to be desperation.

Take the recent CWB Alliance news release; it is so absurd I thought it was a joke when I first read it. It is so farfetched, it smacks of desperation as it attempts to make the loss of the single desk seem scary to the general public by saying that the quality of Canadian food will drop and the price will go up with the loss of the single desk. The logic they use is utterly ridiculous. To be fair and not misrepresent it, the following is taken directly from the CWB Alliance news release called "End of wheat board means end of local food":

"Without the Wheat Board human food processors will be free to import lower quality grains from the United States and Eurasia which are not subject to our high quality standards and blend them with local grain. These foreign grains are not grown from our own publically funded and developed varieties and many of them are grown in the heavily polluted lands surrounding the Chernobyl nuclear plant in the heart of Eurasia's wheat belt. A lot of Europe's grain is cheap because it is heavily infested with fungal diseases. In fact a lot of Canadian durum wheat now goes into Europe to blend off fusarium infected local durum. Without the Wheat Board this trade could well be reversed."

First, "human food processors" in Canada are already free to import grains from whomever they want, including the US or "Eurasia". Always have been. In fact, Canadian food processors import from the US as market conditions allow. Suggesting that without the single desk, these companies would suddenly change their buying behaviour, shows the CWBA doesn't understand that the CWB has no control over imports.

Second, to promote the idea that Canadian companies would any time soon import wheat from the fields around Chernobyl is so ludicrous and so farfetched it can serve no purpose but to inject fear. Why pick Chernobyl? The major wheat production and exporting area in Eurasia is the EU-27 (which does not include Ukraine, where Chernobyl is located). They picked Chernobyl because they would like you to imagine eating bread made with radioactive, fungus-infested wheat; what could be worse?

According to the CWBA, US millers already go for the cheapest wheat. So, if wheat from Chernobyl is so cheap, why aren't the American millers importing it now? They don't because they buy local North American wheat because of the quality and price.

The CWBA just doesn't get it. The consumer is driving the bus when it comes to food quality. I suggest that they attend the upcoming Canadian Food Summit 2012 in Toronto where, among other things, "Galen Weston will discuss how more Canadians are recognizing the importance of a healthy diet, and how Loblaws supermarket chain and other organizations are leading and responding to this trend." And how do you think they're responding? With high quality, nutritious foods; if they don't, they can pack up their tent and go home. Same goes for anyone supplying raw materials to them.

This idea of wheat coming from Chernobyl has no basis in reality and is only used as a scare tactic. I just did an internet search and found not one news outlet used the CWBA release in a story; seems they saw right through it too.

The CWBA should be ashamed.

The CWBA also believes the CWB gets premiums from domestic millers and that once the single desk is gone, millers will pay less. So, if true, once the CWB is gone, Canadian wheat will be even cheaper, making it even more attractive to domestic buyers. Importing wheat from half way across the world already doesn't make sense and, according to the CWBA, it will only get less attractive. (Tell me again how wheat from Chernobyl will compete into Canada...)

I noticed on the CWBA Facebook page there is link to the CWBA Chernobyl news release. And, since you can leave comments, I did. I explained in detail how the CWBA release is factually wrong and incredibly misguided. I explained how wheat processing in Canada works now and showed how that wasn't going to change because of the loss of the single desk. My posts were there for less than half an hour before the CWBA removed them and banned me from making further posts. So not only do they want to spread their form of warped propaganda, they don't want their followers to know the real facts, or even enter into a reasonable debate or sharing of facts. I find this disgraceful.

And then there's Andrew Dennis, farmer from Brookdale, MB, who, in a video on the CWBA website says:

"...even for urban people, this is going to be that 2 or 3 hundred dollars a month food price increase that could be pretty harmful if this moves corporate."

Where do they get this stuff!? DiscoveryFinance.com estimated the average monthly grocery bill in Canada is somewhere around \$244 per person. With the average family size at 2.5 persons, this means the average family spends around \$600 per month. Does he really think that the typical food bill will increase by 50% once the CWB is gone? C'mon, really?! This argument reminds me of a quote by Foghorn Leghorn (the rooster from the Bugs Bunny Show): "That's mathematics, son! You can argue with me but you can't argue with figures!"

I hope this disingenuous approach doesn't get worse – at the same time I fear it will. Although more and more farmers and media appear to see right through these antics, there is no sign that it won't increase along with the level of desperation.

I wonder if the CWBA, the NFU, the friends of the CWB, the eight remaining farmer-elected board members, the CWB media relations team, and members of the CWB-supporting media would ever agree to meet with other analysts and observers – like myself and others – and review all the "facts" being presented in an effort to finally put the misguided arguments behind us.

I'd do it in a flash.

#98 The Courts Aren't Always Right (Dec 12, 2011)

By now we all know the results of the CWB court challenges and that Judge Douglas Campbell ruled in favour of the Friends of the CWB and the CWB. Some of the comments in the ruling demand attention:

"...when advancing a significant change to an established management scheme, the failure to provide a meaningful opportunity for dissenting voices to be heard and accommodated, forces resort to legal means to have them heard. Had a meaningful consultative process been engaged to find a solution which meets the concerns of the majority, the present legal action might not have been necessary."

To use the judge's own terminology, this is an absurdity. He clearly has not been paying attention to the "CWB file" for the last 30 years or more. That's not a criticism, just a fact. Those who have been paying attention know that there has been ample opportunity for dissenting voices to be heard on both sides of this issue. And that they have exploited that opportunity at every turn.

Before you can "find a solution which meets the concerns of the majority", you have to determine who the majority is and what their concerns are. The CWB's plebiscite results have been presented as a clear indication of the majority's wishes. It is no such thing. Neither the question

asked nor the voters' list fulfills the requirement of determining the interests of all stakeholders. If Judge Campbell had been following the CWB issue, he would know like the rest of us that the idea of a plebiscite is nothing more than a red herring; you could never design a reasonable plebiscite that the CWB and its most fervent supporters would accept, let alone its results.

When a list of CWB permit book holders is presented with the choice of a voluntary CWB (the dreaded dual market), only a clear minority supports the single desk. Arguing that a voluntary CWB will fail or that farmers don't understand the question doesn't cut it. But, really, none of that matters anymore, because we're no longer talking about farmers or grain marketing.

Do Precedents Matter?

All the discussion is around parliamentary process. Even when we talk about plebiscites, it's not about farmers anymore – it's about political processes. So, in that vein, we should take a look at another case, very similar to the CWB cases. Here are some relevant facts of a case heard by the Ontario Supreme Court, between The Canadian Taxpayers Federation (CTF) and the government of Ontario:

In 1999, the Taxpayer Protection Act (TPA) was passed by the Ontario legislature, in which Section 2(1) reads:

- A member of the Executive Council shall not include in a bill a provision that increases, or permits the increase of, a tax rate under a designated tax statute or that establishes a new tax unless,
 - a) A referendum concerning the increase or the new tax is held under this Act before the bill is introduced in the Assembly; and
 - b) The referendum authorizes the increase or the new tax.

(Sound familiar?)

In June 2004, the Ontario Minister of Finance introduced Bill 106 to amend the Income Tax Act. Even though Sec. 2(1) of the TPA of 1999 required it, no referendum was called. The CTF took it to court, seeking the courts to declare the Health Tax to be invalid because the government didn't call for a referendum. Paragraphs 47-49 of the ruling are relevant to the CWB case (paraphrased, emphasis is mine):

[47] **Nothing in the Act suggests that a referendum is required before the Act can be amended even if this amendment creates an exception to Section 2(1).**

[48] ... even if the TPA had contained a provision that no exception to the referendum requirement contained in Section 2(1) could be enacted without the holding of a referendum, **this type of limit on a legislature's sovereignty would not be binding.**

[49] The courts will give effect to limits imposed on the legislature's ability to amend its own statutes only where they constitute "manner and form" requirements. The Supreme Court of Canada in the reference Re Canada Assistance Plan set out what was necessary in order to impose

an effective manner and form requirement. Applied to the present case the following would be required:

- a) A clear statement of intent by the legislature that ... the legislature intended to bind itself or restrict the legislative powers of its members;
- b) It would be contained in a statute that is constitutional or quasi-constitutional; and
- c) The statute would specify the manner and form to be followed by the legislature itself to effect the amendments. It would not remit the decision to an entity not forming part of the legislative structure.

On “manner and form” requirements, it says the government would not give authority to change the Act to “an entity not forming part of the legislative structure” – in other words, not to farmers voting in a plebiscite.

But there’s more. Section 13 of the Federal Interpretation Act sums it up quite nicely:

Every Act shall be construed as reserving to the Legislature the power of repealing or amending it, and of, revoking, restricting, or modifying any power, privilege or advantage thereby vested in or granted to any person or party, whenever the repeal, amendment, revocation, restriction or modification is considered by the Legislature to be required for the public good.

In other words, parliament has the ultimate power and authority to amend Acts. And can revoke the power given to anyone else (like farmers through a plebiscite) when amending.

The last thing the grain markets need right now is more uncertainty. Judge Campbell’s ruling, when viewed side by side with the CTF vs Ontario government ruling, and Section 13 of the Federal Interpretations Act, is ambiguous at best, or even worse, just plain wrong. And the self-righteous chiding by the CWB supporting groups does nothing to make it more correct or decisive.

Although the government is moving ahead as planned, all this legal wrangling is taking the focus away from what is right for the Western Canadian economy. Instead of debating about court proceedings and parliamentary procedures, we should be spending our time on new opportunities in the grain markets. As suggested by Minister Ritz, we should assume the Marketing Freedom for Grain Farmers Act will be enacted as planned. Let’s face it, if the appeal courts disagree with the government on this issue, we’ll have a much larger problem – an impotent Parliament.

Only in Canada, you say? Pity.

#100 To Stay or Not to Stay (Dec 31, 2011)

The last bump in the road to marketing freedom – or entrepreneurial freedom – is the pending court challenge by the eight farmer-elected directors of the CWB.

In the original filing, the CWB and its farmer-elected directors took the position that the Act (resulting from Bill C-18) was invalid because the Minister failed to comply with Section 47.1 of the CWB Act and on this basis they were seeking a declaration by the court that the new Act is invalid. Further, they wanted to immediately stop the implementation of the new open market (via a “stay” or injunction) until the judge rules on the validity of the Act. The judge refused to grant an immediate stay referring to the request as “draconian”, but the case is going forward and is set to be heard on Jan 17-18, 2012 in Winnipeg.

Since Bill C-18 has been passed and implemented, the remaining eight farmer-elected directors (the Eight, we’ll call them) have been released. The remaining five directors decided the CWB would drop its case, leaving the Eight – who were named individually on the original filing – to proceed on their own.

Now, instead of an immediate stay, the Eight are asking for a stay that will take effect while the judge is hearing and deliberating on the case. The reason for the stay, according to court documents, is that the Eight believe that moving to an open market will cause disruptions to the market and “cause irreparable harm”.

But we’ve already moved to an open market. The Eight have it quite wrong - going back to the Single Desk while the case is being heard will create disruptions and cause harm. What if the judge rules the Act is valid? If a stay is granted, we would then have gone from the Single Desk to the open market (Dec 18th), then back to the Single Desk (Jan 17th), then – once again – to an open market.

Even so, in his affidavit, Bill Toews argues for the stay. He argues that, much of the trade for wheat, durum and barley occurs on the basis of forward contracting as much as 6 months in advance of the shipment – or up to 12 months ahead in the case of malting barley. Mr. Toews argues that opening the market now – for transactions for delivery after Aug 1 – will have a depressing effect on the current 2011-12 pool that ends July 31st. This is not an argument to hold off these changes at this time; it’s an argument to never make changes, since, if correct, this would happen any time the Single Desk is removed.

But it’s not correct.

Prices in the current 2011-12 crop year represent the supply-demand balance for this crop year. Once the new crop is harvested, there is additional supply available to the market, creating a new supply-demand balance and hence, different prices. But buyers still buying for the last half of the 2011-12 crop year (Jan-July 2012) will be subject to prices based on the current supply-demand balance – not the new crop balance.

Toews argues that with farmers freely selling into the new crop position, prices there will drop. (The CWB has always argued that farmers selling on their own will push prices lower than if the CWB was selling for them.) He then suggests that buyers in the old crop position will expect lower prices as well.

There are two problems with this. First, an efficient market will feel the effect of all trades, so we should expect the market to “feel” the effect of forward selling. But the amount of forward contracting by farmers in January for new crop deliveries would be insignificant; certainly not enough to push the market lower.

Second, even if the new crop price is more attractive than the nearby price, if you need wheat now, you have to pay the higher nearby price. A buyer can “expect” lower prices all he likes, but the market is the market and there is little a buyer can do to get around that.

If Toews is concerned that farmers will opt to hold the grain currently in their bins until after Aug 1st (which it seems some may be doing), this will not have the depressing effect he argues; rather it will reduce available supply from the current market which, if anything, will support prices in the current crop year.

Although his argument is a “mighty stretch”, Toews advises in his affidavit that this will have the impact of dropping the pool by only \$2 to \$5 per tonne.

It would make sense to compare that small downside (if you believe it) to gains made by selling in an open market. Farmers contracting into the new crop year will be paid full value for their wheat upon delivery, far better than the CWB Initial Payment of about 65% of the crop value. It’s very tough to argue that farmers are suffering harm when they are getting better prices through forward contracting and they are getting paid in full upon delivery.

Arguing against the use of forward contracts in the open market – with the court ruling pending – Toews states: “... in the event that the Bill is subsequently declared to be invalid, those contracts will also be invalid with the result that both buyer and seller will be forced to “unwind” the hedge positions that they had taken at the then prevailing market prices. The costs of doing so could be significant.”

In the Continental Barley market from June to Sept 1993, market participants including farmers were free to sell to any buyer in the US without going through the CWB – until that market was shut down by a court ruling. Those sellers incurred significant losses – not due to the unwinding of hedge positions as the CWB posits; rather it was due to the intransigence of the CWB in how it dealt with those sellers with outstanding contracts. Whereas the CWB could have facilitated the smooth transition back to the Single Desk environment, it chose to heavily penalize those that were involved in any Continental Barley trades by not allowing those trades to be executed. The cost was indeed significant, but it didn’t need to be.

When the barley market was open temporarily again – in 2007 – close to a million tonnes of export barley was sold by grain companies. But since they remembered the pain of Continental Barley, they negotiated with the CWB ahead of time; in the event that the Single Desk was returned (which, of course, it was), the CWB agreed to allow outstanding forward contracts to be executed as if the market was open. Toews argues that “costs were incurred” but he fails to indicate that the only related cost was the payment of a fee to the CWB – what some called the CWB’s “export tax” – of \$4.00/tonne. This was paid to the CWB by exporters to simply maintain

the right to execute their contracts unimpeded by the CWB. Although it collected this fee, the CWB took no part in executing the transactions.

The CWB can't argue that going from the Single Desk to an open market (and back again) would cause disruptions and irreparable harm when it would only be disruptive and harmful if the CWB chooses to create disruptions and harm.

The best thing to do is to just allow things to continue as they are as we wait for the court ruling.

Make no mistake: the Eight are the ones causing market uncertainty with the court case. A stay would just add to the disruption and uncertainty. If they were really concerned with disruptions, uncertainty and associated costs, they wouldn't be asking for a stay. And they would be indicating that regardless of what happens, they will do whatever they can to enable a smooth transition.

The New CWB

#58 Moving Forward: CWB-Related Finances (May 7, 2011)

The Conservative majority is now slightly more than 72 hours old (as I write this) and I venture to say some pro-choice farmers out there are already getting upset that they don't have marketing freedom yet. I suspect they – and others – will get increasingly agitated as the process of moving to a voluntary CWB environment is revealed. No need to hang onto your hats; it won't be a quick fix – nor should it be.

This is the first a number of articles about some of the issues we will be facing and some ideas on how to move forward. These are not meant to be comprehensive, nor I am trying to say that these are the only solutions that should be considered; I simply want to get a dialogue going.

Some feel that you can just flip a switch to make the CWB voluntary and away we go; all will be great. However, there's much more to it than that. One thing to consider is that every company in the industry is set up to work within the structure we have now. I don't subscribe to a quick change without considering whether the industry is ready; it would be irresponsible to an extreme to execute a quick change. There are many issues that will need to be addressed. We don't want to throw anybody or anything under the bus, we want to slow the bus down, stop, and let people on or off before we go again. We need to ensure the industry is able to adjust to the changes and continue to provide appropriate services to farmers.

When we talk about CWB reform, we often talk about what it means to farmers and the CWB itself. We often miss talking about the rest of the industry. Undoubtedly the biggest issue going forward is the fact that the structure of the whole grain handling industry is based on financing via the CWB. First, the CWB finances over \$4 billion (and as much as \$7 billion) in annual wheat and barley sales (therefore, grain handlers and exporters don't have to). Second, many grain handlers are reliant on CWB revenues – either paid directly by the CWB at the terminal, or paid by farmers at the country elevator. With a voluntary CWB environment, these companies will still earn revenues from handling wheat - CWB and/or non-CWB - but lower per-tonne revenues should be expected. (This is covered in the next article.)

Financing the CWB and how that impacts its relationships with grain handlers will be key to the future structure of the industry. Moreover, financing will be an important consideration to all grain companies, impacting whether they aggressively trade wheat on their own, or partner with the CWB (assuming the CWB will have the appropriate financing available), or make some other arrangements. It will also influence who enters the market, who remains (who survives) and who is successful. This, in my view, is undoubtedly one of the largest issues facing responsible CWB reform.

The CWB currently enjoys a Federal Government Guarantee which allows the CWB to finance inventory – in country elevators and terminals – at better than commercial rates. It also provides a back-stop to the Initial Payments. (The future availability of this back-stop of Initials will be a discussion for another time.)

The government guarantee

Over the past few years, the CWB has paid out between \$4 billion and \$7 billion annually to farmers. It raises the money to do this through various forms of borrowing, exploiting its government guarantee to assure it has access to the money needed and at preferential rates. In the event the CWB lost the government guarantee, it would not be able to finance its purchases because it would not be able to borrow, let alone at government rates, since it doesn't have enough assets on its balance sheet. In other words, without the government guarantee, or a capital base of some description, the CWB could not operate. This is an issue the CWB itself has mentioned time and time again – and they are absolutely right.

However, without the CWB and the government guarantee, many small grain companies will not be able to fill the gap – they too may not be able to raise the required finances.

In a voluntary market, the CWB's financial needs will drop as it will undoubtedly lose grain volumes to grain companies and/or farmers dealing direct to end-users. That means the financing needs of those grain companies will go up. Although undoubtedly some companies will be able to handle this new burden, it remains to be seen if all companies will be able to; the amount of business some companies will be able to handle will be limited by their ability to get financing. It would be irresponsible to ignore this reality going forward; any transition plan will need to ensure that we don't lose grain handling competition because the structure didn't support some companies through a period of transition, acclimatizing to their new reality.

Possible solutions

If the CWB kept its government guarantees, opening up the market to any company will exclude companies that cannot get adequate financing; they would remain reliant on the CWB.

Ultimately, though, the guarantees are likely to be withdrawn at some point.

The CWB has indicated that, without the guarantees, it would need a capital base to be able to operate. The questions would be from whom (the government or producers?), and how much? Although this would allow the CWB to continue to operate as a marketer, it would be competing only with the larger grain companies that can self-finance their operations. The smaller grain companies that could not get the required financing would again be relegated to handling grain for the CWB on a toll basis (as it is now).

Another option would be to keep the Government Guarantees in place but make them available to all exporters of wheat and barley. This would help foster the inclusion of all potential exporters, big and small. A "transition period" could be established during which the guarantees are made available to all companies handling export wheat or barley. Over time, they could be tapered off, replaced by conventional lending or some other mechanism that may be designed between now and then.

What we want is a vibrant and robust marketplace. It serves no purpose to make a quick change if the industry isn't ready. If it's ready, great – but we need to have confidence that all players can operate and compete adequately – otherwise we are adding risk and ultimately playing favourites.

#60 Moving Forward: Grain Merchandising and Risk Management (May 13, 2011)

Grain companies earn revenues from handling CWB grains in a number of ways. For example, the CWB pays over \$80 million annually in storage payments to both country and terminal elevators and over \$175 million in terminal charges. Additionally, farmers pay elevator companies an estimated \$300 million in country elevations and cleaning for CWB grains. Collectively, these are important revenue streams for grain handlers. Moving forward, these revenues will be replaced by more market-driven revenue streams.

Depending on how the transition from monopoly to voluntary is executed, companies that rely on CWB grains could struggle unnecessarily; a hang-over from the establishment of a voluntary CWB should not be the loss of competition for farmers' grain.

There is no doubt that grain companies will be able to survive and compete in a market with a voluntary CWB; they will simply need to adjust to the new reality of grain merchandising and risk management.

Elevations

Grain companies currently handle CWB grains on a toll basis for the CWB (they buy the grain on behalf of the CWB as an agent); they charge farmers a set elevation and cleaning charge through standard tariff deductions. Throw in other factors such as multi car rail rates and the periodic trucking premium and you get a rough idea of what grain companies can make handling CWB grains.

In a competitive environment, some of that would change. The marketing and merchandising of wheat and barley in Western Canada will likely gravitate toward the way just about all other major crops are handled and traded. Elevations (and cleaning) will be earned through merchandising (buying and selling) rather than through toll charges (tariffs). Alternatively, smaller elevator companies who do not have an export arm will negotiate terms with an exporter or with the CWB; going with this approach, they may continue to earn elevations through a set fee structure.

So, depending on the individual strategies by companies, their revenues will be either from merchandising, from negotiated terms with an exporter and/or the CWB, or some combination.

Storage

Storage revenue from the CWB has been an important revenue stream for grain companies. Although through negotiations this may continue, there are other approaches that could prove to

be an effective replacement. In markets where there is an effective futures contract, hedge strategies that consider intermonth spreads (the difference between two futures contract delivery months) are used to effectively earn storage for grain being held over time. It doesn't show up on the financials as cash flow quite the same way as periodic storage payments from a third party, but it's effective none the less.

An added benefit of this approach to pricing and risk management is the extension of effective price signals for spot delivery versus deferred delivery. Do you store or do you ship? This applies to farmers as well as grain merchandisers; those that understand the markets this way will be able to offer farmers a much better price signal.

Futures

With a voluntary CWB and the expected competition for farmers' grain, Western Canada should have its own futures contract for wheat. I understand ICE Futures Canada is developing a milling wheat contract and will be ready.

Some have looked to oats as an example of why we don't need a Canadian wheat contract. Winnipeg Commodity Exchange (WCE; now ICE Futures Canada) tried to rejuvenate an oats futures contract after oats was released from the CWB single desk. As much as 95% of all Canadian oat exports go to the major buyers in the US like Quaker Oats and General Mills, among others. These buyers were already trading the Chicago oat contract and when it came to buy Canadian oats, they were not interested in trading another futures contract. A common technique when buying a commodity is for the buyer of the cash grain to "give up" an equal amount of futures (the seller of the grain "takes" the futures), allowing both parties to be perfectly hedged through the transaction. US buyers did not want to "give up" WCE futures because then they would need to keep two trading books – Chicago and Winnipeg. Moreover, they recognized that trading another contract would cannibalize the Chicago contract, diminishing its effectiveness.

Wheat is quite different. First, in tonnage terms, the Western Canadian wheat market is much larger than the oat market - 25 million tonnes vs 4 million tonnes. Also, whereas the oat market is dominated by the US, Western Canadian wheat goes to many countries; out of as much as 20 million tonnes of exports, only 2 million or so goes to the US. And domestically we use as much as 4 million tonnes (including feed usage). Many companies in Western Canada don't handle oats; just about everyone will handle wheat, creating a wide base of buyers of wheat (and therefore sellers of futures). Many buyers and many sellers make for a robust futures market.

Using the Minneapolis futures contract for risk management in all this business would add a level of complexity and risk for Canadian participants because it is denominated in US dollars and it prices US wheat in US locations, thereby increasing basis risk for Canadian players. Although this can be managed, it gets complicated and effectively adds risk unnecessarily. Interestingly, the flip side to the foreign exchange argument is that, if a Western Canadian contract were launched by ICE futures, there would be a compelling draw for traders to trade both Minneapolis and ICE,

arbitraging the two as a foreign exchange trade, as well as trading relative spreads between the two markets.

The added benefit of having a Canadian futures contract (in Canadian dollars) is that it can be very effective in allowing Canadian firms to manage their risk as well as draw storage revenue from the futures market when applicable.

One more thing; with canola and wheat as major crops in Western Canada, having similar contracts (Canadian dollars, Canadian delivery, etc) and effective price signals for each, makes relative farm-marketing decisions of each much more meaningful and effective. If the market signals tell farmers to sell wheat and store canola, that's what they can do (unlike the current situation where, even when market signals indicate selling wheat, farmers are forced to sell canola).

Why does this matter?

Whatever steps the federal government takes to achieve the goal of improving the market structure should not have a negative impact on competition for farmers' grain. **Fundamental to this whole exercise is competition.** Right now there are an estimated 20 small grain companies that rely on the CWB for over 75% of their volume – some are over 90%. The interests of these companies (as well as the larger ones) must be taken into consideration; we want more competition, not less. We need to make sure that the necessary tools are available and effective, particularly as the industry is weaned off the CWB structure.

#61 Moving Forward: Farmer Advocacy on Trade Issues (May 20, 2011)

The CWB has often been presented as working for farmers on many trade issues. About advocacy, the CWB website states "The CWB is a strong voice on behalf of farmers on trade, transportation and agriculture policy."

In a recent article in the Winnipeg Free Press, Laura Rance's explanation of Canada/US trade in wheat is an excellent example of how this has been misrepresented over the years. The following is an excerpt from her May 7th article, "Wheat Board's Going: Now What?"

Many farmers think that if freed of the pooling system, they could simply sell everything to the United States. In an open market, they would be free to try.

Here's the catch. Long lines of Canadian grain trucks at northern U.S. grain elevators will be about as welcome as a snowstorm in May -- especially if those deliveries plug up the pipeline or have an effect on prices, either real or perceived. Just ask softwood lumber, cattle and hog producers. A trade backlash that makes crossing the border prohibitively expensive is almost inevitable.

The Canadian Wheat Board has spent nearly \$18 million fighting 14 trade cases with the United States since the implementation of the Canada-U.S. Trade Agreement,

which supposedly secured Canadian access. Under a voluntary CWB, the task of taking on U.S. trade law will fall to commodity groups and taxpayers through federal and provincial governments.

According to Rance and other single desk supporters and guardians, without the CWB single desk, farmers will be lining up to deliver into the US market. And in the worst case, the US will retaliate with yet another countervailing tariff or trade challenge.

What she fails to understand is that the 14 trade challenges brought down by the US were all against the CWB itself – not against wheat imports per se. The following statement by the North Dakota Wheat Commission (NDWC) explains their motivation (my emphasis):

“Our reason for bringing these trade inequities forth and persisting in getting them remedied is that the Canadian government **policies enabling the Canadian Wheat Board and its practices** hurt U.S. wheat farmers,” notes NDWC Administrator Neal Fisher. “Today's announcement shows the seriousness of the United States to rectify the longstanding **unfair activities of the Government of Canada and the Canadian Wheat Board**.” He adds that in the various trade challenges going forward “there may be ups and downs because of specific legal requirements, but **we are in this until the CWB is reformed**.”

With a voluntary market, Western Canadian farmers may well load up their trucks with wheat and head south as some believe, but the irritant for the US farmer and organizations like NDWC – the single desk – will not be involved. Canada and the US have an excellent long-standing trade relationship in many agricultural commodities with no restrictions - oats, canola, flaxseed, soybeans and corn; there is no reason to believe that wheat and durum will be any different once the single desk is gone.

Another thing to think about is the change in US cropping patterns we’ve seen and likely to see in the future. The US has seen its oat crop reduced over the last couple of decades as the various US Farm Bills favoured the production of other crops. US oat processors seem to be happy to import Canadian oats to fill the gap; US farmers seem indifferent. In addition, corn and soybeans are being grown in greater numbers in both North Dakota and Minnesota, displacing spring wheat, causing a drop in spring wheat acres and production. This trend in cropping patterns – because of crop genetics or climate change (take your pick) – is expected to continue, displacing even more spring wheat acres. As the US grows less spring wheat in favour of row crops, Western Canada should be poised to fill the gap – just as we did with oats.

Rance suggests that “under a voluntary CWB, the task of taking on U.S. trade law will fall to commodity groups and taxpayers...” First, as indicated above, the prospect of a trade challenge on wheat drops dramatically with the removal of the single desk. Even so, if there is a challenge, there is no doubt that there will be an industry group representing wheat interests that will step up to the plate. That group can follow the lead of Pulse Canada on glyphosate residues in Europe, the Flax Council on Triffid flax in Europe, the Canola Council on salmonella in meal into the US and others. It is already being done with other commodities; it will also be done with wheat and

durum. And yes, there will likely be a check off to pay for the activities of this new wheat organization, but how is that different than farmers paying for it via the CWB? Oh yeah – check offs are voluntary.

Once the Western Canadian market is liberated, I suspect we will see some trucks heading south, but I still maintain that the Canadian and US markets will arbitrage – prices will equalize due to competition. Fostering competition will be an important and fundamental aspect of the transition to an open market; having an open border and competitive truck rates not only opens up the US market, it adds competition for farmers' grain. And that's a good thing.

There will be many challenges as we go from a single desk environment to a voluntary CWB with a more "open market", but concerns over trade with the US shouldn't be one of them.

#62 The Process of Change (May 24, 2011)

The slow, methodical wheels of change have begun to move in Ottawa. Minister Ritz is back as Minister Responsible for the Canadian Wheat Board and he has already started to talk about the timeline they are looking at to change the CWB to make it voluntary.

So it looks like Aug 1, 2012 is the "effective date". Some open market thinking farmers would like to see something happen sooner – like Aug 1, 2011. One person I talked to the day after the election said "we should have marketing freedom right now!" But it's not that easy – even with a majority government.

Legislative processes

I was thinking that a good way to ensure we see legislative change in time for Aug 1, 2012 would be to take a two-pronged approach. First, introduce legislation this spring that would repeal the CWB Act, effective Aug 1, 2012. Once that's done, work with industry (including the CWB) to hammer out the details of the replacement legislation that would then be introduced in the fall or spring session, prior to Aug 1, 2012. This would do two things. First, it would ensure the single desk is dealt with clarity and certainty, as Minister Ritz has indicated. Second, it puts a great incentive in front of everyone to work toward getting the new model built right away – no dragging of feet, no distractions, delay tactics, or navel gazing.

It seems like such a great idea. But, people much smarter than me have said that it just won't work. Those with experience in all things parliamentary tell me that the Conservatives have so much to do once they get back into the House, that if Minister Ritz were to try to get "house time" for two bills (one to rescind the CWB Act and one to replace it), he probably won't get it and he runs the risk of delaying things on the CWB file even longer. The best way, I'm told, is to introduce one bill that will repeal the current CWB Act and replace it with the new model all in one fell swoop.

BUT – that means a lot of work needs to get done before anything is introduced. And that means a lot of work by everyone, including the folks at the CWB.

Devil is in the details

Some have argued that the grain companies and end-users should have seen this coming and prepared ahead of time. Well, they did, and they are. But again, it's not as simple as just being ready. There will undoubtedly be some CWB contracts already in place for the 2011-12 crop year. Establishing an open market ahead of these contracts being executed, and markets being what they are, either the buyer or the seller will benefit from the change to the open market and the other will not. Effectively, the government will be creating winners and losers. New rules to the new game have to be in place before the drop of the puck.

The industry folks I talk to say they've been preparing for this for some time. But – they still need to know exactly what the new environment will look and act like. There are many details to be worked out and as they say, the devil is in the details.

Cultural Shift

Minister Ritz has said we need to do this with clarity and certainty because that is what farmers, the CWB and the industry wants. To the list of people that need to know, add the people who work at the CWB.

One injustice in this whole process is how some are saying the end of the single desk is the end of the CWB itself, and therefore, the end of 400+ jobs in downtown Winnipeg. Both the Manitoba Co-operator and the Winnipeg Free Press have hinted at this. Regardless of the fallacy of this mindset, without any assurances regarding future directions, many within the CWB will, unfortunately, begin looking for “certainty and clarity” elsewhere.

The CWB will need to be reinvented and that means it will do some of what it does now and some things it won't do anymore. Assuming it will continue to provide marketing services to its supporters, this will mean marketing grain on behalf of “clients”, which requires a different internal culture than operating a marketing monopoly. The CWB and its staff will need to earn the business; they will need to be accountable. Not to government, not to the “industry” – but to its clients. Some of the people within the CWB will embrace and even thrive on this; others will not.

As a voluntary marketing agency, the CWB will continue to need sales and marketing staff, market analysts, logistics specialists and accounting support. The CWB will be able to offer unique risk management tools (if it so chooses) and may need expertise in that area too.

And like any other business that is accountable to its clients or owners, it must do all this efficiently and with the fewest resources as possible. Logically, it won't need as many of all these positions as it has now. But interestingly, in a market without a single desk, the rest of the grain trade will need additional resources; and resources with experience are always preferable.

The CWB does many things other than sell grain. These non-marketing activities by the CWB will also need to continue; things like cash advance administration, market intelligence and development, market research support and marketing education (through CIGI). Somebody will need to do it, whether within the new CWB, CIGI or some other new organization set up to do it.

The not so harsh reality

If you think that much of the CWB staff will be out of work without the single desk (i.e. not absorbed into the industry in some fashion), then those jobs must have been redundant in the first place.

Arguing for the retention of the single desk for the sake of these jobs in Winnipeg is arguing in favour of farmers paying for redundant resources. Under the circumstances, it would be better to close down the single desk and then take from farmers a checkoff to keep paying for all the CWB jobs in Winnipeg. Sounds ridiculous, but it's less ridiculous than keeping the single desk because of the potential job loss if you don't. Pat Martin (NDP; Winnipeg Centre MP), take note.

But if you think the jobs are not redundant and therefore needed and desired by the industry, then these people will be continued to be employed by the CWB or absorbed by other organizations in the industry.

Everyone from farmers to grain companies and the CWB - even CWB staff – needs to be ready to change the way they do things; if they're willing to adjust, they need to know what they are adjusting to and what the rules and/or a new Grain Marketing Act might look like. And they need time to make the right adjustments.

In my view, Aug 1, 2012 is going to come faster than you might think.

#72 Basis, Spreads and Marketing Freedom (July 7, 2011)

A fundamental benefit of the disposal of the single desk is the ability of producers to respond to market signals. When we talk about market signals, the attention usually goes to whether the price is simply high or low. But there's more to it than just the flat price (the actual full price of a commodity).

To most grain merchants, basis is as important as, or more important than, flat price. When a company runs a fully hedged book, it means that everything it does is hedged; the aim is to reduce its price risk to basis risk. And basis is more than just the difference between the cash price and futures.

Spreads – the difference between two futures months – are closely related to cash basis. In fact, spreads are a basis of sorts – what drives basis also drives spreads. Both are market signals that producers should be allowed to exploit.

In an open market, price – both flat price and basis – is an incentive to attract sales and deliveries into the system, or is a disincentive to put off deliveries. The CWB system mutes those signals and passively draws grain in on the basis of the CWB's program. Even though the CWB operates in markets where it's exposed to market signals or price incentives to either store or ship grain, it appears it doesn't respond to or exploit them. If it does, it certainly doesn't translate that back to producers in a meaningful way.

Without the single desk, producers will gain the advantage of exploiting market signals to the benefit of their own farm operations.

A simple example; let's assume it's September 2012 and spring wheat futures are trading at ICE futures in Winnipeg and street prices are based on them. On this day the nearby Dec contract is trading at \$340.00 and the March contract is trading at \$349.00; together they are showing a spread of \$9.00 under (Dec under the Mar). If we assume a static (unchanging) cash basis, the market is willing to pay an additional \$9.00 for delivery in March. In other words, the market will pay to store or carry grain. Additionally, if you believe the basis will improve by March, there are ways you can exploit that as well – for your gain.

In simple terms, you have two choices. You can sell for spot delivery off the combine and get \$340 or sell for March delivery and get \$349. You decide whether \$9.00 is worth the trouble of storing. If the market needs product now and doesn't want to see it stored, the spread will narrow, giving an incentive to move it now, not later. All you have to do is act on it. It's a great system – very efficient.

A full description of the various strategies you can use to exploit this is beyond the purpose of this article. The point here is that without the single desk, you CAN exploit this for your benefit. Imagine: by reacting to market signals, you can get paid to store your grain.

With the single desk, you can't do that. (Don't even begin to bore me with the CWB's storage program; \$1.20/tonne over 12 months is a token at best; it is not an incentive – mostly because you can't react to it, you just can get it if you don't get shipping right away on some programs.)

With access to market signals on the two major crops in Western Canada – canola and wheat – producers will be able to make real marketing decisions on both – not just one. This is important because producers that grow both have always been forced into selling canola for cash flow and waiting to be told when to deliver wheat. In the future, producers will be able to decide for themselves which to sell for cash. This is when understanding spreads become very useful. If you are indifferent which crop you deliver – wheat or canola – and the canola market is paying a bigger storage premium than wheat, you will be able to exploit that by delivering wheat in a nearby (spot) period and selling canola for a future position.

With the single desk, you can't do that.

Under the current CWB system, producers sell non-CWB crops like canola when they need cash; because they are not free to sell and deliver wheat, more canola gets sold and delivered in the fall than the market really wants or needs at the time, pushing canola prices lower as the market tries to find a price where it can clear the excess being thrust upon it. This drives spreads wider, giving buyers an incentive to buy now and store; there's a reason why the crushers all have loads of storage space.

Being able to read signals and sell and deliver more wheat means less reliance on canola for cash flow, and less pressure on harvest canola prices. Ultimately, as markets compete for producers' affections, the playing field for producers gets more level than it's ever been. When producer

have multiple options – deliver wheat now, deliver wheat later, deliver canola later – the spot price for canola – the one relied on most for cash flow – switches from being pressured lower to find buyers, to moving higher to find willing sellers.

Understanding how markets work and how producers can exploit them without the single desk is one of the most exciting opportunities ahead.

Stay tuned.

#74 Market Transition Issues (July 18, 2011)

A business plan for the new CWB needs to be developed ASAP – by the CWB, not the government.

In the most recent CWB producer survey (just released), when given the option of a voluntary CWB, the majority of farmers voted for it. The government is simply saying, if you want a voluntary CWB, we can support it. But it would be wrong to say that it's up to the government to come up with a plan for a voluntary CWB because they're the ones who want it. The onus is on those that want to see a voluntary CWB work to come up with the plan. Although a majority of the CWB board may chafe at the notion, it's not unreasonable to expect them to devise the best voluntary CWB business plan it can.

If CWB supporters don't see a future for a voluntary CWB, why expect Minister Ritz to?

All financial issues need to be dealt with as soon as possible.

The CWB has said that it should keep the government guarantee; others have said that would mean it has an unfair advantage since sovereign (government-backed) debt comes at lower interest rates. If there is a sincere desire to have a voluntary CWB and a level playing field, a middle ground needs to be found; perhaps there's a way to provide backing for financing at commercial rates for an interim period. Where there's a will, there's a way; if the CWB is interested, it needs to say so.

The CWB has said recently that the federal government will need to assume CWB employees' pension liability. I have no idea if the liability is "in the hundreds of millions of dollars" as indicated by Allen Oberg, chairman of the CWB board, but the CWB 2009-10 Annual Report does not show a liability of this order. In fact, page 101 shows the "fair value of plan assets" to be \$93.3 million and a plan surplus of \$20.3 million. Even when they combine the pension with "other benefits" the balance is still a surplus of about \$11 million. Unless I'm missing something (which is possible), this is a far cry from a liability in the "hundreds of millions".

Since the CWB is a "shared governance" agency of the government, it would seem reasonable for the federal government to be ultimately responsible for any shortfalls.

It would make a lot of sense for the CWB to begin discussions with grain handlers.

As part of its business plan, if it plans on providing marketing services to farmers, the CWB needs to know potential terms of engagement with grain handlers. I'm told that to date, the CWB has not approached the grain companies to engage in negotiations. I have also been told that the CWB executive and senior staff would like to but have been instructed by the board that they cannot. If so, this is a mistake. The CWB should be talking to all grain companies active in Western Canada in an effort to develop commercial relationships – sooner rather than later.

But perhaps the CWB has no plans on being a grain marketer on behalf of farmer-shareholders. If that's the case, it's a shame the CWB has not yet seen fit to advise the industry on this.

Futures contracts

ICE futures contract design is nearing completion and will be ready for trading asap after legislation is complete and the Aug 1 date for an open market is a done deal.

The plebiscite

This is a complete waste of time and resources. I'll make a prediction: the results of this survey will show that the farm community is split on the single desk issue. Really, nothing else matters. It doesn't matter if the single desk gets 20% support or 80%; a proportion of the farm community doesn't want it and it is autocratic to insist that because some want it that all must suffer by it. On top of that, it appears that many farmers who want marketing freedom aren't even going to participate in the vote. Some are sending their ballots to Minister Ritz as an indication of support for the government, knowing full well that their ballot will not be counted. Others are refusing to send the ballot in at all, as a form of protest. This does not bode well for the relevance of the survey.

The trade is getting ready

Although just about everyone in the grain business is getting ready and making internal changes to how they do things – new IT systems, new employees, new processes, revamped funding, new relationships and so forth, it is still too early to expect any overt changes in how they do things. As one person told me, "we're just in a holding pattern until we know for sure what's going to happen". This refers to both the legislation going through and what the CWB will look like.

For the next few months, don't expect to see any earth-shattering news about how the industry is going to look – at least not until we know more about the CWB itself. Also, grain companies could offer contracts out past Aug1, 2012, but I think we will see very little in the next few months.

Also, although some companies not active in Western Canada are making enquiries, don't expect them to take the lead on anything until the CWB is more clearly defined.

This "holding pattern" by the industry is not necessarily a good thing. As long as the CWB holds back on its future plans and strategies going forward, the grain trade is forced to wait before offering anything meaningfully to farmers. In the meantime, possible marketing opportunities may be lost. Pity.

#76 More Transition Issues – the Red Herring Files (July 26, 2011)

There are a number of issues presented as problems with the removal of the CWB single desk. They are presented as reasons why the government should re-think its position on the single desk because of the expected negative impacts. From my perspective, these are nothing more than red herrings.

The CWB provides funding for various industry groups, supporting research, market development and education. How will these groups be funded without the CWB?

First, let's look at what the CWB does directly. The CWB supports both the Canadian International Grains Institute (CIGI) and the Canadian Malting Barley Technical Centre (CMBTC) with direct payments (they both receive funding from other sources as well). In 2009-10, the CWB provided a total of \$2.3 million in financial support to these two organizations. This works out to \$0.11/tonne of wheat and durum and \$0.17/tonne on barley that farmers paid through the pool accounts.

Second, the Western Grain Research Foundation (WGRF) receives funding from producers via a check off by the CWB. The WGRF wheat and barley check-offs of \$0.30/tonne and \$0.50/tonne respectively are collected on the final producer payments made by the CWB. This approach, deducting the check-off from CWB final payments was adopted due to cost effectiveness but it is by no means the only way to collect funds of this nature.

Funding for all these groups – CIGI, CMBTC and WGRF – that has been provided either directly from the CWB (on behalf of producers) or from producers via a check off administered by the CWB, could easily be collected from producers through a check-off mechanism.

There are many check-offs already established, and on most crops. Currently, nine producer organizations collect check-offs through the services of Levy Central and the Agriculture Council of Saskatchewan, representing canola, flax, mustard, canaryseed, oats, and winter cereals. Others administer their programs independently, supported by front line buyers (grain companies) who make the deductions and forward the money collected to the organizations involved. Wheat and barley check-offs could easily be added to this group.

Even without the single desk, farmer-contributions to various organizations via the CWB will continue to support various research and market development efforts, as long as the need and the intent is evident. The loss of the single desk will not change any of that except the vehicle for collecting the money from farmers.

The vast majority of producer cars are loaded with CWB grains. With the loss of the single desk, will there be fewer producer cars loaded? Also, what will that mean to producer-owned short lines that are dependent on producer loaded cars?

In 2008-09, producers shipped 12,706 cars of CWB grains and 537 cars of non-CWB grains. Of the non-CWB grains, most notable were 416 cars of oats.

Producers load their own cars to avoid the cost of going through an elevator. The most recent report by the federally appointed Grain Monitor shows the average wheat elevation is \$13.00 per tonne; on a 90 tonne car, this works out to about \$1,200 per car. However, competition in non-CWB crops such as canola has driven elevation margins (costs to farmers) much lower. Avoiding non-CWB elevations does not provide as much incentive for producers to load their own cars, hence, fewer non-CWB producer cars.

Short line railroads are often closely associated with producer car loaders; in fact, the farmer-owners of many short lines are also the major shippers on the line, shipping producer cars. With the loss of the single desk, we will likely see fewer producer cars of wheat loaded as competition is expected to tighten elevator costs, reducing the potential savings and incentives to load cars. But there will also be opportunities that we have not seen yet; producer car loaders and short line operators would be well advised to develop relationships with potential marketing partners, terminal operators (such as Mission Terminal in Thunder Bay, currently the largest producer car receiver) and even end users, both domestically and in the US.

It's important to also remember that the CWB has yet to determine its role in the new environment. Recently, the CWB has indicated that it is looking at different business models but it is not yet clear if it will play a role in producer cars and short lines. Depending on its structure and strategy, the new CWB could be very well positioned to present itself as a marketing partner for producer car loaders and short line operators. Considering its public stance on producer cars, it would be surprising if producer cars were not included in a significant way in its strategy; it has working relationships with all the buyers and operational relationships with terminals such as Mission Terminal, known to be the largest producer car receiver.

In a new market environment, as the single desk leaves and more competitors enter, the traditional flow of grain may change. Many companies not yet active in Western Canada are looking at entering this market and because they may not have an infrastructure to employ, any one of them could see an opportunity to originate grain through producer cars and short line railroads.

Take oats for example. Over the space of the last five reported years, total oat producer cars have trended higher, moving from 32 cars shipped to 416 cars. It appears that someone has found a market they can service with producer cars. With the removal of the single desk and with new players, there is no reason to think that this is not possible with wheat, or even other non-CWB crops.

#77 Pooling Can Work if you want it (July 26, 2011)

Allen Oberg, chairman of the CWB, stated recently that a voluntary CWB would not likely offer pooling because "farmers aren't likely to be interested". He added: "...you're never sure of how much grain is going to be contracted to that voluntary pool and that makes it difficult to make sales."

I think Mr. Oberg is wrong on both accounts. The CWB's producer survey showed 45% of wheat producers favoured the "dual market" (a voluntary CWB) and 41% preferred the single desk. The CWB has stated many times that pooling is fundamental to the value proposition of the CWB as it is a fundamental risk management tool for farmers. If that's true, it stands that many producers would expect to see the CWB offer some form of risk management in the form of a pool (or pools) once it loses its single desk and becomes voluntary.

Also, Mr. Oberg is repeating the old CWB position that a voluntary pool won't work, based on the assumption that it will have a fixed price or value (like an Initial Payment or PRO). They say farmers will opt out when the "open market" price moves higher and, in a falling market, farmers will want in or those farmers that are in the pool will suddenly find that they had astounding yields and want to deliver more than the CWB anticipated. So in a rising market, the pool gets starved and in a falling market, the pool gets overwhelmed with high priced grain. The thing is, none of this needs to happen.

A successful voluntary pool – right in our backyard

Although Mr. Oberg suggests that there are many reasons why there are not pools in other crops like canola, oats, peas or lentils, he is mistaken to believe that there are none. A very successful pool is operated by Viterra out of Bow Island, AB. This pool has been successfully managing risk for, I'm told, about 100 edible bean producers in the area since it was run by Alberta Wheat Pool. I'm also told that even though there are times when the open market price climbs above the pool price, the pool is very successful at retaining members. They see it as a long term prospect, and over the years, they've done very well. They also know that if they were to opt out, there are five more waiting to take their spot. Once out, it would take a long time to get back in – so guess what? They don't leave.

Pools don't have to be "one size fits all"

Pools could be developed with different focuses:

- A specific class or variety of wheat
- Grain from a specific region or with specific quality parameters
- Grain going to a singular buyer (a good example would be something like the Warburtons program).
- A few years ago, a colleague suggested a separate pool for high quality wheat destined for Japan.
- A select group – producer car loaders on a short line share a common goal to reduce costs and make their investment work. They could easily market their grain together and pool all the returns; a voluntary CWB could provide marketing and pooling administration.
- Unpriced pools – there is nothing magic about the CWB when it comes to timing of pricings (selling futures). A pool could be offered that gives its members a fixed basis as its only price guarantee. Pricing would be at the option of the producer, or he could choose the option of having his portion of the pool professionally managed (priced). Pools could compete on the strengths of the pool managers' track record, much like a mutual fund.

When I acted as a consultant to Prairie Pasta Producers (PPP), the CWB rejected the idea of PPP, a co-op of about 600 farmers, processing their own durum without going through the CWB and its pool. To the CWB, it would mean PPP members were “cherry picking” the high valued domestic market. I suggested that every durum farmer in Western Canada should be encouraged to join and support the coop; that way, every durum farmer would benefit from selling directly to their own processing plant. Further, I suggested that the CWB could also enable and support it by offering a separate “pasta pool” for those involved; this way every participating durum farmer would get the same return from their sale to their processing plant. All other deliveries would go through the conventional durum pool. Obviously the idea never went anywhere.

There are also some developments in electronic trading that enables the development of averaging indexes that represent the average pricing of a commodity over a selected period. The index would be based on a specific cash market; the electronic trading system would be set up to generate the index based on trades going through the system. Although used extensively in energy markets, it could be applied to agriculture quite easily. Grain companies (and the new CWB) could offer pools on the basis of these indexes, which could average the price over any predetermined period –from weekly to annually. So to get the average price over a pool period is easier than ever.

When it comes to pooling, why just the CWB

All this talk of different pools begs the question: once the CWB no longer has the single desk, government guarantees or enabling legislation, what is it? CWB supporters have said, perhaps rightly, “the CWB will not be anything more than a broker or another grain company.” This is especially true if the new CWB doesn’t offer pooling, as Mr. Oberg is suggesting.

The federal government is committed to enabling a voluntary CWB. If the CWB becomes just another grain company, and anyone can pool, perhaps the federal government should look at new legislation that would provide the new CWB – or any other entity – with the appropriate tools to compete in the pooling and risk management arena.

#85 Cash Advance Program Needs to Fit With the New Market (Aug 31, 2011)

First – to dispel a misunderstanding. The Advance Payment Program (APP) is not a CWB program; it is a federal program offered under the Agricultural Marketing Programs Act. The CWB is simply the administrator of the program for wheat, durum and barley. Unfortunately, some producers think that they will lose cash advances on wheat once the single desk is gone. That just isn’t true.

However, with the removal of the single desk, the economics of wheat, durum and barley marketing will change and it makes sense to take a hard look at the Advance Payments Program with the objective to ensure it fits well with the new market realities.

Features of the Advance Payment Program

The following points paraphrase the description of the program on its website. (Some editorial liberties were taken.)

- The cash advance “rate” paid to producers is based on the average market price of the grain estimated by Agriculture Canada that will be payable to producers over the crop year. The rate is limited to no more than 50% of the estimated value.
- The maximum cash advance available to each producer is \$400,000. The first \$100,000 is interest free.
- The “production period” for APP is 18 months and generally runs from April to September of the following year. This means producers have a maximum of 18 months to repay their cash advance.
- Producers repay cash advances as their grain is sold. The advance program is repaid in full before the producer receives any payments for grain sold.

These features represent limitations to the program that should be looked into, to make the program work more effectively in a market environment in which producers can readily respond to true market signals.

In an unregulated market like canola (and as we expect to see in wheat), inter-month futures spreads and deferred pricing options are important and valuable market signals and tools for producers. For example, at harvest time, canola producers are presented with spot prices (for immediate or nearby delivery) as well as prices for later delivery that are, at times, significantly higher than the spot price.

These higher prices are the market’s way of telling producers that if they commit to a deferred sale, they will be paid to store their grain instead of delivering it right now. But the need for cash flow at harvest has often kept farmers from taking advantage of deferred premiums as they are forced to sell on a spot basis. Producers selling more canola than the system really wants leads to weaker harvest basis levels than would otherwise happen.

Many producers taking out an advance still need cash flow from spot sales at harvest. Therefore, there are still more spot sales of cash crops made than the market really needs at that time. We know this because of the large price differences between spot and deferred prices; these price differences are seen as very weak cash basis levels and wide inter-month futures spreads.

With the CWB single desk system, this is not an issue. With the CWB, producers do not react to market signals to decide when to sell and deliver; it doesn’t matter when the producer actually delivers the grain, his net price is the same – the Initial Payment plus any Interim Payments and Final Payment. In the new market, this will change.

Possible Solutions

Cash advances could be designed to enhance farmers’ ability to respond to market signals. Often, deferred sales provide better returns than spot sales (carrying charges in the market); in this way,

they pay producers to store grain. If the cash advance was “tied” to the deferred sale, the value of the sale would be known and therefore, more of the value could be advanced to the producer; perhaps as much as 90% of the value (as opposed to 50% of the estimated crop value, as it is now). Not only would this help with cash flow, it would encourage strategies that provide better returns for producers.

In addition, there are a number of financial tools emerging that could be used to insure the transaction, further supporting these types of strategies.

In the event that cash advances were tied to a deferred sale, when a spot sale is subsequently made, the producer would receive the total payment of that sale, as the advance would not need to be repaid until the deferred contract is delivered. This too would lead to less grain being sold in the spot position to generate cash flow; unless, of course, the market signals indicated to sell more.

Going forward, as a general concept, cash advances should support the proper use of market signals. Better yet, they should work hand-in-glove with the market and the signals it sends.

#90 The Next Ten Months (Sep 26, 2011)

We need a smooth transition to entrepreneurial and marketing freedom. Lost in the chatter about transition issues is the fact that prior to Aug 1, 2012 there is a great deal of commercial business to take care of and the CWB holds most of the cards.

Consider this; at certain times of the year, the CWB may be marketing grain for two crop years. For example, in March of any year, the CWB will be selling grain for the crop year it is in - ending July 31 of that year - plus it will have begun selling grain for the following crop year which starts on Aug 1.

This year the CWB is expected to maintain its role as single desk marketer until the close of business on July 31, 2012. After that, the CWB will no longer have a mandate. However, the CWB is still the single desk marketer of Western Canadian wheat and barley until then and has the obligation to fulfill its mandate to the best of its ability.

However, the CWB isn't providing any certainty that it will fulfill its mandate through the transition. For example, although sign-up for 2011-12 Series A delivery contracts is underway, the CWB says given the uncertainty surrounding its future, the offering of Series B and C contracts is “currently under review”, giving the impression that it may not market grain effectively toward the end of their mandate.

The CWB has an obligation – and the power – to ensure there is no uncertainty. When it makes statements like “future challenges ... will be met with the spirit of our Farmer First initiative” and “...a focus on farmer service in everything we do”, farmers expect them to act accordingly. So why the uncertainty? It's not at all difficult; the key is to ensure commercial activity continues uninterrupted.

And then there's the issue of marketing 2012-13 wheat and barley between now and Aug 1, as the CWB ordinarily would. As it stands, it could technically make the sales, but it wouldn't be able to execute them after Aug 1. So who does this business if and when it arises? Since few in the trade will take the risk of doing new crop business until the Act has been repealed, then without the new CWB in place there is no one to take care of this business as it arises.

I mentioned it before (Sept 11th) but I make no apology for repeating myself as this bears repeating; the CWB could easily facilitate any early trade in 2012-13 wheat and barley by issuing no-cost export licenses to anyone requesting them.

Doing this would show that it stands behind its "farmer first" slogan and could give the CWB a boost of popular support. What is clear is that if it does nothing to facilitate this business, it will lose support. The market needs both clarity and the opportunity to transact business; right now the CWB is an impediment on both points.

The CWB must do a number of things fast.

It must publicly and clearly advise farmers and customers that it will be there to market grain for the full crop year ending July 31, 2012. The CWB can – and should – market grain right to the end of this crop year and, if presented with the opportunity, even make sales for shipment after Aug 1 (grain that was delivered on this crop year's permit books prior to July 31st). If CWB management and board members see it differently, they need to say so publicly and explain why.

The CWB must facilitate new crop business, giving confidence to anyone trading new crop wheat and barley that it will not impose penalties in the event that the transition process is delayed. (There is nothing to suggest that it could be delayed, but many farmers and other people in the grain business aren't about to enter into contracts without assurances; we've all been there before). Providing no-cost export licenses is just one (simple) way; there may be others.

The government has options regarding the marketing agency that will replace (in some respects) the CWB. First, there is no reason it needs to be established on Aug 1st. In fact, since there seems to be an impasse on what that agency will be able to do, the establishment of it could wait until sometime after Aug 1 - maybe some time in 2013. Alternatively, if it was up and running before Aug 1 - say Jan 1, 2012 – it could operate concurrently with the CWB for the last half of this crop year, focusing on new crop while the CWB completed the old crop. But, as long as a business plan for a successor agency is not developed, pressure builds for the CWB to facilitate new crop trade any way it can.

There is absolutely no good argument for the CWB to not facilitate ongoing grain business for the balance of the crop year. If it was true to its slogan "Farmer First", it would be removing all ambiguity and creating clarity and opportunity in the market for this crop year and next.

#97 The Contingency Fund as Political Football (Nov 21, 2011)

An account on the CWB's books meant to back-stop the Producer Pricing Options (PPOs) has become a political football.

To offer farmers the Producer Pricing Options (PPOs), the CWB needs the ability to weather some risk. The contingency fund is a separate internal account of the CWB where gains and losses in these programs are accounted for separately so they don't impact on the pool accounts. According to the CWB, "Surplus earnings from risk-hedging activities are deposited into the fund. This becomes a cushion against potential hedging losses in other years."

However, the contingency fund has limitations; at each year end, it cannot exceed a pre-set maximum balance. In the event that non-pool activities of the CWB – things like PPOs, cash trading, and so on – leads to a greater year-end balance than the maximum, the CWB must distribute the excess funds to farmers – either those participating in the PPOs or the pool accounts. This has only happened once; in 2005, income from the PPO programs (after paying farmers what they had contracted for) would have put the contingency fund over the \$50 million limit. That year, to comply with the limit, the CWB moved over \$5 million to PPO participants and \$7.5 million to the pool accounts, taking the balance down to \$48.6 million, just under the \$50 million limit. Following that event, the Fund limit was raised to \$60 million – until recently.

In March of this year the CWB board asked Ottawa to raise the limit once again; the PPO program was quite large and the market has been quite volatile, leading CWB management to take a larger risk discount from the prices paid to farmers than usual (making prices to farmers lower than they otherwise would be), which, in turn has led to a growing forecast of the balance in the contingency fund. Ottawa agreed and in early November raised the limit to \$100 million. Since then, it's reported the limit will be raised to \$200 million.

And this is where the mayhem begins.

In the Globe and Mail, Stewart Wells, a farmer-elected CWB director, said "They are expropriating money from farmers to use to float the grain company that Gerry Ritz is creating", he said. (Is it just me, or does it seem hypocritical for the CWB board to request increases in the limit and then criticize the government for increasing the limit - for giving them what they asked for?)

Messrs. Goodale and Easter took the argument to Twitter where I had the following "conversation" with them (not all dialogue shown):

De Pape: Why don't you guys mention that it was the CWB directors that asked to increase the Fund limit?

Goodale: They asked months ago for \$100M, not \$200M, and for mkt security reasons, not to pay for killing the single desk.

Easter: Not to \$200 million. Ritz did that all on his own. He loves playing with farmers money to protect his friends.

De Pape: What makes you think the 2nd \$100M is to kill it?

Goodale: Actually, government hiked the amount by 100pct, took control over the fund and thus diverted farmers money to fund killing the single desk.

De Pape: CWB asks for \$100 limit, but needs even hier limit – Ritz makes it \$200. What's the right nbr?

Easter: Farmer elected directors abiding by oath have a responsibility to farmers. Who is Ritz working for?

De Pape: Stop being a politician for a moment – don't change the subject. What should Ritz have done? What's the right nbr?

Goodale: There is no "right number". CWB's contingency fund should not be misappropriated to pay for killing the single desk.

De Pape: "Misappropriate" is the same as "steal". Ritz retracted. Will you?

(At this point, Mr. Goodale stopped "conversing".)

Easter: In my view, none of the CF (contingency fund) should be transferred (to the new CWB). Was set up under the old board for new options. Old system should pay out.

De Pape: Who do you pay it out to then? Fund was established to provide value to all farmers – should continue to provide value to all farmers.

Easter: Should be paid out across the pool accounts that were at risk.

De Pape: Pool accounts were never at risk. The Fund was set up so gains & losses in PPOs wouldn't impact on the pool accounts. Try again.

Easter: I recognize that but pay it across the pool accounts.

De Pape: What would you suggest if the Fund was in deficit? Should losses be covered by pool accounts?

Easter: It's great we don't need to worry about that because the current wheat board did such a great job.

De Pape: 3 yrs running (06 to 08) CF (contingency fund) had yr end deficits. Bad enough that \$25 million was "borrowed" from the pools. Net on (PPO) operations by 2008 was \$100 million loss.

Easter: Your figures don't make sense.

De Pape: My figures come straight from CWB annual reports.

And that was it (so far). Goodale's "misappropriation" shot at Minister Ritz is still out there – unretracted – and Mr. Easter has yet to make sense of the actual PPO results.

Additionally, Mr. Goodale's blog states: "Rather than distributing that money to farmers, where it belongs, the Conservatives quietly passed regulations this fall giving themselves effective control over that cash."

I called Minister Ritz's office to see if I missed this new regulation. Turns out Mr. Goodale is wrong; there was no regulation passed this fall regarding the contingency fund. Perhaps he was thinking about the Oct 18th Order In Council which directs the CWB to ensure profits or gains from non-pool activities are credited to the contingency fund. Although Mr. Goodale suggest this gives the government control over the funds, in reality it just removes any discretion the board may have had over the funds.

Now put that together with Minister Ritz's comments in Question Period: "Mr. Oberg continues to waste millions of dollars of farmers' money on his own personal political agenda. Since it is unclear what additional liabilities he will leave behind with his scorched earth policy, we have taken this prudent step."

It seems Mr. Ritz is concerned how the board of directors is spending farmers' money.

Reality check

In March, the board of directors asked for an increase to the fund's upper limit; a prudent move. In October, the government issues a directive to the CWB to ensure the money that should go to the contingency fund actually goes there. They follow that with an increase to the upper limit of the fund beyond what was requested to effectively "make room" for the money being generated. The eight elected directors realize that means they don't have full discretion over the loose change of the CWB anymore and screams injustice.

Why the liberals are opposing this is no mystery. To them this is just politics. If they can make the government of the day look suspect and dangerous, it serves their purposes much more than it serves farmers. And that's a shame.

Regardless of what you think the ultimate distribution of the funds should be, it is clear that the government acted prudently to reign in the current board of directors, which has stated that it will use "all resources at its disposal" to stop the government. Looking at what they've spent already, there's no telling what they would have done with access to the contingency fund money.

The dollars being argued about – the \$100 million or the \$200 million - are just the upper limits of the contingency fund. Even though the liberals talk as though they are hard numbers – real cash - the actual balance at the end of July 2012 could be much smaller (even a deficit, although I highly doubt it).

The CWB board asked for an increase to the upper limit, and then changed their minds. We need to ask why. If the board wanted any excess income in the contingency fund to go to farmers (as they are saying), they wouldn't need to increase the limit. They only need to increase the limit to keep the money in the contingency fund. Why did they change their minds?

#99 Getting on With Business (Dec 18, 2011)

With the passage of events this week, we can now focus with confidence on the markets as we transition to a full and complete open market. Bill C-18 is now law. Although the new CWB dropped its case, the deposed farmer-elected directors continued unassisted by the CWB; however, their request for an injunction to stop the implementation of the bill was denied by the judge. All that remains on the legal front is a Jan 17th court date, set by Judge Shane Perlmutter, to decide whether to suspend the law while he decides on the broader question of whether to strike the law down. There's not much he can do though as he is a Manitoba provincial court judge (not Federal); apparently he has already indicated that the most he could do is stop the bill from taking effect in Manitoba. Most opinions I am hearing now is that this doesn't have much of a chance for success.

As it stands right now, everyone is able to trade whatever they want – to whoever they want – for delivery after Aug 1, 2012. However, any wheat, durum or malt barley sold for delivery before Aug 1st still must go through the CWB – and that creates a dynamic that the new CWB needs to address.

First let's look at wheat

Although Aug 1, 2012 has often been seen as some sort of discreet “starting line” as the beginning of a new era in grain marketing, there is no getting around the fact that new crop market mechanisms will reach into the old crop as well. This creates a problem for the new CWB; that's probably why they have yet to offer Series B and C contracts.

The Pool Return Outlook (PRO) for #1CWRS 13.5 is \$6.63/bu in SK. The CWB's Fixed Price Contract (FPC) is \$6.19/bu as of Friday. But on Friday, the first business day following Royal Assent, I'm told that Viterra was bidding \$7.40/bu for new crop delivery in SK. I didn't hear of any other bids, by other grain companies or by the new CWB.

Farmers now have a choice – even for old crop. Any wheat they don't have contracted to the CWB can either be sold to the CWB using whatever mechanism is available (Series contract, FPC, or GDC, etc) or sold to whomever they like for delivery after Aug 1st. On Friday, Dec 16th, the price that Viterra offered gives a large incentive to sell old crop wheat into a new crop position; instead of selling into the 2011-12 pool, farmers can pick up an estimated \$0.77/bu by selling for delivery in the new crop. (I say “estimated” because the PRO is just an estimate and the final pool return could end up higher or lower than where the PRO is right now.) Comparing the 2011-12 FPC and the 2012 new crop bid, it's a “no-brainer” – sell your 2011 crop on an FPC and you'll give up an additional \$1.21/bu that you'd get by selling it for delivery in fall of 2012. Now that's what I call a carrying charge!

With many farmers angry about the legal costs piled up in the 2011-12 pool, you can be certain that they'll be looking at selling what's not yet committed of their 2011 crop into the 2012 crop year. If enough of them do, this could create difficulty meeting the demand in the latter part of this crop year as well as creating a burdensome demand on the grain handling system early in the

next crop year. Both these will have an impact on price as well and the new CWB would do well to prepare for this by being as effective as it possibly can.

The new CWB needs to start acting like a voluntary organization – and the sooner the better. It can start by doing a number of things:

1. Open up the feed barley market immediately. According to the CWB, “Weaker values in the export market will make further international feed barley sales unlikely”. And since the CWB has been selling feed barley only on the basis of GDCs, it can be assumed it has no open sales and no inventory of feed barley. Therefore, there is no risk to the CWB to open up feed barley completely and immediately. It can do this via a number of different mechanisms – all of them simple.
2. Open up the malt barley market immediately. The CWB could ensure it has coverage for all its malt barley sales and then open the market. But in its most recent PRO release, the CWB said; “Prices will remain under pressure as Australia and Argentina ramp up their export programs and the world moves towards a larger world barley crop in 2012-13.” If the CWB is short (i.e. it has sold malt barley but haven’t ensured 100% coverage), it will be able to remain very competitive in an open market for the balance of the crop year. Also, with new crop 2-row prices rumoured to be around \$7.00/bu, the old crop PRO at \$5.28/bu in SK will not be able to compete, creating the same scenario in malt barley as described for wheat above. The CWB will be forced to use CashPlus and there will be limited value seen in that.
3. Close the wheat and durum pools early. Once the pools are closed, the CWB can either offer a short second pool until the end of the year or offer cash prices. Either way, its prices would be more relevant to the current market and therefore more competitive. They don’t necessarily need to open the market completely (although that would help too) but they will need to be showing the true value of the wheat and durum crops in the second half of 2011-12.

Not only do farmers now have a choice – even on old crop – so does the new CWB. It can choose to operate for the balance of this crop year on the basis of the status quo, which will almost certainly create problems for itself and perpetuate market distortions that will affect everyone, or it can choose to start immediately to reflect open market dynamics, which will likely create more marketing opportunities for itself and those that choose to support it, as well as make the transition to the real open market much smoother than would occur otherwise.

Let’s hope they make the right choice.

“Every man has the power to choose, but no power to escape the necessity of choice.”

Ayn Rand