

THE CWB MONITOR

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The CWB Monitor was established in October 2010.

Generally speaking, the CWB does not provide its farmer stakeholders with a clear and open presentation of its marketing performance on behalf of farmers. 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. It is felt by many in the industry that the CWB needs to respond to this situation, clearly and openly.

Moreover, with the 2010 Canadian Wheat Board election of farmer-directors approaching, there was a perceived need for independent analysis of CWB marketing activities, processes and systems, so that farmers could cast an informed vote.

Primarily through the use of email, 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.

Many of those that receive these commentaries by email, 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 more than 20,000 Western Canadian grain industry stakeholders and other interested parties.

This document presents all the CWB Monitor commentaries published in the period from October to December 2010, grouped in relevant categories.

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Concerning Expenses

CWB Expenses

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).

More on CWB Expenses

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.

Rail Cost Review? How about a CWB Cost Review?

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 its works for barley, shouldn't it work for wheat as well?

More on Expenses

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.isthishedealyouwant.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.

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Concerning Governance

The Contingency Fund

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.

The CWB Doesn't Need the Single Desk to be a Producer Advocate

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
- Lynn Jacobson, District 3
- Garry Draper, District 9
- Stewart Wells, District 3
- Kyle Korneychuk, District 5
- 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.

It's all about listening and responding

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.

Back to the Contingency Fund

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’?

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Concerning CWB Elections

CWB Elections: Those That Can Vote, Should Vote

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.

The CWB Director Election is Important

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.

“Single Desk” Candidates vs “Change” Candidates

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 its 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:

1. 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?
2. Why do you state your firm support for the single desk and yet never talk about its marketing performance on behalf of farmers?
3. 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 defense 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.

What’s it Going to Take for Status Quo Supporters to See What’s Going On?

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.

<http://www.cwb.ca/public/en/about/investor/annual/archive/>

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, 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.

<http://www.cwb.ca/public/en/about/investor/annual/archive/>

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
<http://www.cwb.ca/public/en/about/investor/annual/archive/>

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
<http://www.cwb.ca/public/en/about/investor/annual/archive/>

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.
<http://www.cwb.ca/public/en/farmers/contracts/cashplus/gpbarley/>

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
http://www.quorumcorp.net/current_report.html

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.

<http://www.cwb.ca/public/en/farmers/payments/>

http://www.mgex.com/history/historical_new.cfm

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?

Concerning Misrepresentations

The Debate Gets Personal

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:

1. 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.

2. 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.
3. 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 slaggers. 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*

The NFU Wades into the Debate

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:
 1. 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.
 2. Affect on cash flow due to lack of full-cash-on-delivery options. Durum is a perfect example this year.
 3. Affect on non-CWB crops like canola. Prices are pressured as farmers sell these crops to pay for their bills from growing CWB crops.
 4. 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.

Myths and Myth-representations About the CWB

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.

More Misrepresentations

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.

Despatch at the CWB: Not What You Think

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 ITS 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, its 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 depatch 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.

THE CWB MONITOR

Concerning the Single Desk

Price Discrimination: Is This Really Single Desk Power?

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.”

http://www.cwb.ca/public/en/library/publications/popups/farmers_barleymarketing.jsp

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.

More on Price Discrimination: Sometimes it has more to do with the buyer than the seller

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?

CWB Single Desk vs Grain Companies

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.

Operating a Voluntary CWB Pool

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.

Managing Access to a Voluntary Pool

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.

Market Signals vs Market Power

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.

Did You Know ... We aren't doing anything like this in Canada?

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 Viterra 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.

Why Does the CWB Treat Its Customers Better than Farmers?

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".

THE CWB MONITOR

Concerning Price Comparisons

The US Market, Part 1

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.

Let's Compare Premiums

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.

More Price Comparisons

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?

The US Market, Part 2

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, 20070-08 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."

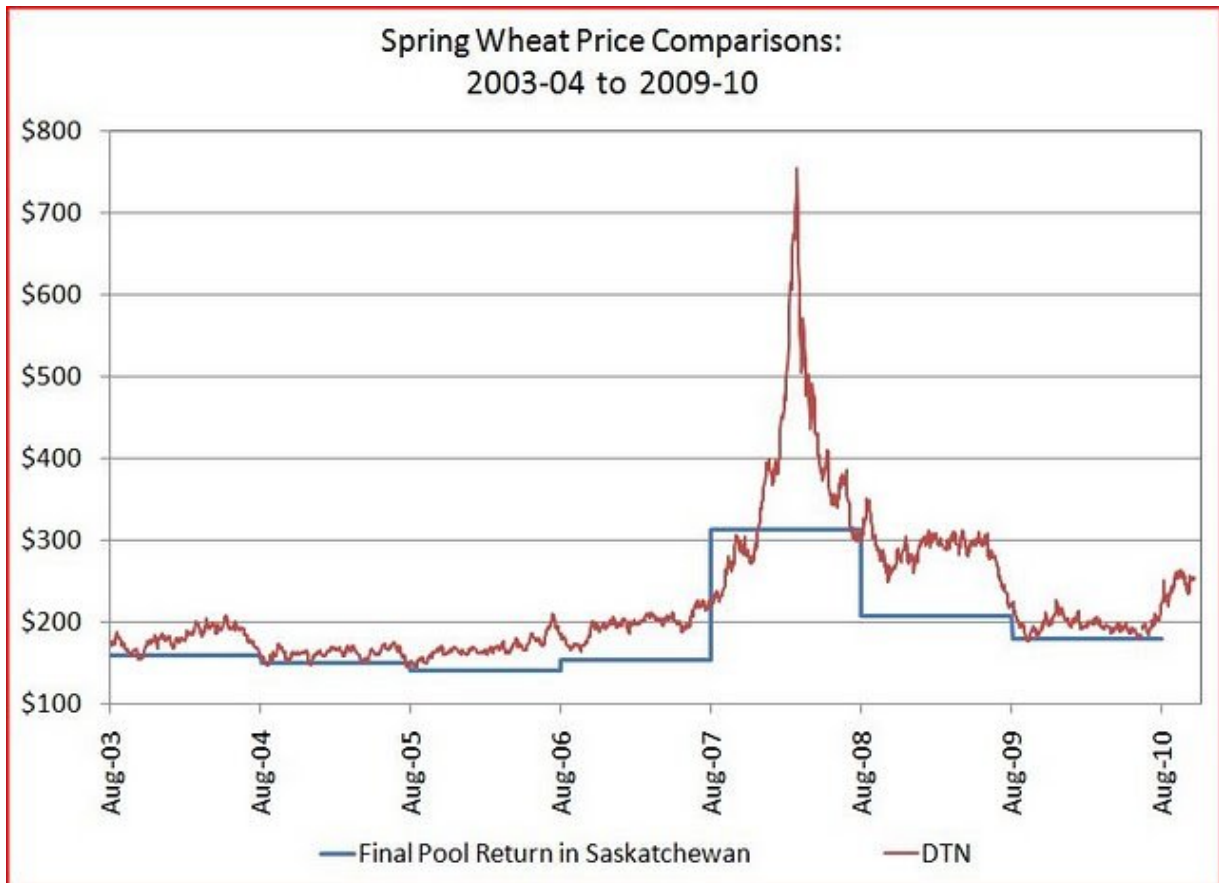
24% priced at 15% through the crop year; 60% priced 50% through the crop year. Are they skewing pricings early in the crop year? Is that what you would do this year? Just asking.

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.



Deferred Delivery Premiums

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?

THE CWB MONITOR

Concerning Barley

Feed Barley Exports

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.

The Feed Barley Pool B for 2009-2010 is a bust

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.

Does the CWB get premiums in barley?

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?

Why Barley?

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?

Malt Premiums with a Voluntary Pool

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.

More on Feed Barley Exports

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.

The CWB Misses the Point on Feed Barley Debate

Late last week, the CWB commented on the feed barley debate. (<http://www.cwb.ca/public/en/hot/record/commentary/>) 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.

The Single Desk is Impotent in Barley

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 drivers 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.

The “Benefits” of Pooling and the Single Desk are Wasted on Feed Barley

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.

THE CWB MONITOR

Concerning Feed Wheat

Current Feed Wheat Situation

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.

THE CWB MONITOR

Concerning Durum

Is this the deal you want?

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)?

Current Durum Situation

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.

THE CWB MONITOR

Concerning the Media

When it Comes to the CWB, Why is the Media so Unbalanced?

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.

Decisions, Decisions. Knowledge is Power

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.