CWB MONITOR ISSUE #52 - CWB Farmer Forums – Questions?

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

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

About The Lakers

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

QUESTION: What is the CWB's mandate?
QUESTION: How does purchasing vessels come under the CWB's Mandate?
QUESTION: The possibility of making investments like this using farmers' money is not mentioned in the Annual Reports. Why?
QUESTION: Will the CWB consult with farmers to see if farmers are interested in financing this purchase? Will the CWB ask farmers' permission to use their money?
QUESTION: If so, will the CWB listen to farmers and abide by their wishes?
QUESTION: If you don't ask permission, how can you reasonably say that you represent farmers and their interests?
QUESTION: Can you explain – if this deal is so great – why is Upper Lakes (the CWB's supposed partner in this) selling its stake in all of its vessels, including the ones just ordered?

About Feed Barley

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

QUESTION: The CWB uses sales price comparisons to assess its marketing performance by grain. But it doesn't report anything for feed barley sales; why? (Annual Report, page 45)
QUESTION: Why is the CWB involved in feed barley at all? What value to farmers does it provide? How can you say the CWB provides value in feed barley when the single desk keeps domestic market prices lower than offshore?

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

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

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

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

About Malt Barley

The Annual Report reported that the CWB achieved premiums in malt barley of $13.71/tonne over all competitors.
The malt barley market is very competitive; China, the CWB's largest buyer of malt barley is the most competitive market in the world for malt barley and it is well known that the Chinese are extremely price sensitive.

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

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

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

About Durum

The 09-10 Annual Report stated (page 56): "Given reduced international price levels from the previous year, 2009-10 saw lower-than-expected farmer deliveries against Series delivery contracts, and an increase in the number of farmers who chose to deliver 2009-10 durum into the 2010-11 pool."
However, the CWB only accepted 40% of Series A and 20% of Series B durum contracts. (page 56)

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

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

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

About Premiums

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

QUESTION: How are these premiums calculated?
QUESTION: How do you rationalize this statement with the fact that year after year, US prices are much better? (In many years, even the lowest US price over the crop year is better than the total pool return.)
The "net CWB costs" for 08-09 were reported by the CWB to the federally appointed grain monitor as $8.44/tonne. Assuming the net CWB costs are similar in 09-10 (not yet reported), the net result of CWB marketing is not a premium to the competition, rather it is a discount (or loss) of $3.54/tonne.
QUESTION: What is the true value of the CWB when it loses an average of $3.54/tonne relative to the competition? Why does the CWB boast about getting premiums when the net result is actually a loss to farmers?

About "Contributions from other revenue sources"

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

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

QUESTION: Are these all the sources of revenue in this category? If so, is it true that the CWB lost $1.05 million in discretionary foreign exchange trading? Why is this not reported directly? Why is it hidden and we have to figure it out?
The Annual Report (page 46) reported "While 2009-10 targets were exceeded for some revenue sources, others were negatively impacted by the strong Canadian dollar, increased financing costs and rising commodity markets."
QUESTION: How would rising commodity prices negatively impact these "other revenue sources"?

About "Other Income"

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

QUESTION: What is the makeup of this?

About "Other direct expenses"

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

QUESTION: What is the makeup of this?

About Cash Trading

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

QUESTION: Can we get a breakdown by each program?
QUESTION: What is the source of the $10.4 million listed as "other income" in the cash trading statements?

About Mission Terminals / Soumat

Mission Terminal is part of Soumat, the grain handling business owned by Upper Lakes Group, the CWB's partner in the laker purchase.
It has been reported that Mission Terminal made CWB director-election contributions to some director-candidates, particularly those that have an interest in producer cars.

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

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

QUESTION: Can you explain why the Soumat transfer elevator in Trois Rivieres has seen its CWB business go up so dramatically since the appointment of Adrian Measner?
QUESTION: Why is Mission Terminal expanding? Did the CWB negotiate with other terminal operators in Thunder Bay for additional volumes (instead of sending it to Mission)? If no, why not? If yes, why did Mission have to expand?
QUESTION: Is it the view of the board that favouring one company over the others is a good long term strategy for farmers?

Details about the Farmer Forum meetings can be found on the CWB website at:
http://www.cwb.ca/public/en/newsroom/events/farmforum/popups/meetings.jsp

You can get a copy of the CWB Annual Report at:
http://www.cwb.ca/public/en/about/investor/annual/

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