

THE CWB MONITOR

THE CANADIAN WHEAT & BARLEY MONITOR

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CONFIDENCE

Just about everything being reported or stated recently by single desk supporters seems to be aimed at eroding confidence in the new market. Current court cases notwithstanding – the reality is the reign of the single desk is over. We are entering a new world; focusing on all that they see as negative (even when they're wrong) while giving no solutions, serves no productive purpose. If there are challenges – and yes, there will be – then they need to be addressed productively – with solutions.

NFU

In a recent release, the National Farmers Union (NFU) painted a bleak picture of the market without the single desk. Among other things, it was critical of the suggestion farmers should use futures contracts and other “costly services”. (It's as if the NFU would like you to ignore the fact that the CWB itself uses futures.) They are either ignorant of the well-documented fact that the futures market is a highly efficient, low cost risk management tool that enables the best possible prices, or they are being disingenuous. Take your pick.

The NFU also says grain companies anticipate making more money, adding this is “money that will come out of farmers' pockets”. This is classic “shrinking pie” mentality – there's only so much to go around and if you make more, I make less. The idea that being more efficient will actually make the pie bigger (where everyone gains) is beyond their comprehension. This mindset will only succeed at failing.

Stewart Wells

Deposed CWB director Stewart Wells is single-handedly trying to erode confidence in the new market by stoking the fires of uncertainty. In a recent interview he said “All this confusion has meant that nobody really knows what role the wheat board might be playing this coming fall.” This is classic verbal sleight of hand. He is correct that the CWB has yet to provide details of new offerings, but he fails to explain that it was he and his colleagues of rogue CWB directors that caused this uncertainty by keeping the CWB staff from preparing for its new role.

Even so, the lack of details of new-CWB programs does not detract from the market. The open market has already started showing more useful price information than the single desk ever did.

Wells also expressed concern over new contracts that don't provide grade discounts. After all, with the CWB system you knew what the grade spreads would be. For instance, in 2009-10, the spread between Initial Payments for #1 CWRS 13.5 and 14.5 (1 percentage point of protein) was \$0.22/bu. On the total pool return, the spread ended up at \$0.43/bu. However, according to NDSU, the similar spread in the US started the year around \$0.60/bu and spent most of the year between \$1.20 and \$1.40/bu. In Canada, protein spreads have been muted by the CWB pooling system, meaning unclear market signals and those with high protein have been sharing the premiums with others with lower protein.

You can't lock in protein spreads in most forward contracts (US farmers can't either), but in the open market you will get paid for high protein according to the market and not be forced to share those premiums with others that produced lower protein.

Laura Rance

In a recent Winnipeg Free Press editorial, “Difficult decisions for farmers in a post-CWB environment”, Laura Rance spun an image of confusion and challenge for farmers. According to Rance: “farmers were taken aback by how many decisions they need to make”; “consultants are warning farmers to read the fine print...”, and; “grain companies are planning to make a lot of money in the post-CWB environment”.

Read this article. I defy you to find even one productive comment. Rance would have provided much more value if she provided some ideas of how to address these issues – if they need addressing at all. As it is, she’s being nothing more than a “Debbie Downer”.

Murray Fulton

Murray Fulton, professor at the University of Saskatchewan suggests that in the new world, there really won't be much difference. He says some farmers will make a little more and some will make a little less. And grain companies will be the greatest beneficiaries. He, like many other analysts miss the point of greater efficiency, lower cost, better cash flow, and positive impacts (for farmers) on other commodity prices such as canola. And he provides no ideas on how to capitalize on the new reality.

Confidence

Whether you believe in the open market or not, you do farmers a profound disservice by doing nothing but sow seeds of discontent, uncertainty and confusion. Markets – especially new markets – need confidence, not doubt.

- Some people still insist that a voluntary CWB won't work. I'm in a different camp; my view is that given the right focus and strategy, the CWB will flourish. In fact, I believe that the future is very bright for the new CWB. The new CWB can position itself as an industry leader in providing value to farmers through risk management tools and financial tools. It can offer products to farmers through currently established farm-coaches that are well positioned to offer competitive products and services to farmers; not only would this be cost effective for the new-CWB, it would allow it to focus its resources on developing the products that will add value to farmers.
- As I talk to more and more people in the industry - farmers, grain traders and others – it's becoming increasingly clear that there will be a great deal of grain looking for value from the CWB. Until they get a real good feel for the new world, many farmers will opt to pool at least a portion of their grain. The potential is there. And the potential is huge. To use a sports metaphor, it's the CWB's game to lose.
- Contrary to what the NFU believes, futures enable the price to the end user to be lower and the price to the producer to be higher than otherwise without futures. In addition, grain companies have limits to the amount of risk they can accept and futures enable these companies to accept more business at one time by reducing risk – this increases the capacity of the industry to market grain. And that's good for everyone, including farmers.
- I am confident that the ICE futures will evolve into meaningful and effective tools. The conventional wisdom of those involved in the design of those contracts (including yours truly) is that each one of them has the potential to provide great value to the western Canadian industry – and that includes farmers. It will take some effort but it will be well worth it in the long haul. The government removed the single desk to improve the market and economic prospects for farmers. It makes perfect sense that it would continue the exercise by whole-heartedly supporting the instruments that replace the single desk. I can't think of a better way than using the government guarantee to backstop the CWB as a market maker in the new ICE futures contracts.

As an industry we need to work at ways to strengthen farmers' hands. Removing the single desk was the first step. Farmers will now benefit greatly by an approach to marketing their own grain that exploits market signals and market awareness. Cash flow has been an impediment to sound marketing, with farmers being forced to sell for cash and not for market reasons; this will be fixed by having more cash crops (like wheat and durum) and with a more market responsive cash advance program. Farmers will benefit from increased market knowledge and expertise; it's not as daunting as some make it out to be and there are many ways to strengthen your knowledge and expertise. In addition, farmers can be protected through new financial tools such as credit insurance and transaction insurance schemes.

Agriculture in Western Canada is poised to enter a new world – with great challenges and even greater opportunities for wealth creation and economic development. To only focus on possible negatives and say that farmers will be challenged is an insult. Pessimism is an impediment. If you don't focus on solutions you are letting the farm community down; if you aren't part of the solution, you're part of the problem.

Here I am extolling the virtues of addressing problems with ideas and solutions – and yet I scold single desk supporters for their negative comments while giving no solutions. So here's the solution: anytime someone is negative, challenge them to come up with solutions. If they don't have any, tell them to come back when they do.

Nothing was ever accomplished by someone who thought it wasn't possible.

Confidence is contagious. So is lack of confidence.

-- Vince Lombardi

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