

Canadian Wheat Board Transition Project

Prepared for

**Alberta Agriculture, Food
and Rural Development**

Contract # 378-06

Prepared by a consortium led by
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February 2006

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***Collaborating for Success
in the Agri-Food Sector***

Table of Contents

<u>Section</u>	<u>Page</u>
Executive Summary	iii
1.0 Introduction	1
2.0 Alternative Business Models	2
2.1 Characteristics of the Desired Grain Market Structure in 2013	2
2.2 Current CWB Strengths	2
2.3 The CWB and the Grain Supply Chain	3
2.4 Designing a CWB Business Model	4
2.5 CWB - a Western Canadian Grain Company, with Physical Assets	7
2.6 CWB - a Marketing Agent for Producers (Producer Agent)	9
2.7 Transition Issues – CWB as a Grain Company or Producer Agency	10
2.8 CWB - Marketing Agent for Sellers of Canadian Grain (Port Buyer)	12
2.9 CWB - an Agent for Buyers of Grain (House Buyer)	14
2.10 Transition Issues – CWB as a Seller’s Agent or Buyer’s Agent	16
3.0 Assessment of Business Models	17
3.1 Assessment against Criteria	17
3.2 Summary of Assessment	23
<i>Appendix I Examples of Successful Transformation from Single Desk Sellers</i>	26

Executive Summary

The newly elected federal government has indicated that they desire to have a voluntary Canadian Wheat Board (CWB), which implies marketing choice for prairie grain producers. To assist in this process by stimulating debate and dialogue on desired outcomes and on transition to the desired outcome, four possible business models for the CWB are developed in this report.

Possible CWB Business Models that Provide for Marketing Choice

The possible business models for the CWB are:

- ❑ A western Canadian grain company, with physical assets (Grain Company);
- ❑ A marketing agent for producers (Producer Agent);
- ❑ A marketing agent for sellers of Canadian grains (Port Buyer);
- ❑ An agent for buyers of grain (House Buyer);

These business models are designed to leverage some or all of the CWB's current strengths. For example, the CWB as a western Canada grain company leverages current strengths of customer relations with a segment of customers, leverages its international reputation for quality and consistency, and leverages its existing producer loyalty. By doing so, the CWB becomes a grain company with physical assets to capture the value of operating an integrated grain company for its grower members.

Assessment of the Possible Business Models

The CWB can become a sustainable entity in the western Canadian grain business as a full-fledged grain company. Its success will depend on the transition process that is in place to allow for its transformation from only a marketer of grains to a grain company. Long-term success will also depend on the source of funds and cost structure and debt load that the CWB assumes as it pursues this strategy.

The CWB can also be a sustainable entity in the western Canadian grain business as a producer marketing agent. This model does require that the CWB leverage its strengths, and that it enter into solid agreements and strategic alliances with supply chain partners to successfully implement and execute this business model. The CWB may remain as a producer marketing agent, or it may find that it needs to acquire physical assets to effectively execute as a non-regulated grain marketer on behalf of producers. If so, the business model can evolve to a business model where the CWB is a full fledged grain company operating in western Canada.

The CWB as a seller of Canadian grain and taking possession of grain at port (sellers' agent) should have less debt and fewer assets with this model. The CWB does leverage its customer and reputation strengths in this model; although, the CWB is not as connected to the producer except through in-country affiliates and agents. Since the business does not have as broad a span of supply chain control as with a grain company, it is subject to being squeezed out of the business by competitors through their competitive actions and/or integration into their competitive space. How well the CWB can leverage its strengths will determine the ultimate success of this business model.

With the CWB as an agent for buyers of grain, this business model further removes the CWB from its producer base and results in more threats to the business. Successfully executing this model requires leveraging many of its current competencies and strength. It will need to be excellent in logistics and procurement to deliver value to its customers.

Transitioning to a New CWB Business Model

A critical issue with producer choice may well be whether the new CWB business model is (1) sustainable, and (2) whether this entity is accountable to growers and/or grower controlled. In terms of sustainability in the longer term, a full fledged grain company is potentially the most sustainable as a business entity, because it offers the most opportunities assuming that CWB can successfully transform itself into a grain company, and does not assume a high cost structure and/or debt load during its transformation. Over the longer term, whether producer control can be retained depends on its legal and governance structure, and its ability to raise needed capital.

The next most sustainable model is one of the CWB as a producer marketing agency. This organization by design will have more producer control, as it is designed to be the marketing agency of producers who choose to be part of the organization. This organization, however, may find that over time it needs to acquire operating assets to remain competitive, and accordingly may evolve to become the full-fledged grain company business model.

The house agency model (buyer for customers), and the port buyer are more limited models and may be less sustainable or attractive to Canadian growers in the longer term because other companies may perhaps more easily integrate around these types of businesses and offer a more complete and efficient service.

The business model that the CWB will migrate towards in a producer choice world will be shaped by the goals and aspirations of the current CWB Board and its senior management, the interests of producers who support the CWB, and the political interest of government when the decision is made. The outcome will be shaped by these factors, the sources of funds that are available to the CWB in a transition period, the cost structure that the new CWB incurs, as well as the regulatory powers and processes that are provided to the CWB in any predefined transition period.

The outcome will also be shaped by whether the powers provided to the CWB in a transition process are deemed to fair and equitable by existing competitors (i.e., acceptability by grain companies) . The outcome will also be affected by the nature of the competitive rivalry that will emerge between grain companies and the CWB, as well as the alliances that may develop among grain companies and the CWB.

A possible next step is dialogue on the expected outcome and alignment of views by the affected parties and stakeholders on the desired outcome. Following this, appropriate transition mechanisms can be developed.

1.0 Introduction

AAFRD has been advocating producer choice in grain marketing, with the implication that through more choice value added opportunities can be exploited by grain growers and processors. The newly elected federal government has indicated that they desire to have a voluntary Canadian Wheat Board (CWB). Further, the current WTO negotiations may require substantial changes in the operations of the CWB and possibly also modifications to its monopoly powers¹.

AAFRD sees the present situation as a positive opportunity to bring about changes to the CWB that can help achieve marketing choice. In this regard, AAFRD commissioned the JRG Consulting Group² to assist AAFRD by developing and assessing new business models for the CWB that are consistent with marketing choice by grain producers. The objective guiding this project is; *“To develop alternative proposals for a new CWB business model that would be consistent with the goals of marketing choice”*. These business models, which could be combined to create other models, are meant to stimulate discussion, a very necessary step in moving forward. Examples of successful transitions from single desk selling are provided in Annex I.

Operating Environment Assumptions

To guide analysis of new business models and associated transition issues, a set of operating environment assumptions is outlined below. These operating environment assumptions are for the operating environment at the end of a transition phase, which we have taken to be 2013, when agreed upon WTO changes are to be effective. These operating assumptions include:

- ❑ The CWB Act is rescinded, implying that the CWB is no longer the single desk seller, export permits are not required, and deliveries to the CWB are voluntary;
- ❑ There will be no government financing available to deliver initial payment programs, and any export concession will be generally available to all grain exporters;
- ❑ The CWB has no policy role in grain transportation or preferential treatment in grain transportation;
- ❑ Existing regulatory bodies (e.g., Competition Bureau, Canadian Grain Commission) and/or existing authorities will be in place to ensure that restrictive trade practices do not occur in the grain industry;
- ❑ Increased livestock production and an expansion of bio-fuels will be a major consumer of grain, with a resulting larger domestic market for grains and oilseeds;

A few CWB business models are developed and described in the following section. These business models will be assessed in the next section (3.0), along with associated issues.

¹ The December 2005 Hong Kong declaration (of the WTO) says that all export subsidies will be eliminated by 2013 with significant amount of the reduction occurring during the first half of the implementation period (exact schedule to be determined). The monopoly powers of STE (like the CWB) continue although subject to further disciplines. As agreed to under the July 2004 framework, activities of state trading enterprises that distort trade (such as export subsidies, government financing, and underwriting losses) will be eliminated. Export credits, export credit insurance or guarantees on repayment periods of 180 days or less are to be self-financing and consistent with market conditions.

² The project was led by Dr. John Groenewegen of the JRG Consulting Group. Team members included Bruce Johnson of Windrow Consulting, Dr. Timothy Ryan of Timothy J Ryan and Associates Pty Ltd in Australia, and Dr. Shelley Thompson of SJT Solutions.

2.0 Alternative Business Models

Alternative business models for the CWB are developed and described in this section. These business models are not intended to prescribe the exact model chosen by government and producers. They are however meant to stimulate dialogue on the desired end point and the associated transition process. The business models are based on leveraging current strengths and on important design elements for a profitable business.

2.1 Characteristics of the Desired Grain Market Structure in 2013

Our development of business models for the CWB is guided by some characteristics of the desired end point in 2013. The desired end-point can be characterized as follows:

- ❑ Producers have marketing choice, implying that delivery to the CWB is voluntary and the CWB does not have single desk selling authority;
- ❑ The CWB does not have any regulatory-based market powers;
- ❑ The CWB has no regulatory role in the western grain trade;
- ❑ Export permits are not required to export grain;
- ❑ The federal government has no role in the CWB – financing and underwriting support is withdrawn; and
- ❑ Western grain farmers primarily control the CWB³.

2.2 Current CWB Strengths

The business models developed for the CWB when it operates in a competitive environment, with no privileged regulatory powers should be based on its current strengths, including core competencies. A business model for the CWB that does not leverage its strengths is almost bound to fail, as the CWB would have to develop new core competencies and compete with existing entities where these areas are their current strengths. The strengths attributed to the current CWB organization that can be leveraged in a less regulated environment include:

- ❑ A good relationship with customers and a thorough knowledge of their requirements in a number of markets⁴;
- ❑ A solid reputation for pricing, delivery and contract execution; and
- ❑ Grower loyalty⁵.

These strengths can provide a competitive advantage to the CWB and can create barriers to entry in some parts of the market place to competitors.

³ This is a desired outcome, and is also a criteria used to evaluate business models.

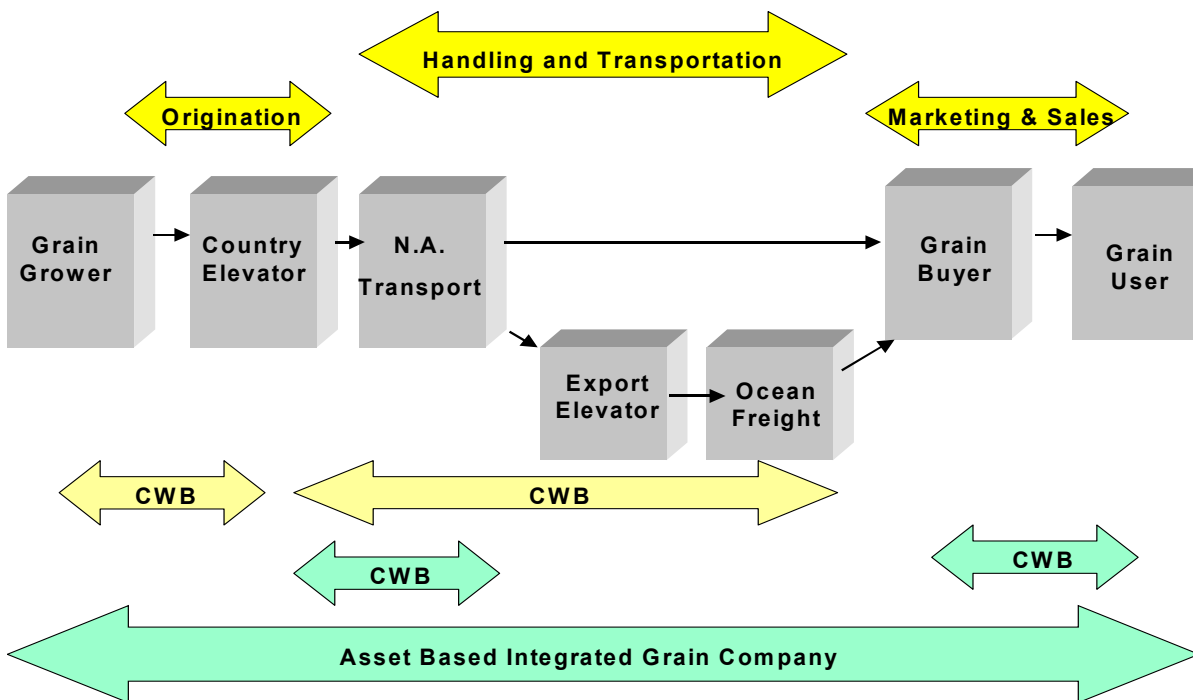
⁴ This strength does not apply to all buyers of CWB grains as a significant portion of grain sales are through accredited exporters, with the customer relationship held by the accredited exporter.

⁵ This loyalty is not uniform cross the prairies, with loyalty at possibly 25% of producers in Alberta and closer to 50% in Saskatchewan and Manitoba.

2.3 The CWB and the Grain Supply Chain

The grain supply chain starts with inputs supplied to growers and ends with grain used in various applications by the grain buyer. Currently, the regulatory powers provided to the CWB have the CWB involved in marketing and sales, certain aspects of transportation, and grain origination functions in the grain supply chain. Competitors such as Agricore United, SWP, and Cargill are involved in all aspects of the grain supply chain. Figure 2.1 is used to illustrate this point.

Figure 2.1 The Current CWB and the Grain Supply Chain



The solid shading for the CWB shows the areas of current strengths and competencies of the CWB, which can be leveraged, in a non-regulated environment. The hatched arrows show those activities in which the CWB is involved because of current regulations and that could come under competitive pressures, and may be assumed by current providers (i.e., CWB agents) with less regulation, the loss of CWB single desk selling status, and marketing choice. These activities are influence over transportation from the country to terminal elevators, influence over variety registration, and ocean freight.⁶

The lower portion of Figure 2.1 illustrates a CWB entity without its current single desk selling and associated regulatory-based CWB activities; whereas competitors of the CWB have competencies in all aspects of the grain supply chain. In this new environment, the CWB only has marketing and sales competency, and grower loyalty, although it does not have any country elevators.

⁶ Ocean freight would also come under pressure because grain firms have excellent chartering competencies.

As the CWB loses its statutory authority over grain deliveries and exports, a key question is whether the CWB can be a sustainable organization based on its marketing and sales strengths, its reputation, and producer loyalty; without the opportunity to capture value through the complete supply chain, as occurs with regular grain companies. For example because of the strong competition, in some years the value may be captured on trading, in other years on handling large volumes of grain through assets.

2.4 Designing a Possible CWB Business Model

A business can be thought of having four important design elements that can create sustainability and shareholder value (i.e., profits). The four design elements are⁷:

- ❑ *customer selection* - which set can the company create value for in a profitable way;
- ❑ *value capture* - how the company gets rewarded for the customer value it creates;
- ❑ *strategic control* - the ability to protect profit; and
- ❑ *scope* - company's activities and its product and service offerings.

The key issues and key questions to answer in designing a business model are highlighted in Table 2.1. This framework can help design CWB business models and assess the sustainability of these business models.

Table 2.1 Business Design Framework

Dimension	Key Issue	Key Questions
Customer Selection	Which customers do I want to serve?	To which customers can I add real value? Which customers will allow me to profit? Which customers do I not want to serve?
Value Capture	How do I make a profit?	How do I capture, as profit, a portion of the value I created for customers? What is my profit model?
Strategic Control/ Differentiation	How do I protect my profit stream?	Why do my chosen customers buy from me? What makes my value proposition unique/differentiated vs. other competitors? What strategic control points can counterbalance customer or competitor power?
Scope	What activities do I perform?	What products, service, and solutions do I want to sell? Which activities do I want to perform in-house? Which ones do I want to subcontract, out-source, or work with a business partner to provide?

Source: Slywotzky, Adrian and David Morrison. *The Profit Zone* Random House, 1997.

⁷ These are based on *The Profit Zone*. Random House, 1997. by Adrian Slywotzky and David Morrison.

Possible Business Models for the CWB

The following business models are considered in the following sections:

- ❑ CWB as a Western Canadian Grain Company, with Physical Assets (GrainCo);
- ❑ CWB as a Western Canadian Grain Company, with No Physical Assets and is a Marketing Agent for Producers (Producer Agent);
- ❑ CWB as a Marketing Agent for Sellers of Canadian Grains (Port Buyer);
- ❑ CWB as an Agent for Buyers of Grain (House Buyer);

A short description is provided for each of these business models. These business models are then more fully described in following sections.

CWB as a Western Canadian Grain Company, with Physical Assets (GrainCo);

Leveraging its current strengths of customer relations with a segment of customers, reputation, and loyalty with a subset of producers, the CWB becomes a grain company with physical assets to capture the value of operating an integrated grain company for its grower members.

CWB as a Western Canadian Grain Company, with No Physical Assets and is a Marketing Agent for Producers (Producer Agent);

Leveraging its current strengths of customer relations with a segment of customers, reputation, and loyalty with a subset of producers, the CWB operates as the international marketing agent with few physical assets to capture marketing gains for its grower members.

CWB as a Marketing Agent for Sellers of Canadian Grains (Port Buyer);

Leveraging its reputation and its strong relationship with a subset of customers, the CWB becomes a grain marketing company that provides international marketing expertise for Canadian grain companies.

CWB as an Agent for Buyers of Grain (House Buyer);

Leveraging its reputation and its strong relationship with a subset of customers, the CWB becomes a grain marketing company that procures grain for certain customers.

The design elements of the business models created for the CWB with marketing choice is summarized in Table 2.2. This shows the scope of each business model and how value is created and captured.

Table 2.2 Design Elements of the Possible CWB Business Models

Business Model	Customer Selection	Value Capture	Strategic Control	Scope
Grain Company with Assets	Some Producers Some End-users	Revenue per tonne handled Marketing gains	Producer relationship Customer relationship	Broad – assets in country & port, Possession in country Throughout supply chain, integrated
Producers' Agent	Some Producers Some End-users	Revenue per tonne marketed Marketing gains	Producer relationship Contracting	Narrow to broad – producer sales, no assets, Throughout supply chain with partners
Sellers' Agent (Port Buyer)	Some end-users Some grain companies	Revenue per tonne marketed Marketing gains	Customer relationship	Narrow – sales for grain companies, no assets, Only in marketing part of supply chain
Buyers' Agent	Some end-users	Revenue per tonne bought Marketing gains	Customer relationship	Narrow – fill customer's grain demands, no assets Procurement and logistics competency required

The possible CWB business models are described in the following sections under the headings of:

- Vision;
- Core competencies;
- General description of business model;
- Customer Selection;
- Value Capture;
- Scope;
- Involvement and influence over the supply chain;
- Strategic control/ differentiation; and
- Competitive issues.

The business models presented are end-point models. These business models can not occur over-night; rather transition periods are required to allow the new entity to succeed, and to create a smooth adjustment process for the grain trade. For example, having a separate authority issue export licenses based on specified criteria is an example of a transition mechanism. Transition issues are discussed separately.

2.5 CWB - a Western Canadian Grain Company, with Physical Assets

In this business model, the CWB becomes a full-fledged western Canada based grain company with physical assets in the grain supply chain.

Vision: The CWB enables its grower members to capture the value of operating an integrated grain company, leveraging its marketing and handling expertise and its reputation, and capturing associated marketing gains.

Core competencies: international marketing, producer loyalty, brand/reputation, operational excellence. The CWB would be leveraging its current strengths of customer relations, with a segment of customers, and loyalty with a subset of producers.

General description of business model: The CWB becomes a full-fledged western Canadian grain company. Given the over-capacity in western Canada in the country elevator system, the company acquires (versus builds) physical assets to handle grain in the country and at port. At port the CWB may enter into long-term agreements with terminal operators to handle its grain at port such as is done by independent terminal operators, given the cost and impediments to build a new export facility on the west coast. The CWB could also invest in port facilities through joint ventures or acquisition.

The CWB can offer voluntary pooling opportunities, and would also offer other types of pricing arrangements, such as forward pricing and cash market purchases⁸. Profits could be retained or distributed to its members, depending on the organizational structure chosen and the approach taken to charge members for services.

Customer Selection: The CWB would select its core customer group, particularly those customers where the CWB has a current on-going relationship. Most of the customers with current accredited exporter sales would be customers of the grain companies currently servicing those accounts. Business volumes will depend on whether all of the accredited exporter sales remain with the accredited exporter, or whether some of these sales would be through the new CWB. This business volume depends on whether the accredited exporters are actually close to those customers, or whether the customer is using the accredited exporter for other reasons (e.g., providing for foreign exchange, convenience, etc.) and depend on the CWB for knowledge of grain requirements, etc. If the latter, the CWB may be able to supply the other needs of a customer under the new system. This suggests that CWB volumes should be at least 50% of current business volumes in the start up period.

Value Capture: The CWB is capturing value for its members/shareholders through profits achieved throughout the supply chain, and through the marketing gains that are available to grain companies with a span of control over the supply chain. The CWB is also involved in ocean freight, and can capture some of this value, particularly with CIF pricing.

Scope: With this business model the CWB has a business that could start with supplying inputs to growers. It provides country elevation services and is generally involved in all aspects of the supply chain as it can price CIF, the customer. Some activities are supplied

⁸ This would include a re-emergence of cash and futures exchange contracts for risk management.

by partners through alliances and long-term agreements (e.g., terminal elevator services and ocean freight). The CWB's scope of business is broad enough to have the CWB act as the purchasing agent for all of the grain needs of those customers where this service would be of value. As well, the CWB is in a position to purchase and market non-Canadian grains, as well as Canadian grain such as canola, oats, pulses, and Ontario wheat.

Involvement and influence over the supply chain: The CWB would be involved in the supply chain from the country, through to terminal facilities, through to its customers in North America and abroad. The CWB would leverage its producer loyalty and compete in the country for producer's grain for delivery into domestic and international markets.

The CWB can use contracting to assure grain volumes; however this option is available to all grain companies. The CWB can attempt to position itself to offer exceptional performance in handling and marketing, which can be a source of competitive advantage. To enhance its competitiveness in attracting grain, the CWB can choose to offer inputs such as seed and fertilizer as well as attractive financing programs. The CWB would be able to market grain originating in other countries. However, its primary focus is on merchandizing Canadian grains.

Strategic control/ differentiation: The CWB's point of differentiation is its subset of loyal producers who will supply the CWB with grain, its reputation for delivering quality product, and its relationships with a number of key customers. To build on the Canadian reputation of consistent grain quality, and given the opportunities in identity preserved products, the CWB may differentiate and with its supply chain partners become the leading supplier of IP'd Canadian grains.

Competitive Issues: The CWB will face intense competition from existing grain companies in areas such as:

- ❑ Developing the necessary skills and systems to supplant what it currently obtains under the regulated regime;
- ❑ Acquiring producer grain in the country side;
- ❑ Retaining existing customers buying Canadian grains, particularly for customers who have relationships with suppliers of other origin grain with which Canadian grain is blended for milling;
- ❑ Having access to all segments of the supply chain if the CWB does not have direct control, such as west coast capacity;
- ❑ Competing with multi-national grain companies that can source grain from a range of global locations; and
- ❑ The cost structure of the CWB. The CWB may have a higher cost structure than its competitors due to the price paid to acquire existing assets, and its ability to eliminate the costs of current operations and not burden the new grain company with legacy costs and activities. However, given its current book of non-accredited sales, and its potential to attract other products such as canola, the CWB could have a book of 8 million tonnes, possibly 10 million with other grains⁹.

⁹ The SWP has an estimated non-CWB grain volume of 4 to 5 million tonnes, and Agricore United has an estimated 5 to 6 million tonnes.

2.6 CWB - a Marketing Agent for Producers (Producer Agent)

The prior business model had the CWB as a full-fledged grain company with physical assets in segments of the grain supply chain. The next model is the CWB as a business with few assets, and is designed to be a marketing agent for producers. Thus the CWB, as a marketing agent, would continue with a number of current operations, but would not have the statutory protection of the single desk seller license. As a result, one can consider this option as either:

- ❑ The CWB as a Canadian Grain Company, (Grain Co with No Physical Assets), or
- ❑ The CWB as a Marketing Agent for Producers (Producer Agent);

Vision: The CWB provides access to international markets for its grower members, leveraging its expertise in sales and marketing, and allows them to capture the value of marketing gains (including exchange risk, price risk and sometimes vessel freight) and some of the value created by blending and transportation volumes.

Core competencies: international marketing, producer loyalty, brand/reputation. The CWB would leverage its current strengths of customer relations for a subset of all customers, loyalty with a subset of producers, and its international reputation.

General description of business model: The CWB becomes an agent for grower members. Its volume of wheat and durum (feed barley is largely a domestic market and malting barley a special crop) would be secured through contracting with producers. This volume would allow the CWB to secure conventional financing and handling agreements with the commercial trade. Utilizing its contacts with buyers for wheat and durum, the CWB would engage in a balanced portfolio of forward and spot sales. The CWB could arrange the ocean freight for the customer. A safe estimate of the CWB's volume capabilities would be up to 5 million tonnes of wheat and 2 million tonnes of durum. This could increase by as much as 2 M tonnes if the producer terminals are viewed as producers and move their grain to the CWB.

If the CWB also acted as a producer's agent for canola and competed in the domestic market, then it could sell to domestic and off-shore crushers. It might be able to generate a canola book in excess of 1 M tonnes.

The CWB can offer voluntary pooling opportunities, and would also offer other types of pricing arrangements, such as forward pricing and cash market purchases. The CWB would continue to operate pools for growers, although voluntary, which provides a risk management tools to growers, and delivery of financing options to growers. Profits could be retained or distributed to its members, depending on the organizational structure chosen and the approach taken to charge members for services.

Customer Selection: The CWB would select its core customer group, particularly those customers where the CWB has an on-going relationship.

Value Capture: The CWB is capturing value for its members through marketing gains and receiving a marketing fee per tonne (possibly about 25 cents/tonne) and through the provision of pooling and pricing services. It would also capture some of the value

generated by blending and volume transportation. It could also generate profits through its management of price and exchange risk and vessel freight.

Scope: The CWB is involved in the sales and marketing of its members' grain. It could also manage price and exchange risk and vessel freight.

Involvement and influence over the supply chain: The CWB is only actively involved in international sales and marketing. The CWB, as such would, not own assets and would enter into long-term agreements to access assets required to deliver grain to customers.

Strategic control/ differentiation: The CWB would have some strategic advantages through the loyalty of a large body of producers and its contracting volume would provide it with bargaining power in reaching handling and logistical agreements with the service providers (grain companies).

Competitive issues: The CWB will face intense competition from existing grain companies in areas such as:

- ❑ Developing the necessary skills and systems to supplant what it currently obtains under the regulated regime;
- ❑ Acquiring producer grain;
- ❑ Retaining existing customers, particularly for customers who have relationships with suppliers of other origin grain;
- ❑ Access to all segments of the supply chain such as west coast capacity because the CWB would not have direct control without regulations;
- ❑ Competing with multi-national grain companies that can source grain from a range of global locations; and
- ❑ The cost structure of the restructured CWB¹⁰.

2.7 Transition Issues – CWB as a Grain Company or Producer Agency

For the CWB to transform from a single desk seller to a grain company with a span of influence and control over the complete grain supply chain, a number of transition issues may need to be considered and be part of the regulatory environment between now and 2013¹¹. These same transitional issues apply to the CWB being a producer's marketing agency. Transitional issues and approaches include:¹²

- ❑ The CWB would lose its current single desk authority in domestic markets for wheat in the first year of the transition, and for barley in all markets.
- ❑ In the second year, the CWB would lose its single desk authority on North America market sales and export licenses would not be required for shipment into the U.S.,
- ❑ In the second year, the CWB would be able to start marketing other Canadian grains, such as canola, Ontario wheat, etc.

¹⁰ This cost can be based on legacy costs of the existing CWB that remain with this business model.

¹¹ A consequence of loss of CWB authority over producer delivery will result in the elimination of the cross-subsidization that occurs within the pools, and returns in Alberta will increase and decrease in Manitoba. This will place a larger premium on shipments through the west coast and associated competitive issues for grain companies with assets on the west coast.

¹² A few of these would only apply to the CWB operating as an asset based grain company. Other approaches can also be used for the transition period.

- ❑ The need for a regulatory body to issue export license permits to the CWB and to existing grain companies in some staged manner for offshore sales. For example, in the first year, the CWB could have the right to hold export licenses for 90% of the applicable crops, which would be gradually reduced over a 2 to 5-year period¹³. At the same time, the export license issuing authority could use criteria¹⁴ for issuing export licenses to other grain companies. If the CWB premium markets are retained by the CWB in this transition period, this may prevent cash market prices in the country side from reflecting their true international value, and accordingly, the criteria should not differentiate based on these CWB premium markets. To reduce the amount of uncertainty to other grain companies and to provide a level playing field, an allocation approach is to have the specified criteria based on CWB grains handled in the country side, with these volume used for pro-rata allocation of the (volume of the) export permits¹⁵. These export permits would be freely traded between grain companies and the CWB. These permits and their tradability would disappear after the 2 to 5 year phase in period.
- ❑ To ease the transition, a new regulation may require that a certain percentage of crop volume (export wheat and durum) be exempt from mandatory delivery to the CWB. Producers would apply, or primary elevator companies would apply for these exemptions, which would be on a first come first serve basis, until the maximum volume is reached. In the first year this exemption may be 25% of the normal CWB handle, which would increase to 50% in the second or third year, then 75%, and be eliminated within 5 years¹⁶.
- ❑ The CWB is able to purchase grain from western Canadian grain companies to meet its booked obligations.
- ❑ A re-emergence of cash and futures exchange contracts for risk management,
- ❑ The CWB would be able to start trading foreign grain after a few years into this transition period.
- ❑ The CWB would start building a capital reserve to purchase existing assets, and build selective new strategic assets. This capital reserve would be funded through a levy on each tonne of grain sold by the CWB.
- ❑ The CWB would have to develop skills in the area of producer financing (i.e. providing attractive payment options).
- ❑ The CWB would have to develop financing facilities.
- ❑ The CWB would have to develop a core competency in facility management, which could be accomplished through acquisition of assets and through attraction and training of staff.
- ❑ The CWB would need to downsize its back room functions that currently support regulated activities (transportation, policy development, IT, etc.).
- ❑ A governance structure for the new CWB would have to be developed.
- ❑ Other organizations would more actively represent producer interests than today.

¹³ For example, 80% in year two, 65% in year 3, etc.

¹⁴ These criteria could include countries and/or customers where the CWB has documented premiums, and/or customers that the CWB indicates it makes direct sales, versus through accredited exporters.

¹⁵ Alternatively, the export licensing authority could auction off the export licenses to the non-CWB companies. The need for auction would be eliminated at the end of the transition period.

¹⁶ An argument can be made that these exemptions are not required, as grain companies will only bid for the grain that they have a market for, and if the CWB is short, they can purchase grain from the primary elevator companies.

2.8 CWB - Marketing Agent for Sellers of Canadian Grain (Port Buyer)

The prior two business models have the CWB being involved through the grain supply chain, and leveraging the strength of their loyal producer base. This business model removes the CWB from the country side and has the CWB focus on its strengths of; (1) a good relationship with customers and a thorough knowledge of their requirements in a number of markets, and (2) a solid reputation for pricing, delivery and contract execution.

This option has the CWB taking possession of grain at export positions, using the competencies of the grain companies operating in western Canada to deliver the right quality and quantity of grain in a timely manner to its required export positions. Performance measures and penalties will be used to have the CWB's supply chain partners deliver the grain based on the required attributes. Accordingly, this business model does not leverage its producer loyalty strength; however producers are rewarded by the CWB's performance in the marketing of Canadian grain as owners/shareholders.

Vision: The CWB, a grain marketing organization, selling Canadian grains into export markets, and provides marketing expertise to Canadian grain companies.

Core competencies: international marketing, brand/reputation. The CWB is leveraging its strong relationships with certain customers and its international reputation.

General description of business model: The CWB acts as a predominately an off-shore marketer of Canadian grains (e.g., cereals, oilseeds, pulses) and is the export marketer for certain Canadian grain companies. One or more grain companies would employ the CWB on a fee for service basis to market commodities internationally. The CWB would work from port forward and engage in fob and CIF sales. To execute CIF sales it would have to maintain a vessel chartering expertise which could also be a source of revenue as freight is traded as a commodity. The major volumes would be export with limited value added potential domestically.

This business model would be attractive to smaller grain companies, independents, and potentially SWP or Agricore United (they may choose to use the CWB as their marketer in lieu of their current marketing partners). The trade may use the CWB as its durum agent, since durum is one of the only commodities over which Canada exerts a real influence and price is maintained through managing the volume that is placed on the market in any one year. The CWB could combine this business model with volumes committed from loyal producer board supporters for a package which is a win-win for all players involved. Through country affiliates, the CWB would have a volume of grain, which the affiliates would deliver to the CWB.

On CWB designated producer deliveries, producers would be rewarded through a variety of mechanisms, such as regional price pooling, dividends, etc. The CWB could also provide risk management services through producers through hedging and balancing forward with cash sales and foreign exchange

Customer Selection: The CWB would select its core customer group, partially those customers where the CWB has an on-going relationship.

Value Capture: The CWB would create value for its owners through the services provided to Canadian grain companies such as marketing and vessel chartering, and associated marketing gain¹⁷. Its loyalty from a subset of producers that would prefer to deal with the CWB creates a small premium

Scope: The CWB is involved in the sales and marketing of Canadian grain on behalf of certain grain companies. It would arrange vessel charters for its CIF sales. The CWB would also have relationships with affiliates in the country, that assemble CWB designated grain for delivery to export position¹⁸. Grain volumes marketed will depend on the value placed on the CWB competencies by both large integrated companies and the smaller grain companies on the prairies, which may or may not be integrated.

Involvement and influence over the supply chain: The CWB is only involved in the sales and marketing part of the supply chain. It will have limited involvement in the country side, and producer deliveries to its account would be through its country affiliates.

Strategic control/ differentiation: The CWB's differentiator is its skill in international grain marketing and its strong relationships with certain customers, and the value it can create for Canadian grain companies who use the services of the CWB for marketing grain. There may be a small bonus from the loyalty of some producers to the CWB.

Competitive issues: As a selling agent for Canadian grain companies, and sellers of Canadian grain, the CWB faces a number of competitive issues;

- Competing with multi-national grain companies that can source grain from a range of global locations;
- The cost structure of the CWB, and any legacy costs of current operations assumed by the CWB; and
- Long term business volume as grain companies can integrate forward and eliminate the functions performed by the CWB.

¹⁷ This agent business model would have to be a stand alone company. Producer ownership would result in significant conflicts of interest over maximizing value for producers versus maximizing value for the grain marketing company.

¹⁸ Stock switching would occur when beneficial.

2.9 CWB - an Agent for Buyers of Grain (House Buyer)

This business model is also having the board as an agent, however in contrast to the CWB being a selling agent and buying grain at port, the CWB's main focus is an agent for grain buyers. With this business model, the CWB is leveraging its strengths of; (1) a good relationship with customers and a thorough knowledge of their requirements in a number of markets, and (2) a solid reputation for pricing, delivery and contract execution.

Large buyers of grain do out-source this procurement function (e.g., some industrial users of corn use this model). There are models in other industries which employ a house agent in lieu of internal staffing; a non-grain example is Kuoks, a large oil marketer which buys exclusively through house agents.

Vision: The CWB, as a grain marketing organization, creates value for selected buyers through the procurement and delivery of Canadian grains.

Core competencies: international marketing, producer loyalty, brand/reputation. The CWB leverages its current strengths in marketing and relationships with certain customers, knowledge of their needs, and international reputation.

General description of business model: The CWB, as grain marketing company, acts as the buyer of wheat, durum (feed barley is largely a domestic market, malting barley a special crop) and oilseeds for countries like Iran, China, Malaysia, and Japan etc. The CWB would have long term contracts with these customers. This would allow the CWB to buy from the trade or directly from growers once a handling agreement was in place. The CWB would focus on procuring Canadian grain but could also source off-shore¹⁹. It would be responsible for the customers' logistics. A safe estimate of the CWB's volume capabilities would be in the range of 3-5 M tonnes of wheat and 1-1.5 M tones of durum and 1 M tonnes of canola; however volumes could be larger. No domestic program for cereals is anticipated but the CWB could sell canola to domestic crushers.

Customer Selection: The CWB would select its core customer group, particularly those customers where the CWB has an on-going relationship.

Value Capture: The CWB would receive a fee for services from the buyer for managing supply, logistics and foreign exchange and would presumably be able to negotiate volume discounts, transportation incentives and blending consideration from the trade²⁰. Competencies are required in this area to capture value. Foreign exchange and vessel freight would likely be a shared revenue/cost centre.

Scope: The CWB is involved in the purchase of grain for its customers and the logistics of the movement from Canada to the customer. It would also manage the foreign exchange risk for the customer.

¹⁹ This aspect highlights the trade-off where the company's interests and grain producer interests can be in conflict.

²⁰ Under producer ownership/control, there would be significant conflicts of interest between the owners (when selling) and the customers (when buying).

Involvement and influence over the supply chain: The CWB is only actively involved in sales and marketing. To offer value to customers, the CWB would require an astute procurement and logistics capability, even if it uses other service providers. The CWB would also have relationships with affiliates in the country, that assemble CWB designated grain. Grain volumes marketed will depend on the value placed on the CWB competencies by both large integrated companies and the smaller grain companies on the prairies, which may or may not be integrated.

Strategic control/ differentiation: The CWB's strategic control is through its close relationship with a subset of current customers and the knowledge of their needs. Control is also through having a low cost delivery model, which also creates value for the company.

Competitive issues: As a house buyer the CWB would face a number of competitive issues, including;

- ❑ Competing with multi-national grain companies that can source grain from a range of global locations;
- ❑ The cost structure of the CWB, including being a low cost supplier of needed logistics services, and its ability to procure grain within the supply chain at the right position in the chain (port and country) its abilities to get the logistics and costs right along the supply chain, and its own administrative costs;
- ❑ Not having the best procurement skills compared to established players;
- ❑ Geo-political turmoil could result in grain embargoes to some customers or significant changes to the buying behaviour of certain companies;
- ❑ Grain buyers in importing countries integrating backward and dealing with traditional grain companies offering Canadian grains; and
- ❑ Canadian grain companies offering competing services to buyers (integrating forward).

2.10 Transition Issues – CWB as a Seller’s Agent or Buyer’s Agent

With these two business models the CWB would have to relinquish its regulatory authority immediately. If this did not occur, then the CWB would be in a “conflict of interest position” as it tries to market for itself, based on the winding down statutory regulations, and market for other sellers, and/or procure grain for its customers as a house agent. The associated transitional issues include:

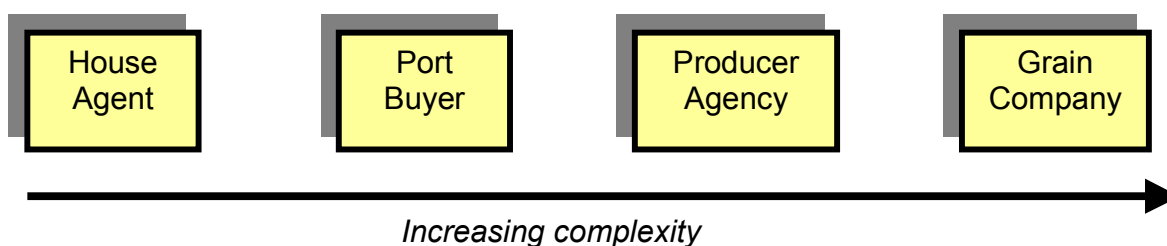
- ❑ The CWB would lose its current single desk authority in all markets for wheat and barley at the beginning of the transition, as well as other current regulatory oversights; this is required to avoid the inherent conflict of interest position that the CWB would face and would not provide a level playing field for all grain interests.
- ❑ Producers would not have any volume restrictions on their marketing choice in a transition period²¹.
- ❑ The CWB can offer price pooling and other pricing arrangements for producers deciding to delivery grain to the CWB through their country affiliates and agents.
- ❑ The CWB is able to purchase grain from western Canadian grain companies to meet its booked obligations.
- ❑ The CWB would be able to start trading and marketing foreign grain.
- ❑ The CWB would need to downsize its back room functions that currently support regulated activities (transportation, policy, IT, etc.) to reduce its cost structure.
- ❑ A governance structure for the new CWB would have to be developed.
- ❑ The CWB would need to establish a small capital fund.
- ❑ CWB would need to develop financing facilities.
- ❑ CWB would need to develop skills and commercial relationships in areas it no longer controls and needs to invest in procurement and logistics expertise.

²¹ One could argue that the CWB could also lose its current authorities in year one with the first two options as well.

3.0 Assessment of Business Models

In this section we provide an assessment of the CWB migrating from its current statutory single desk selling business model to the business models described in the prior section. The complexity of the organizations are shown in the following Figure 3.1

Figure 3.1 Complexity of the CWB Business Models



3.1 Assessment against Criteria

The business models are assessed before and after 2013 using the following criteria:

- Elimination of CWB's monopoly powers;
- Voluntary participation by growers;
- Accountable primarily to growers;
- Producer and organizational objectives in alignment;
- No actual or perceived involvement by federal government;
- CWB has no regulatory role;
- Financial implications;
- Impact on competitors;
- Sustainability of the organization;
- Stimulates investment in value adding activities;
- Enables growth of non-traditional markets such as bio fuels;
- More acceptable to the US;
- Canada retains its comparative advantages (quality, durum, etc);
- Enables seizure of new market opportunities (e.g., niche markets, different varieties)
- Allows for voluntary price pooling;
- Consistent with international trade obligations;
- Open and transparent to owners; and
- Lower export supply chain costs.

Elimination of CWB's Monopoly Powers

The first two business models (grain company with assets and producers' agent) gradually reduce the CWB's single desk powers on international sales of wheat and durum while restrictions on barley marketing and domestic market are removed immediately. The final two models (sellers' agent and buyers' agent) remove the CWB's monopoly power immediately, as shown in Table 3.1.

Table 3.1 Elimination of CWB's Monopoly Powers

Business Model	Prior to 2013	By 2013
Grain Company with Assets	<input type="checkbox"/> Domestic in year one, the US and Mexico in year two, <input type="checkbox"/> Barley removed in year one <input type="checkbox"/> Some monopoly power retained, such as preference on export licenses in formative years	<input type="checkbox"/> No CWB monopoly power
Producers' Agents	<input type="checkbox"/> Domestic in year one, the US and Mexico in year two, <input type="checkbox"/> Barley removed in year one <input type="checkbox"/> Some monopoly power retained, such as preference on export licenses in formative years	<input type="checkbox"/> No CWB monopoly power
Sellers' Agent	<input type="checkbox"/> Deregulation in the first year	<input type="checkbox"/> No CWB monopoly power
Buyers' Agent	<input type="checkbox"/> Deregulation in the first year	<input type="checkbox"/> No CWB monopoly power

Voluntary Participation by Growers

All the models feature voluntary participation by growers both prior to and by 2013. As shown below in Table 3.2, the type of voluntary participation varies by model.

Table 3.2 Voluntary Participation by Growers

Business Model	Prior to 2013	By 2013
Grain Company with Assets	<input type="checkbox"/> Producers free to market grain to the CWB or other grain companies, majority of deliveries to the CWB in the early years as CWB entitled to the majority of the export licenses.	<input type="checkbox"/> Producers can voluntarily choose to deliver to the CWB
Producers' Agents	<input type="checkbox"/> Producers free to contract grain with the CWB or contract and deliver to other grain companies, gradual process	<input type="checkbox"/> Producers can voluntarily choose to contract with the CWB
Sellers' Agent	<input type="checkbox"/> Can sell to companies the CWB is acting for, or choose to deliver to CWB country affiliates	<input type="checkbox"/> Can sell to companies the CWB is acting for, or choose to deliver to CWB country affiliates
Buyers' Agent	<input type="checkbox"/> Producers can voluntarily choose to deliver to the CWB	<input type="checkbox"/> Producers can voluntarily choose to deliver to the CWB

Accountable Primarily to Growers

The producers' agent model is accountable to growers during and after the transition. Whether the grain company with assets model would be accountable to growers after the transition would depend on how the CWB was structured. For example, if the CWB became a publicly traded company with Class A (growers) and B shares, the organization is not necessarily primarily accountable to growers (see Table 3.3). Neither of the remaining models allows for accountability primarily to growers. In the sellers' agent model, the CWB is accountable to grain companies. In the buyers' model, it is accountable to buyers and would act in their interests and not grower interests.

Table 3.3 Accountable Primarily to Growers

Business Model	Prior to 2013	By 2013
Grain Company with Assets	<input type="checkbox"/> Yes	<input type="checkbox"/> Possible if the CWB is a cooperative, a privately held company, and if publicly traded if Class A and B shares are used to retain grower control
Producers' Agents	<input type="checkbox"/> Yes	<input type="checkbox"/> Yes, owned by users of its services
Sellers' Agent	<input type="checkbox"/> Difficult to achieve	<input type="checkbox"/> Difficult to achieve
Buyers' Agent	<input type="checkbox"/> Difficult to achieve	<input type="checkbox"/> Difficult to achieve

Producer and Organizational Objectives in Alignment

This criterion ascertains whether there could be conflict, or alignment, between the objectives of growers and the CWB. Clearly, the objectives of the CWB and growers could conflict in both the sellers' agent and buyers' agent models. In the producers' agent model, the objectives would always be in alignment (Table 3.4). Conflict could occur between the objectives of the grower (Class A) and the organization in the first model.

Table 3.4 Producer and Organizational Objectives in Alignment

Business Model	Prior to 2013	By 2013
Grain Company with Assets	<input type="checkbox"/> Yes	<input type="checkbox"/> Not always, conflict between A (growers) and B shareholders
Producers' Agents	<input type="checkbox"/> Yes	<input type="checkbox"/> Yes
Sellers' Agent	<input type="checkbox"/> No	<input type="checkbox"/> No
Buyers' Agent	<input type="checkbox"/> No	<input type="checkbox"/> No

No Actual or Perceived Federal Government Involvement

By 2013, all models result in no actual or perceived involvement by the federal government. However, during the transition the first two models could have government involvement, as noted in Table 3.5.

Table 3.5 No Actual or Perceived Federal Government Involvement

Business Model	Prior to 2013	By 2013
Grain Company with Assets	<input type="checkbox"/> Government control possible through special regulatory provisions in the transition period	<input type="checkbox"/> No government involvement or exclusive control
Producers' Agents	<input type="checkbox"/> Government control possible through special regulatory provisions in the transition period	<input type="checkbox"/> No government involvement or exclusive control
Sellers' Agent	<input type="checkbox"/> No government involvement or exclusive control	<input type="checkbox"/> No government involvement or exclusive control
Buyers' Agent	<input type="checkbox"/> No government involvement or exclusive control	<input type="checkbox"/> No government involvement or exclusive control

CWB has no Regulatory Role

The regulatory role of the CWB is eliminated immediately in the last two models but only gradually in the first two models, as shown in Table 3.6, and in concert with Table 3.5.

Table 3.6 CWB has no Regulatory Role

Business Model	Prior to 2013	By 2013
Grain Company with Assets	<input type="checkbox"/> Export permit issuance moved to another regulatory body, and CWB removed from any transportation oversight/control	<input type="checkbox"/> Regulatory role eliminated
Producers' Agents	<input type="checkbox"/> Export permit issuance moved to another regulatory body, and CWB removed from any transportation oversight/control	<input type="checkbox"/> Regulatory role eliminated
Sellers' Agent	<input type="checkbox"/> Regulatory role eliminated	<input type="checkbox"/> Regulatory role eliminated
Buyers' Agent	<input type="checkbox"/> Regulatory role eliminated	<input type="checkbox"/> Regulatory role eliminated

Financial Implications

The amount of capital required would be significantly higher in the CWB business model of a grain company with physical assets compared to the other models and this would impact its financial viability after 2013. The financial implications of the other three models are very similar, as shown in Table 3.7.

Table 3.7 Financial Implications

Business Model	Prior to 2013	By 2013
Grain Company with Assets	<input type="checkbox"/> CWB must build up a financial reserve to pay for acquisitions, and must eliminate unnecessary costs	<input type="checkbox"/> Financial viability based on its ability to control costs, have a strong balance sheet given its need to acquire assets, and not be burdened by legacy costs
Producers' Agents	<input type="checkbox"/> CWB must eliminate unnecessary costs and must build a small fund for operations	<input type="checkbox"/> Financial viability based on its ability to control costs and manage risks associated with marketing, and not be burdened by legacy costs
Sellers' Agent	<input type="checkbox"/> CWB must build up a small operating fund and eliminate unnecessary costs	<input type="checkbox"/> Financial viability based on its ability to control costs and manage risk, and not be burdened by legacy costs
Buyers' Agent	<input type="checkbox"/> CWB must eliminate unnecessary costs and must build a small fund for operations	<input type="checkbox"/> Financial viability based on its ability to control costs and manage risks associated with marketing and logistics, and not be burdened by legacy costs

Impact on Competitors

How the CWB's competitors would fare depends on the degree of competition in all the business models except for the sellers' agent model, as highlighted in Table 3.8. Because this model allows grain companies to outsource marketing to the CWB, these companies may benefit from enhanced competitiveness.

Table 3.8 Impact on Competitors

Business Model	Prior to 2013	By 2013
Grain Company with Assets	<input type="checkbox"/> Outcome based on competitor rivalry	<input type="checkbox"/> Outcome based on competitor rivalry
Producers' Agents	<input type="checkbox"/> Outcome based on competitor rivalry	<input type="checkbox"/> Outcome based on competitor rivalry
Sellers' Agent	<input type="checkbox"/> Neutral to positive (allow some companies to outsource marketing of some grains)	<input type="checkbox"/> Neutral to positive (allow some companies to outsource marketing of some grains)
Buyers' Agent	<input type="checkbox"/> Outcome based on competitor rivalry	<input type="checkbox"/> Outcome based on competitor rivalry

Sustainability of the Organization

Prior to 2013 the sellers' agent and the buyers' agent model may experience problems with sustainability (depending on the grain volume). The grain company and producer agent business model should be sustainable in the short run, with this depending on the

transition mechanisms used. After 2013, the grain company with assets model likely has the best prospects for sustainability of the business (As shown in Table 3.9).

Table 3.9 Sustainability of the Organization

Business Model	Prior to 2013	By 2013
Grain Company with Assets	<input type="checkbox"/> Possible with appropriate transition mechanisms	<input type="checkbox"/> Yes, unless cost control and debt load becomes an issue, or can not acquire the needed supply chain capability
Producers' Agents	<input type="checkbox"/> Possible with appropriate transition mechanisms	<input type="checkbox"/> Possible, depending on the competitive threats of other western grain companies, <input type="checkbox"/> CWB may possibly merge with a full fledged grain company
Sellers' Agent	<input type="checkbox"/> Depends on grain volumes handled	<input type="checkbox"/> Possible, depending on the competitive threats of other western grain companies, <input type="checkbox"/> CWB may possibly merge with a full fledged grain company (integrate backward)
Buyers' Agent	<input type="checkbox"/> Depends on grain volumes handled	<input type="checkbox"/> Possible, depending on the competitive threats of other western grain companies, <input type="checkbox"/> CWB may possibly merge with a full fledged grain company

Each of the business models has equal scoring on a number of assessment criteria; these are shown in Table 3.10 below.

Table 3.10 Assessment of Outcomes Applicable to All Business Models

Criteria	Prior to 2013	By 2013
Stimulates investment in value adding activities	<input type="checkbox"/> Through deregulation of domestic and NA markets	<input type="checkbox"/> yes
Enables growth of non-traditional markets such as bio fuels	<input type="checkbox"/> Through deregulation of domestic and NA markets	<input type="checkbox"/> yes
More acceptable to the US	<input type="checkbox"/> Through deregulation of domestic and NA markets	<input type="checkbox"/> Yes
Canada retains its comparative advantages (quality, durum, etc)	<input type="checkbox"/> Yes	<input type="checkbox"/> Yes
Enables seizure of new market opportunities (e.g., niche markets, different varieties, etc)	<input type="checkbox"/> Yes	<input type="checkbox"/> Yes
Allows for voluntary price pooling	<input type="checkbox"/> Yes	<input type="checkbox"/> Yes
Consistent with international trade obligations	<input type="checkbox"/> Yes	<input type="checkbox"/> Yes
Open and transparent to owners	<input type="checkbox"/> Yes	<input type="checkbox"/> Yes
Lower export supply chain costs	<input type="checkbox"/> Possible	<input type="checkbox"/> Possible based on volumes shipped, cost control, purchase price paid for acquired assets, and nature of alliances

3.2 Summary of Assessment

Assessment of the CWB as Grain Company

Our assessment is that the CWB can be a sustainable entity in the western Canadian grain business as a full-fledged grain company. Its success will depend on the transition process that is in place to allow for its transformation from only a marketer of grains to a grain company. Long-term success will also depend on the source of funds and cost structure and debt load that the CWB assumes as it pursues this strategy. As noted below, this business model will likely be the most sustainable in the longer run.

Assessment of the CWB as Producer Marketing Agent

The CWB can be a sustainable entity in the western Canadian grain business as a producer marketing agent. This model does require that the CWB leverage its strengths, and that it enter into solid agreements and strategic alliances with supply chain partners to successfully implement and execute this business model.

The CWB may remain as a producer marketing agent, or it may find that it needs to acquire physical assets to effectively execute as a non-regulated grain marketer on behalf of producers. If so, the business model can evolve to the above business model, where the CWB is a full fledged grain company operating in western Canada.

Assessment of the CWB as Agent for Sellers of Canadian Grain

The CWB as a seller of Canadian grain and taking possession of grain at port should have less debt and fewer assets with this model. The CWB does leverage its customer and reputation strengths in this model; although, is not as connected to the producer except through in-country affiliates and agents. This is a viable option; however, since it does not have as broad a span of supply chain control as with a grain company, it is subject to being squeezed out of the business by competitors through their competitive actions and/or integration into their competitive space. How well the CWB can leverage its strengths will determine the ultimate success of this business model.

Assessment of the CWB as an Agent for Buyers of Grain

With the CWB as an agent for buyers of grain, this business model further removes the CWB from its producer base and results in more threats to the business. However, if it can successfully execute this model it will be leveraging many of its current competencies and strength. It will need to be excellent in logistics and procurement to deliver value to its customers and offer a dividend back to growers.

The design elements of these four business models created for the CWB with marketing choice is highlighted in Table 3.11. This shows the scope of each business model and how value is created and captured.

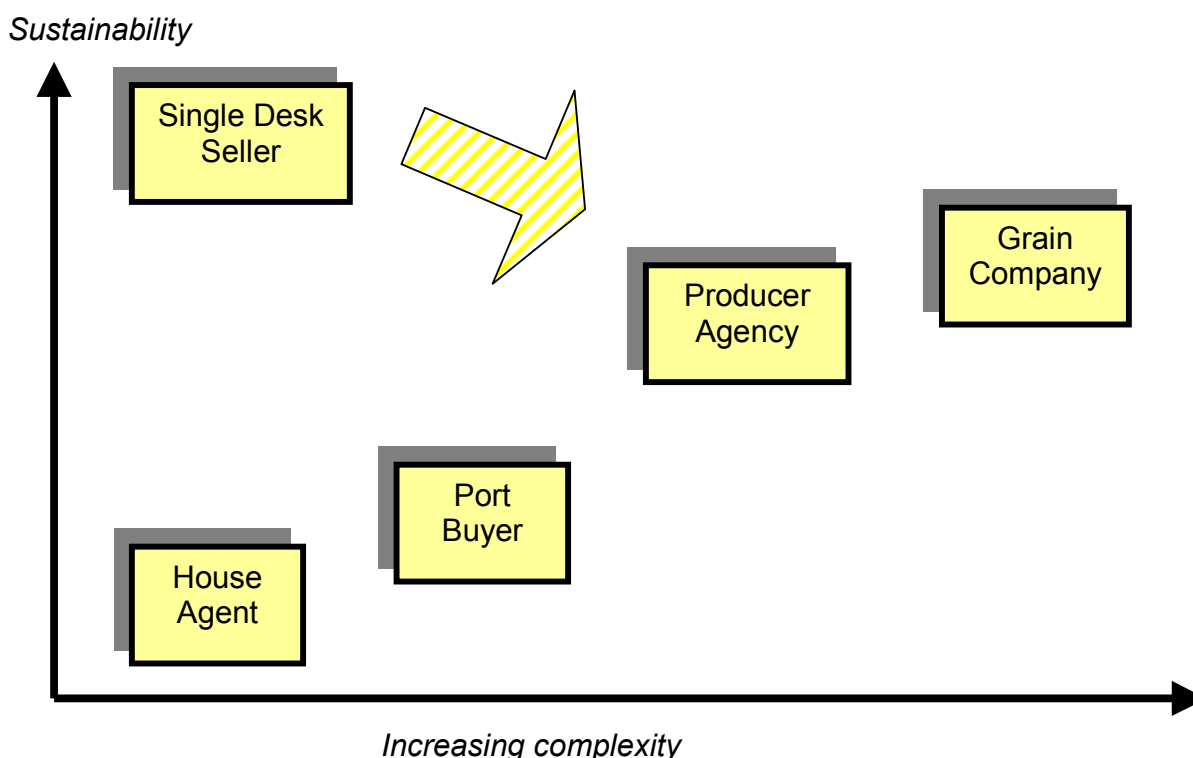
Table 3.11 Design Elements of the CWB Business Models

Business Model	Customer Selection	Value Capture	Strategic Control	Scope
Grain Company with Assets	Some Producers Some End-users	Revenue per tonne handled Marketing gains	Producer relationship Customer relationship	Broad – assets in country & port, Possession in country Throughout supply chain, integrated
Producers' Agent	Some Producers Some End-users	Revenue per tonne marketed Marketing gains	Producer relationship Contracting	Narrow to broad – producer sales, no assets, Throughout supply chain with partners
Sellers' Agent (Port Buyer)	Some end-users Some grain companies	Revenue per tonne marketed	Customer relationship	Narrow – sales for grain companies, no assets, Only in marketing part of supply chain
Buyers' Agent	Some end-users	Revenue per tonne bought Marketing gains	Customer relationship	Narrow – fill customer's grain demands, no assets Procurement and logistics competency required

The ultimate issues may well be whether the new CWB business model is (1) sustainable and (2) whether this entity is accountable to growers and/or or grower controlled. In terms of sustainability, the above assessment indicates that a full fledged grain company is the most sustainable as a business entity, assuming that it can transform itself into a grain company, and does not assume a high cost structure and/or debt load during its transformation. Over the longer term, whether there can be producer control of this entity depends on its legal and governance structure, and its ability to raise needed capital.

The next most sustainable model is one of the CWB as a producer marketing agency. This is not as complex an entity as the grain company to achieve, but is not as sustainable an entity. This is illustrated in Figure 3.2. This organization by design will have more producer control, as it is designed to be the marketing agency of producers who choose to be part of the organization. This organization, however, may find that over time it needs to acquire physical assets, and accordingly may evolve to become the full-fledged grain company business model.

The house agency model (buyer for customers), and the port buyer are less sustainable models, as other companies can easily integrate around these businesses. Ultimately, the choice between the producer marketing agency and the full fledged grain company comes down to the desires of current management of the CWB, its supporters, its ability to transform into a grain company, without having a high cost burden, and the competitive rivalry that currently exists in the western Canadian grain economy.

Figure 3.2 Sustainability and Complexity of the CWB Business Models

Transition Process

The business model that the CWB will migrate towards in a producer choice world, will be shaped by the goals and aspirations of the current CWB Board and its senior management, the interests of producers who support the CWB, and the political interest of government when the decision is made. The outcome will be shaped by these factors, the sources of funds that are available to the CWB, whether through levies on deliveries, or financial transfers from government²², as well as the regulatory powers and processes that are provided to the CWB in any predefined transition period.

The outcome will also be shaped by whether the powers provided to the CWB in a transition process are deemed to fair and equitable by CWB competitors, the grain companies. The outcome will also be shaped by the nature of the competitive rivalry that will result among grain companies and the CWB; including the alliances that emerge between the CWB and existing grain companies.

A possible next step is dialogue on the expected outcome and alignment of views by the affected parties and stakeholders on the desired outcome. Following this, appropriate transition mechanisms can be developed.

²² It should be noted that in Australia, there were no financial transfers from government to either the AWB, or to the single desk sellers of barley. The source of funds came from levies paid on deliveries.

Appendix I – Examples of Successful Transformation from Single Desk Sellers

Examples of successful transition from a single-desk selling environment to a competitive market situation (marketing alternatives) are provided in this section.

There are a number of examples of successful transformations of former single desk sellers. These examples briefly highlighted below are:

- ❑ Ontario Wheat Producers' Marketing Board
- ❑ ABB Grain Ltd in Australia
- ❑ AWB Ltd in Australia
- ❑ Grain Pool Pty Ltd in Australia
- ❑ Queensland Cotton Holdings Ltd in Australia
- ❑ Fonterra Co-operative Group Ltd in New Zealand

I.1 Ontario Wheat Producers' Marketing Board

The Ontario Wheat Board (OWPMB) is an example of a successful transformation from a sector with a single desk seller to one where delivery to the former single desk seller is voluntary. By way of structural background, the Ontario wheat crop ranges from 1.0 million to 2.0 million tonnes, with around 500,000 tonnes used in local milling markets, and the remainder shipped to US accounts or exported to offshore accounts. Secondly, the Ontario market is well served with infrastructure and with numerous grain dealers, some of them part of multi-nationals, some part of national, and some regional firms and some very local with one or two locations.

The transition from a single desk seller to a voluntary marketing organization for producers, started by producers deciding that they wanted marketing options for wheat. The first response was for a number of separate pools, followed by pricing arrangements outside of the pool return (such as basis contracts, forward pricing contracts, etc.). These contracts were easy to develop through shifting price risk to options and futures contracts.

Observing the returns that producers could achieve through these various marketing mechanisms, the OWPMB instituted a program of deliveries to grain dealers outside of the Board. This was implemented through exemptions to the regulations. The first exemption was for 150,000 tonnes, which was increased in subsequent years, until there was no minimal requirement for deliveries to the OWPMB, implying total producer choice.

Since the regulatory environment in Ontario has been amended, over the last few years the volume of grains received by the Board has ranged from a low of under 10% of the crop to close to 30% of the crop, with some of the grain delivered into the pools and some delivered through other pricing arrangements. Deliveries appears to be up when the market price and the initial price are in close proximity, and when there is a large divergence, marketings into the private trade are higher. The OWPMB still continues its other functions as a producer organization for wheat producers.

I.2 ABB Grain Ltd

ABB Grain Ltd was formerly the Australian Barley Board²³, a statutory authority for over 60 years that had monopoly control of the marketing of barley through grower's pools in the State of Victoria and barley and some minor grains in South Australia and had as assets only a share in its office building, a few office furnishings and some vehicles when deregulation commenced in 1993. Today the only remaining statutory marketing power is over export barley from South Australia and that is under consideration. Financially it is not dependent on any regulatory powers.

ABB Grain Ltd now:

- ❑ is a publicly listed company with a market capitalization of over \$A1 billion, operating in all States of Australia and New Zealand and an office in Beijing;
- ❑ is controlled by growers through A class shares (elect majority of Board) issued to current growers on a volumes of business basis and financed through B class shares that earn dividends;
- ❑ is an integrated marketer of all grains both domestically and overseas with many pricing products to growers in addition to its pools;
- ❑ owns a network of storage and handling facilities and export shipping terminals mainly in South Australia;
- ❑ is in the top 10 world maltsters (Joe White Maltings Ltd);
- ❑ provides some \$A300 million annually of harvest finance to growers;
- ❑ is involved in a range of businesses associated with grains including stakes in a flour mill and feed in Egypt;
- ❑ has a joint venture, Grain Australia, with the Grain Pool of Western Australia that effectively markets the major proportion of Australian barley exports.

ABB Grain began to build up a capital base from 1993 with a \$1 per tonne levy on barley receivables that were transformed into financial shares when the organization became a private company in 1999. It continued to build reserves from profits as its skills and businesses expanded in the deregulated domestic and Victorian markets and issued equity as it was listed in 2002. It acquired a trading company, Jossco, to infuse more skills and some other smaller businesses before merging with the South Australian bulk handling company, AusBulk in September 2004, which brought in handling and malting assets.

ABB Grain Ltd places a great deal of emphasis on its relationships with growers and customers and of maximizing returns to growers who choose to deliver to its pools or to the increasing numbers who choose to sell through one of its many alternative pricing options, for a cash or on a basis.

I.3 AWB Ltd

AWB Ltd, formerly the Australian Wheat Board²⁴, once had statutory marketing authority over all Australian wheat sales, but now retains the wheat export rights through a wholly owned subsidiary, AWB International (AWBI). An oversight body, the Wheat Export

²³ ABB Grain Ltd website is www.abb.com.au.

²⁴ AWB Ltd website is www.awb.com.au.

Authority may grant a license to other exporters subject to certain conditions, but AWB retains a veto over bulk wheat exports. AWBI contracts with AWB Ltd to supply all services needed to market pool wheat.

AWB Ltd:

- ❑ is a publicly listed company in the top 100 Australian companies with a market capitalization of around \$A2 billion;
- ❑ is controlled by growers through A class shares (elect directors to AWB Ltd and AWBI Boards and have a majority on each) issued to current growers on a volume of business basis and financed through B class shares that earn dividends;
- ❑ is an integrated marketer of all grains both domestically and exports as well as overseas origination with many pricing products to growers in addition to its pools;
- ❑ has established trading offices in a number of overseas locations;
- ❑ provides pool management services and receives fees including out performance fees for its services;
- ❑ provides sophisticated risk management and financial services through numerous products including harvest loans to growers;
- ❑ provides supply chain services with some receival facilities but uses the bulk handling authorities for most of its storage, handling and export needs;
- ❑ is a major operator in the rural services sector (merchandise, livestock, real estate, fertilizer and finance) through its acquisition in 2003 Landmark;
- ❑ has a number of investments in China, Japan and Egypt.

AWB began to build its capital base (Wheat Industry Fund) through a levy on receivals and then converted the monies to shares when it changed from a statutory authority to a private company and then through equity as B class shares as it was listed in 2001. AWB developed its skills and expanded its businesses from just a wheat focus as deregulation on the domestic market occurred progressively from the mid 1980s.

AWB places a great deal of emphasis on its relationships with customers and with growers who strongly support it, although that support is increasingly dependent on performance. There are pressures for AWBI to become more transparent with its arrangements for supply of services from AWB Ltd as well as continued pressures for greater autonomy for the Wheat Export Authority to grant more export licenses.

A current Inquiry (Cole Inquiry) is in progress relating to AWB Ltd dealings with the previous Iraqi regime. There have been concerns expressed that the A and B class share structure with grower dominance as opposed to equity owners (B class shareholders) combined with the export monopoly may have contributed to too great an emphasis on achieving high returns for wheat without full consideration of other issues.

I.4 Grain Pool Pty Ltd

Grain Pool Pty Ltd (GPPL), formerly the Grain Pool of Western Australia²⁵, holds the single desk export rights from Western Australia for the prescribed grains (barley, canola and lupins). It also trades under a subsidiary AgraCorp Pty Ltd, in pulses and cereals. Since 2002 it has been wholly owned by Co-operative Bulk Handling Ltd.

CBH Ltd:

- ❑ is a co-operative owned by growers with approximately 10,000 \$2 shares, but no profits are allowed to be distributed (that is no dividends are paid);
- ❑ has 9 grower elected directors and 3 specialist directors appointed by the Board;
- ❑ is through its subsidiary BulkWest essentially the sole provider of storage, handling and export facilities services in Western Australia (95 per cent of WA grain is exported);
- ❑ has built its assets up over the years through storage and handling charges with some capital obtained from the merger with the Grain Pool WA;
- ❑ is an integrated marketer of all grains both domestically and overseas;
- ❑ has formed a JV with ABB Grain Ltd (Grain Australia) to market export barley;
- ❑ formed a JV, Pacific Agrifoods with the Salim Group in 2004 and has interests in flour mills (Interflour) in Indonesia, Malaysia and Vietnam;
- ❑ has applied to the Wheat Export Authority (applications denied) to market and export bulk wheat to its Interflour mills.

A Grain Licensing Authority (GLA) (www.gla.wa.gov.au) was established in 2002 that can grant bulk export licenses for the prescribed grains so that suppliers other than GPPL may export these grains. The intent is to allow others to export whilst protecting any market power that the GPPL has to ensure maximum benefits to WA growers. The GLA has been accommodating in granting licenses for the prescribed grains to a range of countries. The impact has been for GPPL to increase its pool return estimates, (although it may have to close off pools if prices fall) and for a cash prices (it is only a small domestic market, but with export opportunities opened a larger cash market can arise) to rise in WA.

I.5 Queensland Cotton Holdings Ltd

Queensland Cotton Holdings Ltd had its origins in 1921 and became part of the regulated Queensland Cotton Board in 1948 (later known as the Cotton Marketing Board)²⁶. It was incorporated in 1989 and a subsidiary acquired the Cotton Marketing Boards major assets and operations on deregulation of the Queensland cotton industry. In 1992 it was listed as a public company and since then has pursued a program of diversifying its risk away from a single commodity/ single country focus. By moving into a Northern hemisphere operation it can service customers the year around and continually be part of the market intelligence network. Queensland Cotton is now in the world top 10 cotton operations. The company provides a full service to Australian growers through the provision of crop financing, ginning, marketing, agronomic and merchandising services and in 2005 had 30 per cent of the Australian market.

²⁵ Grain Pool Pty Ltd (GPPL) website is www.gpwa.com.au.

²⁶ Queensland Cotton Holdings Ltd website is www.qcotton.com.au.

Queensland Cotton:

- ❑ expanded (virtually doubling in size) in 1997 through the purchase of Anderson Clayton Corporation in the US;
- ❑ completed full integration of US operations in 2002;
- ❑ expanded into Mt Tyson Seeds (pulses, based in Queensland) in 2003;
- ❑ operates 25 gins in Queensland, New South Wales, Arizona and California with up to 1.5 million bales capacity;
- ❑ supplies cotton from major producers in Australia, United States & Brazil to over 15 customers world wide;
- ❑ opened an office in Texas and Brazil and appointed a representative in China in 2005;
- ❑ has total assets of \$A416,880 and net assets of \$A130,922 as of August 2005;
- ❑ purchased in January the Twynam's group ginning operations in New South Wales and the right to gin and market that Groups cotton production in the ginning regions, giving Queensland Cotton about 30 per cent of Australia's ginning capacity;
- ❑ has a Board of 4 to up to 8 directors, currently 5 non-executive directors (one of whom is a grower) and the Managing Director making 6.

I.6 Fonterra Co-operative Group Ltd in New Zealand

Fonterra Co-operative Group Ltd is a leading multinational dairy company, owned by 11,600 New Zealand dairy farmers, the world's largest exporter of dairy products, exporting 95 percent of our production. Fonterra's global supply chain encompasses its shareholders' farms in New Zealand through to customers and consumers in 140 countries. Fonterra is the outgrowth of New Zealand's former single desk seller of milk products on the export market.

Single desk marketing of milk was introduced in 1922. The Dairy Board was the single desk exporter²⁷. From 1963 to 1984, the government increased the amount of intervention in the industry. Interventions included: loans, fiscal concessions, input subsidies, subsidized loans, subsidized stabilization credits and direct price supports.

In the 1980's an economy wide deregulation removed price controls and financial assistance but did not touch the single desk powers. Dairy cooperatives were made the owner of the NZ Dairy Board (NADB) with shares allocated on the basis of the proportion supplied for export. The cooperatives held the shares on behalf of milk producers who delivered to the cooperatives. However, even after this reform certain aspects of the industry's structure, marketing and commercial activities continued to be regulated.

A significant amount of rationalization occurred in the dairy processing industry during the 1990's. In 1996, there were 13 dairy cooperatives. By 1999 mergers had reduced the number of dairy cooperatives to eight and by 2000 the number of cooperatives had fallen to four. The two major players, NZ Dairy Group and the Kiwi Cooperative Dairy accounted to 85 per cent of dairy production. The players also consolidated processing to increase

²⁷ This information is from OECD, "New Zealand Submission: Competition and Regulation in Agriculture: Monopsony Buying and Joint Selling".

efficiency. Despite these moves, the industry was thought to be providing too low a return on its capital assets and lacking innovation.

In the government's 1998 budget, statutory producer boards were required to provide plans for deregulation to the government. The dairy industry proposed that the NZ Dairy Group and the Kiwi Cooperative Dairy merge and the NZ Dairy Board be integrated into the resulting company. The merger was denied by the Commerce Commission because of concerns that it would result in a lack of competition in the domestic market.

In 2001, the industry brought forward a revised proposal that provided ways to mitigate the concerns over competition in the domestic market. The government accepted the proposal. It did not have the Commerce Commission approve the merger but instead imposed behavioural constraints on the new entity.

The Dairy Industry Restructuring Act (DIRA) of 2001 authorized the merger of the NZ Dairy Group, Kiwi Cooperative Dairy and the NZ Dairy Board to create Fonterra. The Dairy Board's statutory marketing powers (including export single desk) were removed. Shares in Fonterra are owned by producers in proportion to the amount of milk supplied and are priced at the "fair value". The DIRA contains provisions to facilitate competition in the domestic market. The act ensures farmers can enter and exist Fonterra freely (any producer can supply Fonterra at the posted share price). Fonterra was required to sell its shares in NA Dairy Foods, a domestic marketer of dairy products. The Commerce Commission monitors and enforces the act. Fonterra pays for the oversight by a levy. This provides Fonterra an incentive to minimize the number of complaints received by the Commission.

"Collecting over 13 billion litres of milk a year, Fonterra manufactures and markets over 2 million tonnes of dairy products annually, making it the world's leader in large-scale milk procurement, processing and management. Fonterra sources raw milk for manufacture in a number of countries. Fonterra's ingredients business is the largest dairy ingredients operation in the world, manufacturing and marketing more than 1,000 ingredient products to the international food industry under the NZMP brand. Fonterra Brands, our consumer business has some of the world's best-known dairy brands, which include Anchor, Anlene, Anmum, Tip Top, Fresh 'n Fruity and Mainland."²⁸

Fonterra has expanded into Australia both directly and through acquiring ownership of the farmer co-op Bonlac in the last 2 years. It has taken over Nestle assets & manufactures for that company as well as expanding by acquiring other brands and assets. Fonterra is currently one of the major milk processors and manufacturer of dairy products in Australia and owner of high quality brands, leading brands. It was recently outbid by the San Miguel Group (Philippines) for National Foods, the other major dairy processor in Australia.

²⁸ Extracted from the Fonterra web site