

Technical Report

Marketing Choice For Wheat And Barley Produced in Alberta:

A Test Open Market Analysis

*A Paper Prepared by
Alberta Agriculture Food and Rural Development
and the Alberta Grain Commission*

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Executive Summary

- This paper describes a Test Open Market for wheat and barley in Alberta that also provides marketing choice or the continued ability to ship to the Canadian Wheat Board (CWB).
- The approach is to explore specific areas where the CWB currently exercises control and to elaborate on how an open market in Alberta would operate without CWB controls.
- The paper is designed for multi-purposes, including discussions with the federal government, consultations with industry, and eventual public release.
- The findings contained in the paper, along with related discussions with stakeholders, support the thesis that the desires and future needs of the Alberta agriculture industry are best accommodated by a marketing choice regime for wheat and barley produced in Alberta.
- The largest expressed concern over a test market has been over the continued ability of the CWB to source supplies in a test market regime. This includes concerns from Alberta producers wishing to use the present pooling system and concerns of potential leakage or outflows of CWB-controlled grain from the rest of the designated area into Alberta and beyond, as open market grain.
- While the concern over leakage is real, there are a number of mechanisms that could be used to prevent excessive leakage including the use of enforceable contracts.
- Similarly, with respect to Alberta producers who wish to continue shipping to the CWB, contracts could be used to facilitate forward commitments to the CWB.
- This proposal hinges on the willingness of the CWB to cooperate in developing a test open market in Alberta.

The basic conclusion is that there are no fundamental barriers to the successful operation of a test open market. The capacity and ability exists in Alberta to carry out the functions currently performed by the CWB. There are many examples confirming the industry's ability to market and manage in the crops sector including functioning open markets for canola, feed grain, oats and so on.

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I. Preamble

This paper explores the concept of a test open market for wheat and barley in Alberta. The purpose is to show that an open market that provides marketing choice, including the CWB, would in fact work. This proposal hinges on the assumption that the CWB is willing to cooperate in order to make this proposal a success.

Marketing choice is clearly desired by Alberta farmers as shown by plebiscites, surveys, the Ag Summit process and the recent outpouring of support when 13 Alberta farmers went to jail to demonstrate the restrictions within the CWB system. Marketing choice would aid the growth and development of Alberta's agriculture and food industry by providing market signals for wheat and barley that are not conveyed through the current pooling system. The CWB is also losing market share in all world markets, as compared to competitors – this is a serious disadvantage to Alberta producers. Alberta producers need the ability to expand the markets available to them by catering to alternative and niche markets.

Marketing choice is understood to mean that farmers and agri-businesses can market their wheat and barley to any purchaser, including the CWB, at any time, without penalty.

Presently, wheat and barley produced in the “designated area”, of which Alberta is a part, is subject to various regulatory controls under the *Canadian Wheat Board (CWB) Act* that do not apply to the same commodities produced elsewhere in Canada. All Alberta barley and wheat for export and domestic human consumption must be sold through the CWB.

Through the passage of Private Members' Bill 207 (*Alberta Wheat and Barley Test Market Act*) the Alberta government has demonstrated that it wants to see marketing choice. The Act authorizes the Minister of Alberta Agriculture, Food and Rural Development (AAFRD) to enter into an agreement with the federal government or the CWB, or both, to establish an open market, on a test basis, for the marketing of wheat and barley produced in Alberta.

II. Principles And Criteria For A Test Open Market

Fundamental to the success of any experiment is ongoing monitoring and measurement. Among other measures, changes to grain marketing that allow marketing choice can be tested against basic criteria and principles. These statements of desired results are an expression of the underlying values that drive marketing choice. The following principles apply to a successful test market:

- Farmers market their wheat and barley to whomever they want, at prices reflecting current competitive supply and demand conditions as well as capacity, need and value.
- Farmers are not constrained in adding value to their crops by further processing or finding markets.
- Multiple sellers and buyers are present in both cash and futures markets.
- Public and transparent market prices for open market wheat and malt barley reflect market volume and liquidity.

- Price variability, user defined quality characteristics, alternate delivery periods, changes in freight deductions, etc, are accepted as a characteristic of a healthy market place.
- Administered or artificial prices no longer exist.
- Delivery options subject to contractual arrangements and market needs are restricted only by capacity and logistical constraints.
- Impacts on customers are minimized through transition.
- Alberta wheat, barley and their products flow to any domestic or export markets without impediments.
- Wheat, barley and their products produced in other provinces continue to flow into Alberta for local use and processing (wheat and barley produced in other provinces must continue to go through the CWB system in Alberta).
- Individuals accept both the risks and benefits of marketing decisions. Farmers and agribusinesses have the maximum flexibility to make their own business decisions.
- Marketing through the CWB remains an option.
- Consequences of pooling (i.e. equity, wealth redistribution) are not imposed on farmers using open markets.

III. Setting

Over the last decade, calls for fundamental reform of Canada's grain marketing system have been persistent and more recently, growing. For the Alberta industry, and for many others in the designated area, the responses by the federal government, such as changes to the CWB Act and leaving all CWB decisions in the control of the CWB, have been insufficient.

It cannot be denied that the dissatisfaction is, in part, rooted in ideology. Many believe that they should have the full right to build and protect their investments through their own initiative. They also believe that they should not be required to "pool" the fruits of their management decisions with others.

While these beliefs represent one of the forces behind the demands for change, there are other fundamental underpinnings than run through the entire constituency supporting reform. These have to do with the broad understanding that the principles of marketing choice are essential to the long-term prosperity and economic sustainability of the grain industry in Canada. Thus, this is a business issue.

The international environment to which the grain industry in Canada is so integrally connected is rapidly changing. So too are the demands of consumers and users of grain at home and abroad. More open trade, increasing competition, changes in trade flows within North America and the calls for full participation by developing countries in the world trading economy, all demand optimal responses in terms of continued removal of costs from the system and the ability of farmers to adapt to competitive conditions. This is evidenced in part by the pressure for new international rules to discipline the operation of State Trading Enterprises (STE's), as there is a general acceptance that STE's distort competitiveness and trade. Further, there is a recognition that state-controlled enterprises are not a good fit with the present course of international commerce.

Consumers and users of grain are demanding new and varied products and more rapid service. The bulk commodity orientation and regulatory control regimes currently in place simply do not fit this kind of dynamic market environment. Farmers need to shift their focus to production of a defined product for a customer, rather than bulk commodity marketing. Open markets need the ability to utilize modern handling alternatives to respond to these needs.

At the same time, farmers are increasingly capable of accessing tools and information for responding to market trends and competitive conditions. Where national mandatory collective systems might have been useful in the past, this usefulness is being replaced by the ability of players to communicate and transact independently and directly. Private cooperation is replacing state control with successful results.

It is these economic and system drivers as much as anything that is spurring calls for fundamental changes in the way Canadian wheat and barley is marketed. The case for these changes to begin in Alberta is especially compelling. Alberta's diverse agri-food sector is driven by an entrepreneurial culture, varied agronomic landscape and proximity to markets. Its development has been accommodated by a policy focus away from government intervention, based on the acknowledgement that the private sector is best at responding to the dynamic world that is emerging.

The debate over the efficacy of a grain marketing system in Canada where sellers have the choice of moving their products into the open market or into a pooling system regulated and operated by the CWB is not new. It has been the subject of many academic and expert analyses, and of considerable political attention. However, agreement sufficient to settle the debate has eluded industry and governments.

Marketing choice already exists for feed grains, a market that has been functioning reasonably well for some time. There is now marketing choice in Australia and also in Ontario. Farmer's positions in these markets have not been injured by the competition brought about through marketing choice.

Others claim that these examples are not comparable to the situation in Western Canada. For a number of reasons there are concerns that any loss of CWB control would undermine the power of the CWB resulting in its collapse and the disappearance of the supposed benefits that accrue to grain producers under a regulated single-desk marketing system (although there is no anecdotal evidence that the CWB increases farmgate returns to farmers).

Due to the lack of transparency and long history of regulation in the Canadian system, conclusive answers and consensus remain elusive. Absent a valid experiment, new political will or outside influence such as changes in international trade rules, the debate seems certain to remain a debate. In the meantime, however, the grain industry in Western Canada faces an urgent need to adjust to the rapidly growing competition and changes in market demand. Waiting for an end to the debate is not an option.

IV. Approach

The following sections of this document are presented in three main parts.

1. The first part describes how a test open market for Alberta would function. There is an assumption in this part that negotiations would result in the CWB participating in the test market in a non-regulatory way. This section also lists possible issues and/or unanswered questions that arise in a test open market. The areas that are dealt with are:
 - Sales Planning
 - Export Sales
 - Domestic Sales
 - Market Development
 - Price Discovery and Risk Management
 - Farmer Relations and Services
 - Transportation

These are aspects of the marketplace where CWB regulation and control is considered to have a substantive impact.

2. The second part assesses known concerns about the continued operation of the CWB in a test market scenario and offers possible options to address these concerns.
3. The last part describes the current situation summarizing how the Canadian market for wheat and barley operates now. This section provides a general picture on “where are we now” and serves as a comparative reference for the first and second parts of the paper.

V. The Test Market

A test open market for wheat and barley in Alberta is likely to result in different behaviour in the various components of the system where the CWB is currently involved. Further, there may be requirements for regulatory and institutional changes to accommodate change. Finally, there may be needs such as training, education and other awareness mechanisms to facilitate transition to a new system. The Winnipeg Commodity Exchange will need to play an important role in all aspects of this new open market for wheat and barley, so that farmers are comfortable in their understanding of basis levels and are comfortable in taking responsibility for marketing 100% of their crop.

This section outlines the operational aspects of a test market as well as the key changes that are likely to occur and how they can be addressed in a marketing choice scenario. Possible issues to be dealt with are also listed.

As indicated in Section IV above, the various components discussed below relate to current control elements of CWB operations. For additional background on these areas, the reader should refer to Section VII.

Sales Planning

As described in more detail in Section VII below, the CWB controls the marketing of wheat and barley by directing the coordination, pricing and timing of sales. One way this control is exercised is through what the CWB calls its “sales plan.”

Within a test market, the CWB will not have control over sales of open market wheat and barley. Instead, decisions on the coordination, pricing and timing of open market sales will take place on the basis of individual grain companies, processors and farmers responding to market signals and their individual business situations.

Grain companies would optimize returns from open market wheat and barley by coordinating sales in the same way they do for other crops such as canola. Further, they will be able to take advantage of new niche marketing opportunities that might reduce the portion of low-priced sales that currently exist in the CWB marketing mix.

Given that many of the grain companies operating in Alberta have extensive international experience and direct exposure to customers for Canadian grain, merchandising of open market wheat and barley would not be compromised in a test market. Many of the major grain companies already handle all the functions of moving wheat and barley from the elevator system through to unloading the grain at a customer’s location.

The bulk of farmers, including especially those who want to participate in the test open market, are well versed and experienced in selling, pricing and delivering the products they produce. A test market provides additional tools for planning their sales.

Under the test market scenario, the CWB would compete for sales alongside the private trade in markets where Alberta-produced open market wheat and barley might be offered for sale. The CWB would retain control over all wheat and barley not sold in the open market including it in the CWB’s Sales Plan. The CWB would also have the ability to source grain from grain companies, as they deem necessary, to fulfill their sales plan.

Export Sales

In a test market, there will be five ways Alberta wheat and barley (or their products) will find their way into export markets.

- Farmers will probably continue to deal with grain companies especially for offshore sales.
- Farmers could sell directly to local processors that, in turn, export final products.
- Farmers could process their own grain, selling the final processed product either domestically or for export.
- Farmers could independently export their grain; likely to the US.
- Farmers will still be able to sell to the CWB.

Export Licenses

The issuance of export licenses will no longer be necessary as a regulatory tool. As with all exports though, some form of export documentation will be required. However, in a test open market, such documentation would be used strictly for monitoring and data collection rather than control. One use might be to monitor flows under the test market to prevent abuses. This is discussed further in Section VI.

Regardless, any export documents would have to be issued by a body that is not also involved in the regulation of grain marketing. This could be Agriculture and Agri-Food Canada or the Department of Foreign Affairs and International Trade (DFAIT). The CWB would be required to give up all control over export licenses, so that they do not have the ability to undercut open market sales or to use export licenses as leverage to interfere in open market sales.

An example of a possible licensing procedure is outlined here:

Any entity wishing to export wheat would apply to the body responsible for export and trade of agriculture products for an export license to sell their own wheat, barley, wheat products or barley products.

Issuing of licenses could be a two step process:

1. The entity could complete a detailed one-time application for an export license. This would register the entity's intent to export.
2. Subsequent applications for each export sale would be simplified. Exporters would fax this information and receive immediate approval, based on their detailed application.

The current provision that the exporter must provide the CWB with all the end user information at the time of the sale would need to be waived.

Potential Issues

Moving responsibility for issuance of export documentation away from the CWB would require new systems and arrangements. However, maintaining the requirement for an export license is recommended in order to minimize changes to CWB legislation. Export licenses would also be required for dealings with the US, especially after December 12, 2003, as the Bioterrorism Protection Act comes into effect.

Domestic Sales

Milling Wheat

Within a test open market, processors would have the flexibility to source grain directly from farmers, grain companies or other suppliers outside of CWB control, or from the CWB. Thus, processors would continue to have access to out of province supplies, through the CWB.

Processors who choose to procure supplies from the Alberta open market will undertake functions such as planning of deliveries, securing forward supplies and pricing in cooperation with the open market merchandisers (much like they do now with the CWB).

Direct relationships between processors, farmers, and grain companies would strengthen under a test open market allowing farmers to be more directly involved in the value chain. These closer relationships should help enhance consistency of supply and quality and timely deliveries. They could also create new opportunities for some millers in combination with workable identity preserved and/or niche market options.

The domestic human consumption (DHC) formula pricing system currently used to price domestic sales for processing (See Section VII) would be discontinued for Alberta open market wheat. However, the CWB would be expected to continue using the DHC formula to price wheat to millers, with added flexibility to compete with open market grains when appropriate.

Malt Barley

Barley is widely regarded as easily workable in an open or test open market. With the expansion of domestic usage – many local markets in the designated area moving in and out of deficit situations – transparent price transmission and feed/malt price arbitrage are increasingly essential. Maltsters have had difficulty attracting supplies due to the lack of ability of price pooling to provide premium spreads in the face of periodic tight supplies. A test open market would facilitate more direct and accurate price transmission. A test open market would also open the door for more accurate price signals and contract arrangements in order to move malt barley production and delivery away from a ‘lottery’ system.

Potential Issues

In general, through the Canadian National Millers Association (CNMA), most domestic millers have stated they are satisfied with the present system. It is the CNMA’s stated view that they would be satisfied with either the current CWB-controlled market or a totally open market. Some millers are concerned about a “hybrid” system, where the CWB maintains regulatory control over all wheat markets while only sharing the origination of grain with an open market component. The CNMA will need to be informed concerning the actual prescribed makeup of the test open market, as it is closer to the scenarios it has embraced than the “hybrid” system it fears.

The assumption of good faith participation by the CWB is critical in order to ensure security of supply for Alberta processors. As many Alberta-based processors will draw grain from Saskatchewan (and at times, from Manitoba), they will need assurances that the CWB will act in good faith ensuring that those supplies remain available on reasonable commercial terms.

Market Development

It is a reasonable assumption that the responsibilities and associated costs of market development would shift in a test market, albeit not substantially. The private sector is likely to have a larger and more direct market development role with respect to Alberta open market grains. Currently, CWB Accredited Exporters (AEs) have a significant role in marketing CWB grains¹. Presumably AEs would take up market development activities for Alberta product sold outside the CWB. Customer follow up would be performed by the entity making the sale.

The Canadian Grain Commission (CGC), involved in maintaining quality assurance, and other agencies such as the Canadian International Grains Institute (CIGI), supporting the development of new products and markets, would continue their roles to the benefit of CWB grains as well as to open market wheat and barley grown in Alberta. Alternatively, a separate non-government organization that includes representation from all interested industry groups and coordinates market development activities in cooperation with the CGC and CIGI (similar to Pulse Canada), could undertake market development activity.

Increased participation of the private sector may create new marketing opportunities. For example, some of the fastest growing markets are in less developed countries that are not interested in the highest quality wheat varieties. Many regions in Alberta are well suited for the production of lower protein, higher yielding wheat varieties that have not been a priority focus of CWB marketing efforts.

Price Discovery & Risk Management

Risk management tools are already available through Winnipeg Commodity Exchange (WCE) and other futures markets. In addition, the additional liquidity provided from trading Alberta barley as an open market export commodity would improve the functioning of the current barley contracts.

Farmer Relations

Contracts with Farmers

Under a marketing choice scenario, farmers deciding to sell in the open market system would use whatever market information is available including Canadian wheat and barley futures, U.S. wheat futures prices, local street prices, contract prices, private grain company forecasts and other domestic pricing signals. In a test open market grain companies will offer a full array of marketing options such as daily cash bids, deferred delivery contracts, basis contracts and perhaps other contracts to influence marketing decisions and compete for grain with other companies, much as they do now for canola and other open market crops. Farm management

¹ CWB Accredited Exporters are firms that have applied for and received official CWB approval to act on its behalf in the execution of export sales of CWB grains. AEs often have foreign contacts and relationships that can aid in making an export sale; sometimes the AE facilitates the sale through coordinating the vessel loading and shipping. The CWB makes the ultimate decision whether to use an AE on a particular sale or not. In dollar terms, over half the export sales of the CWB are facilitated in one fashion or another by an AE.

decisions will become more market-oriented given that prices and marketing costs will be more clearly presented and farmers will be able to respond to them. Test market sales options would significantly improve cash flow management especially for those farmers whose crop mixes are dependent on wheat and barley.

Payments to Farmers

Payments to farmers for open market grains would be on terms arranged between buyers and sellers.

Permit Books

A CWB Permit Book number is often used to identify farmers for accounting and control purposes. Under a test market scenario, the Permit Book would continue to be used for sales to the CWB, to distinguish these deliveries from Alberta open market deliveries.

Other could alternatively be used in facilitating the operation of the test market.

Cash Advances

Current cash advance programs are federal government programs. The CWB would continue to administer them for deliveries to the CWB, but there may be a role for an alternate body to administer these advances for farmers delivering to the test open market.

Potential Issues

Farmers will need to be able to understand the mechanics of how prices are discovered (basis levels) and contractual commitments. Many resources already exist in the industry to carry out this role.

Transportation

To implement marketing choice, the CWB's legislated authority² over transportation will have to be modified, relaxed or held in abeyance until the end of the trial period. The best alternative may be to move CWB ownership of grain to port, allowing grain companies control over their own logistics.

Trucking

There is expected to be no change to the trucking of grain as a result of a move to marketing choice.

² Appendix B

Freight Cost Deductions

Since there is only one single car rate at each location, similar for all grains, there would not be any change in freight procedures or rates to apply to open market grains. The only difference would be that the negotiating power of the grain companies with the railways would presumably increase because they would represent more tonnage.

Shipper Status

Although the CWB enjoys joint-shipper status on shipments of CWB grains (allowing it to file formal complaints with the Canadian Transportation Agency (CTA)), the grain companies are also considered joint-shippers as they manage the loading, shipping and terminal unloading of railcars of the CWB grains (allowing them to capture multi-car incentives). On open market shipments in a test market, the CWB would not have joint-shipper status.

Tendering

Grain companies compete for a portion of CWB grain movement through bidding for shipping volume under the tendering process. Bidding for these cars typically involves offering the CWB per-tonne payments for tenders; the company offering the largest payment to the CWB typically wins the tender. These payments are generally considered to represent a portion of the total revenue the grain company earns by handling the grain in the tendered railcars. This revenue includes primary elevation, cleaning, multi-car incentives (rebates), blending (at the primary elevator), sale of screenings and terminal elevations (if applicable).

Under a test market grain companies would presumably continue to tender for railcars for a portion of Alberta wheat and barley that is sold to the CWB. Since it is a CWB program, tendering would not apply to open market wheat and barley; grain companies would simply compete for these on a market basis.

Multi Car Incentives

As the shipper of record, grain companies capture the benefits of incentive rates directly. Whereas it is generally understood that grain companies include the economics of these multi-car incentives when bidding on CWB tenders, doing so transfers the financial benefit of these incentive rebates to the CWB pool accounts and dilutes the financial impact to farmers. On open market grains, grain companies would use the anticipated revenues from multi car incentives to bid higher prices to farmers directly involved in providing the grain to load these large blocks of cars. In this way, farmers share directly in the financial benefits of these incentives.

Car Allocation

Under a test market scenario the CWB could agree not to use its current car allocation authority. However, since it has already limited them by agreement with the grain companies, this is not expected to be an issue.

Operation of a Test Market in Alberta

Test Market Definition

The Alberta Legislature passed Bill 207, *Alberta Wheat and Barley Test Market Act*, in December 2002. This Act allows Alberta's Minister of Agriculture, Food and Rural Development (AFRD) to enter into an agreement with the Minister responsible for the Canadian Wheat Board, the Canadian Wheat Board, or both for the establishment of a test market for the province of Alberta.

The legislation says: A *Test Market* means an open market for the purchase and sale of wheat and barley produced in Alberta. The agreement must give producers the option of marketing any portion of their wheat and barley to the Canadian Wheat Board (CWB), or any other buyer. Subject to the agreement, the Minister may make regulations governing any matter respecting the implementation of a Test Market in Alberta. The Test Market would be in place for 10 years.

Description of a Test Open Market in Alberta

Introduction

In a test open market, the CWB would compete (as a buyer and a seller) with the private trade in any market. Commercial contracts would be a basis for both CWB and open market transactions.

In recent years the CWB has almost completely moved to contracting. In other words, even now farmers cannot enter the pooling system at whim (although there is some flexibility). Occasionally the CWB closes access to the pool accounts by not accepting all the contracts. For example under the current system, by offering contracts then accepting perhaps 70 percent, the CWB is essentially limiting access to the pool account (although proportionately among all farmers opting for the pool). Although the acceptance is stated as a percentage, in practical terms it becomes a tonnage limit. Thus there is somewhat of a precedent with using contracts and with controlling the size of the pool account.

Farmer to Company Transaction (CWB or Open Market)

1. The CWB and open market buyers would determine their own transaction terms including contract deadlines.
 - The CWB would contract periodically from farmers, as it does today.
 - In a test open market, the CWB may opt for even more flexible contracting terms in order to be more competitive.
 - The CWB and other buyers would enforce their own contracts.
 - Contracts with the CWB may include an affidavit to be signed by farmers, declaring that the grain being delivered was produced in Alberta.
 - The CWB would continue to contract for deliveries in other provinces.
 - The CWB's enforcement of those contracts in other provinces would help with controlling the amount of "leakage" of out of province grain into the Alberta test open market.

2. The CWB would probably want no opting in and out of pooling. The rest of the industry would have to respect that
 - The CWB would probably want to have a firm deadline for entering the pooling system, but that would be the CWB's decision.
The CWB would determine those deadlines.
 - The CWB would determine whether they would allow farmers to enter a pool account mid year.
 - The CWB may decide to "open" or "expand" a pool within a crop year.
3. The CWB would continue to have the option of closing and starting a pool when they wish (as is allowed under the new amended Act, but which they haven't yet done). Ultimately farmers would determine the quantity of grain that gets sold into each channel (i.e. through the CWB or through the open market).
 - Farmers would contract with the CWB the amount of wheat or barley they plan to market to the CWB.
 - This could be done on a regular basis (annually, quarterly or monthly depending on what the CWB prefers).
 - By default farmers would be choosing the amount they plan to sell into the open market.
 - Contracting before harvest would involve some risk around the ability to deliver the specified quality. The farmer would determine whether they are prepared to enter into such a contract, depending on the terms of the contract.
 - The spirit of the contract with the CWB would be truly commercial in nature, committing the farmer to deliver the amount contracted.
 - Possibly many farmers will choose to sell some amount into each channel.
 - Farmers could only sell tonnes on the open market that are not contracted to the CWB. With the open market for other crops, farmers must be careful not to over commit, therefore they have experience with this risk.
 - Farmers would be responsible for determining whether they had sufficient grain to market once commitments to the CWB or open market are considered.
 - When a farmer delivers, he declares whether it is a CWB delivery or an open market delivery depending on his contractual obligations, and he advises the grain elevator operator accordingly (this is currently the case with grains such as CPS wheat which may be contracted to the CWB or sold on the open market).
4. Grain companies would still record CWB transactions in permit books.
 - Commitments to the CWB would be noted in the permit book.
 - The system will need to ensure that contracted volumes are done first (as is done with canola deliveries and cash advance repayments).
5. Grain companies may need to increase their working capital and CGC bonds in order to finance open market wheat and barley purchases from farmers.
6. The above applies to processors too, who may purchase directly from farmers, go through grain companies or buy from the CWB.

Company to CWB Transaction

Companies would continue to handle grain for the CWB. Currently this is done under contractual arrangements with grain companies, through the signing of handling agreements or accredited exporter agreements. Those programs would likely need some modification and negotiation. The CWB would also have the ability to buy directly from grain companies, if needed, to fulfill contracts.

Exporting

All wheat, barley, wheat products and barley products would continue to need an export license before exporting. Any entity (a farmer, CWB, grain company, broker, processor) wanting to export would obtain export certification from a third party agency such as DFAIT or Agriculture Canada. That third party agency would track movements out of the area through the export licenses. They would also aggregate information on those movements and make them publicly available, perhaps in conjunction with Canadian Grain Commission statistics. Exporters would need to provide customer name, volume and value (similar to any export move) to the agency but this private contractual information would be available to no other market participant.

Monitoring and Audits

All companies and the CWB would be required to maintain books for open market and CWB purchases and sales. An annual audit, by an independent third party auditor, may be required to gather information for purposes of assessment and analysis of the test market system, in particular to ensure massive leakages aren't occurring. The role of leakage control could be fulfilled by the Canadian Grain Commission, similar to the CGC monitoring other contract terms such as grading.

Related Service Areas

Sellers (farmers, grain company, CWB, or other) would be responsible for customer follow-up and satisfaction. Domestic processors would negotiate individually with the CWB or open market suppliers (farmers and grain companies). Processors would purchase the most cost effective package of grain and services that meets their specifications.

The Canadian International Grains Institute (CIGI) may continue as a market development and customer education arm for all Canadian grain producers. Funding through a check off may be considered.

Comments

Under the amended CWB Act, the CWB does not have to pool grain for a full year. They could close a pool and open another (i.e. they can have more than one pool in a year).

The above description means that farmers would not need to apply for an "exemption".

Summary of Marketing Channels Available to Farmers

Farmers would be able to sell to any buyer including:

1. CWB
2. Grain companies (which could include multinationals, Canadian owned publicly traded companies, large and small independents and cash brokers)
3. Processors in Canada
4. US buyers
5. Feeding channels in Canada and the US
6. Farm cooperatives or companies
7. Direct offshore exports

Farmers would decide the amount of their grain that would be marketed to the CWB and what portion they would market independently.

The CWB would select a deadline date for making this determination.

Prior to this date, changes could be made to the volume contracted to the CWB. After this deadline, there would be no re-entering the CWB pool.

When a farmer delivers to a grain company, the farmer would specify if the grain is for a CWB contract or to be sold on the open market.

The permit book would continue to contain information on a farmer's contracts with the CWB.

Measures of a Test Market

Over the past ten years....

1. Have farmers been able to market their wheat and barley to whomever they want, at prices reflecting current supply and demand conditions?
2. Have farmers been constrained in adding value to their crops by further processing?
3. Are there multiple sellers and buyers in both cash and futures markets?
4. Are public and transparent market prices, reflecting market volume and liquidity available?
5. Is price variability accepted as a characteristic of a healthy market place?
6. Are administered or artificial prices present?
7. Are unrestricted delivery options available (subject to contractual arrangements and market needs)?
8. Has there been minimal impact on customers through transition?
9. Are Alberta wheat, barley and their products able to flow to any domestic or export markets without impediments?
10. Has wheat, barley and their products produced in other provinces been able to continue to flow into Alberta?
11. Do individuals accept both the risks and benefits of marketing decisions?
12. Do farmers and agribusinesses have the maximum flexibility to make their own business decisions?

13. Has marketing through the CWB continued to be an option?
14. Are economic consequences of pooling (i.e. equity, wealth redistribution) imposed on farmers using cash markets?

Conclusions – Test Market

There are no insurmountable barriers to the proper functioning of a test market in Alberta for open market wheat and barley, provided the CWB is a willing participant in this described market. The grain trade has the required system knowledge and expertise in place to move swiftly and easily into a new scenario. The Continental Barley Market (CBM) event and removal of oats from CWB control are cases in point.

VI. Addressing Concerns Regarding an Alberta Test Market

Absent overt or covert interference by the CWB, there is no reason to believe that a test market for open market wheat and barley in Alberta would not function properly. However, concerns have been expressed over how, or even if, a mandatory single desk outside of Alberta could be sustained alongside the test area. This section explores some of these concerns and possible options to address them.

Concerns Regarding the Participation of the CWB

The following outlines what appear to be the main concerns over the ongoing viability of the CWB in a voluntary system and some of the known counter-arguments. Specifically, the concerns are as follows:

- 1) the ability of the CWB to source supplies for the continued servicing of its customers and;
- 2) open market sales undercutting CWB premium sales, thus jeopardizing the CWB's ability to maximize returns to farmers.

Assessment of Concerns:

Sourcing and Pool Integrity

The first concern is really about perceived risks to the pool. The concern seems to be that with the ability of grain companies located in Alberta to provide up front cash prices and other pricing options to attract grain, producers outside the test area would be tempted to sell into Alberta, jeopardizing the CWB's ability to source supplies both in Alberta and in "nearby" markets such as western Saskatchewan and the BC side of the Peace River district. However, contractual arrangements could be put in place to ensure forward supply for the CWB supported by monitoring tools such as permit books and export licenses. Alternatively, the CWB could use this opportunity to source from grain companies, when necessary.

The purpose of this section is to explore the potential areas of moral hazard or risk of wheat and barley from Saskatchewan and Manitoba flowing into Alberta, and to attempt to describe the issue and ways to mitigate the concern.

Farmers

Under a test open market scenario, farmers in Alberta will have different rights and privileges than farmers from the other provinces in the designated area. Alberta farmers will have the option of selling milling wheat and malt barley in an open market, possibly at higher prices than the CWB is providing for the same wheat or barley. This could create an incentive in other provinces to work around the system to exploit this difference. Possible means of doing this, using wheat as an example, are:

- Alberta farmers could sell their Alberta-grown feed wheat to the local feed market and subsequently buy milling wheat from a Saskatchewan farmer, for delivery to the open market at the local Alberta elevator.
- Alberta farmers could grow no wheat at all but still deliver to the open market, wheat bought from other Alberta farmers or from Saskatchewan farmers.

Elevator Operators

In a test market scenario, grain-handling firms located in Alberta will be presented with opportunities to exploit the test market in a fashion similar to farmers as outlined above. For example:

- An Alberta elevator operator could buy milling wheat in Saskatchewan and have it delivered to its elevator in Alberta, recording it as open market export milling wheat. With cooperation from an Alberta farmer, this could be applied to an Alberta open market Permit Book as long as it had “excess” capacity (delivery access for more milling quality wheat than was grown on that farm).
- An elevator operator could buy hi-grade wheat (#1 CWRS) from farmers in Saskatchewan as “traditional” non-CWB wheat (grading the wheat as #3 CWRS or lower) and then ship it to the U.S. or a domestic miller as open market #1CWRS wheat from Alberta. This would be easier for those firms with elevators in both provinces.

Contracts

In terms of the CWB securing supplies from Alberta farmers who choose to sell into the CWB pools, a contracting system could be employed. This system would involve each farmer deciding at appropriate times (set by the CWB) the amount of tonnes they will market through the CWB. Through this process, Alberta farmers would contract a specified tonnage with the CWB; the remainder of their crop would be sold in the open market. In the event that a farmer decides not to contract with the CWB at this time, he could not later decide to contract with the CWB (for example, in the event that the open market appeared to be offering lower prices than the CWB.)

The tonnage committed to the CWB would be recorded in the permit book by contract date. The grain company would apply the first delivery of grain against the oldest contract.

Contract terms with grain companies would also include an affidavit, declaring that the grain being delivered to the open market has been produced in Alberta.

Documentation

Alberta farmers would need to have a distinct permit book (eg. perhaps a different color), identification and/or perhaps a PIN number. A grain company would only be able to accept open market grain from a registered Alberta farmer. This documentation would allow Alberta farmers to have the choice to deliver milling wheat to either the CWB or the open market and thus would help to prevent abuses. It would be an offense to use some else's permit book, as it is today.

It is clear that abuses could occur, although outlining and communicating the penalties and/or fines associated with delivering non-Alberta grain into the test open market should serve to deter the majority of abuses. However, whether farmers would actually view the potential benefit as being sufficiently high to warrant going to the trouble and taking the risk is debatable. It is equally clear that the mechanisms outlined above would combine to significantly mitigate the perceived threats to the pooling system.

Price Undercutting and “Cherry Picking”

The other main concern is that of the “problem” of open market sales undercutting CWB premium sales, thus undermining the CWB's ability to maximize returns to farmers. This concern has two aspects:

1. The potential ability of open market marketers to undercut CWB prices thus devaluing the pool.
2. The potential for grain companies in Alberta to glean the best grain (within a specific grade) for their exports leaving the CWB with inferior quality for its sales.

The first point assumes that only open market sellers undercut sales, when in fact the CWB may be the party doing the undercutting from time to time. As well, markets are dynamic and their very nature is such that someone is continually “undercutting.” However, that can only occur to a minimal degree because the seller is constantly aware of a margin they are trying to protect or attain. The private trade does not make their money on the price of grain but on the margin. To continually “undercut” would destroy their margin. Markets are dynamic, not static, and if a party undercuts another then the market instantly responds to that new information.

The first point also neglects to take into consideration the cost of lost markets due to the CWB's sales regime. Many buyers across the world may have new interests in western Canadian grain if they could source products with specific end use characteristics. Also, the fastest growing world wheat market is demanding lower to mid quality wheats, a market that is not currently fully maximized by the CWB.

The notion that the CWB can command premium prices in international markets through the use of market power is probably the most refutable of the arguments in support of the single desk.

Most experts agree that the CWB is in fact, a “price taker” in a very competitive international market. Many would also agree that at least a portion of Canadian grain, mainly the high quality end, does command premium prices. The Japanese market for high quality milling wheat is a good example. However, it has also been suggested that these premium prices are probably not a result of market power but of the combination of aspects such as service, reliability and quality. These are all marketing and merchandising attributes that the private sector is fully capable of providing.

It is certainly arguable that the CWB commands market power at home. However, it is questionable whether this is in the long-term interest of the industry. If a given segment within the industry is obtaining some benefit from monopoly or market power then some other segment of the industry is losing. In a mature industry such as grains, the largest incremental benefits for the industry as a whole probably accrue from the development of upstream and support activities such as value adding, product development and diversification, management and identity preservation. Such developments are naturally limited if wealth is artificially targeted at a particular segment of the industry.

The concern of grain companies “cherry picking” quality in an open market has been a topic of discussion for as long as the idea of marketing choice has been around. It is a concern that has been shown to be overstated, at the least. Under a test open market, companies will continue to be obliged to deliver to specification whether for private sales or for CWB contracts. FOB tenders may also be another resolution to this concern. In any case, it has been widely questioned whether the practice of gleaning the high end of grades for particular sales is in the best interests of farmers. Such practice is an indication that quality is being given away. Further, there is the question of how much grain will really be involved and, hence, how big an impact this concern would have. Alberta accounts for only 25 percent of CWB volume and it could be that much less will move as test market grain. In other words, the CWB would still have full control of at least 75 percent of all Western grain and likely more, depending on how much grain Alberta producers sold into the CWB pool.

Closer examination of this issue with respect to wheat indicates that the amount of export wheat that the CWB would not control in a test market is even less material than the Alberta share of Canadian exports would suggest. Canada’s market share of the global wheat market has been dropping in recent years as competition from traditional competitors (US, EU, Australia and Argentina) and non-traditional countries (Ukraine) has increased. According to the CWB, current Canadian market share in wheat is about 17 percent. If it is assumed that the amount of Alberta wheat that is sold in the open market, outside of the CWB, is 75 percent of the total from Alberta, this represents about 19 percent of the Canadian total. If Canada’s global market share is 17 percent, then the loss of a portion of Alberta’s wheat represents a drop in the CWB’s global market share of about 3 percent.

A number of points put this in perspective:

- This amount represents an amount less than common annual shifts in production (and exports) between major exporters.
- This would not represent a drop in Canada's market share, just that of the CWB.
- At 17 percent market share, the CWB does not have sufficient market power to extract premiums in the world market on market power alone.
- A drop in market share in the magnitude of 3 percent will not have a material impact on the CWB's ability to market effectively in world markets.

Other Issues

Terminal Commingling

The question will arise as to whether CWB and open market grain should be commingled at terminals or segregated. From an efficiency standpoint, there are many pressures to commingle, in order to make the best use of the available space:

- Due to (i) the substantial scope of the CWB shipping program both in terms of volumes and types and grades of wheat, (ii) the opportunities to add value to these exports through blending and (iii) the requirement of blending to ensure export grade standards are met, the CWB makes use of a substantial amount of the storage capacity and blending capabilities of terminals to capture these opportunities.
- Exporters maintain stocks in terminals to mitigate the risk of paying vessel demurrage in the event that expected rail shipments do not arrive in time.
- Grain sales contracts are made on the basis of a range of volumes; for example, 5% more or less (MOL). This means that anywhere from 95% to 105% of the contracted tonnage may be loaded onto the vessel. Both these potential events illustrate the benefit of having storage space available.
- There are incentives to ship grain to terminals, even without a sale – in order to ensure multi-car incentives are not lost or to ensure railcar commitments with the railroads are fulfilled.

When presented with the test market scenario, it is expected the CWB will resist on many fronts, including the issue of how terminal stocks would be handled. With regard to terminals, the CWB might resist due to the anticipated impact on its ability to blend. The CWB has legislated authority and control over all blending of high quality wheat at terminals; allowing the commingling of CWB and open market wheat would require that the CWB relinquish this control. The CWB would likely favor segregating CWB and open market wheat in the terminals.

The terminal operators/exporters³ would be expected to indicate that, in a test market, they can manage segregating CWB and open market wheat (malt barley is already handled on a segregated/IP basis). However, it is further expected that the terminal operators would prefer to commingle whenever possible; the flow of grain is more efficient if grain is considered fungible

³ All companies that operate grain terminals in Canada are also exporters.

and homogeneous as possible, and it would be implied that the terminals would gain the benefit of blending open market and CWB wheat in the terminal. Commingling CWB and open market grain at the terminals would allow these efficiencies by allowing more swapping and trading of stocks among the exporters (including the CWB). For example, in the event that a vessel is presented for CWB grain and the CWB does not have enough to stem the vessel, it likely would be more efficient for the CWB to “borrow” (swap) from another exporter, grain stocks already in the port, to be replaced by CWB stocks expected to arrive shortly thereafter, rather than place the vessel on demurrage.

Due to the onset of tendering, the demise of car-pooling at the Port of Vancouver, and the more commercial nature of freight and logistics, terminal operators now manage the flows of grain from the interior as individual value chains (separate from other grain companies) rather than one aggregate flow. Therefore, notwithstanding the obvious pressures to commingle, the expected scenario in a test market is where CWB and open market stocks are segregated from each other. However, this would not be expected to put undue strain on the system.

VII. The CWB in the Current Canadian Grain System

Introduction

The Canadian Wheat Board is a Crown agency created by the passage of the Canadian Wheat Board Act in 1935. The CWB is the sole marketing agency of wheat and barley grown in the Prairies and the Peace River Region of British Columbia destined for export or domestic food consumption. The CWB is not involved in the marketing of grains other than wheat and barley, nor does the CWB have marketing jurisdiction in central and eastern Canada. However, the CWB is responsible for issuing export licenses for wheat and barley exported from any region of Canada.

The CWB’s authority to control the market stems from legislation. In general terms⁴, the Act gives it powers to control:

- The designated area as outlined in the definitions of the Act.
- The buying, selling, transporting and exporting of wheat and wheat products, under Part IV “Regulation of Interprovincial and Export Trade in Wheat”.
- The development and implementation of the sales plan and the pool accounts defined as the “marketing plans” in Part VI of the Act.
- Elevators and railways under Part II “Control of Elevators and Railways” of the Act.
- Interprovincial and export trade, through licensing for all of Canada, not just the designated area, under Part IV “Regulation of Interprovincial and Export Trade in Wheat” of the Act.

The operation of the CWB is based on the concept that a single desk selling monopoly provides more power and security in the marketplace, instead of farmers competing against one another. It remains a contentious debate whether the monopoly powers of the CWB actually capture a

⁴ This is an overview. There are those that say the CWB has gone beyond its mandate in some areas in its administration of the Act.

higher return than would be possible through an open market. There are a number of key processes and operations into which the CWB enters to achieve its goals.

Management

Bill C-4, an Act to amend the Canadian Wheat Board Act, was passed by Parliament on June 11, 1998. Effective December 31, 1998, this legislation provided western producers with a direct role in electing the Board of Directors, replacing the previous framework of up to five Commissioners and the farmer-elected Advisory Committee. The Board of Directors is made up of 15 members, including 10 farmers who are elected to represent their respective districts. The Directors are elected for a four-year term, with elections in five districts every two years. The Governor-in-Council appoints the final five directors based on their business expertise.

While the board has overall responsibility for the CWB's performance, standing committees made up of directors, assist the board in specific areas. There are currently standing committees of the board in audit, strategic issues, transportation, communications and corporate governance. In addition, the legislative changes allows the CWB to offer farmers more options in terms of the pricing and the timing of payment for their grain, and to provide greater flexibility in the way it acquires grain.

Three departments are directly involved with the core CWB business of marketing wheat and barley: sales, market development and market analysis. Sales Department staff are in direct contact with customers to promote sales, formulate sales strategies, negotiate contracts, follow up on fulfilling of contracts and arrange after-sales service. This department sells grain directly to governments and to private commercial entities or through CWB accredited exporters who purchase and re-sell the grain as principals in their own right.

The CWB spends considerable time and resources on market development to expand the demand for Canadian wheat and barley. Working together with the Canadian Grain Commission, the Canadian International Grains Institute, Agriculture and Agri-Food Canada and grain industry specialists, CWB market development staff shows buyers around the world the advantages of buying Canadian grain.

The market analysis department monitors, analyzes and reports on all factors affecting the production, consumption and trade of grains in different parts of the world. This department's primary role is as a service unit to the sales department and senior management, providing information, analysis and day-to-day support to assist in sales decisions and fulfilling contract obligations to customers.

The Role of the Government

The operational relationship between the CWB and the federal government is related to three activities. First, the federal government guarantees the CWB's initial payments. In the event that returns to the pool exceed the sum of these total payments, farmers receive a final payment, after

the end of the crop year. However, in the event that returns fall short, the federal government makes up the difference and reimburses the difference to the CWB⁵.

Secondly, the federal government guarantees the borrowings of the CWB to finance its business. This allows the CWB to borrow money at significantly lower interest rates than a private sector company of comparable size and credit worthiness.

Finally, the federal government guarantees payment on authorized credit grain sales thereby ensuring that farmers are not exposed to the risk of buyers' defaulting on payments.

Farmer Relations

Permit Books

Prior to the beginning of the crop year, and prior to delivering any CWB grains into the elevator system, farmers must apply for a delivery Permit Book, which gives them a permit book number. A delivery permit (Permit Book) allows farmers to delivery wheat, durum or barley to the CWB on delivery contracts (entered into separately) as delivery calls are issued. Farmers apply for permit books each year by completing a delivery permit application. The permit book is valid for the crop year – August 1 to July 31.

In the permit book are recorded details of the farmer's crop plan for the crop year that provides information to the CWB that is used to develop sale plans and determining delivery calls. The farmer also allocates his acres to his crops based on how he might choose to deliver those crops. These allocations of acres to specific crops do not need to match the number of acres used to grow those crops; a farmer can allocate all his cropped land to one crop, say red spring wheat, when in fact he grew other crops as well.

The delivery permit book is used to record deliveries by the farmer as they occur through the crop year and is the farmer's official record of deliveries. This enables grain companies to know what farmers have delivered regardless of where the deliveries were made. This in an important feature as farmers will often deliver grain to more than one company; the Permit Book provides a consistent record of deliveries to the CWB regardless of where the deliveries are made.

Contracts with Farmers

Farmers make seeding decisions based on factors such as the CWB PRO, price signals from futures markets, prospects for movement, rotational considerations and prices for other commodities. In the instance of feed grains, farmers will consider contracting their grain to the CWB if it is competitive with the open market based on factors including current PRO, current initial payment, anticipated contract calls from the CWB, cash flow and storage needs.

The procurement of CWB grains from the farm to the country elevator is not driven by grain prices (as in the non-CWB, or open, markets). Instead, delivery contracts are used by the CWB

⁵ This has been considered by foreign competitors as a form of subsidization.

to control the movement of grain into the elevator system. These contracts constitute offers to deliver grain by farmers and are a binding contract when accepted by the CWB. These contracts specify the type, grade and quantity of grain a farmer wants to deliver. Presently, farmers can offer grain to the CWB under three different delivery contracts, called “series”, during the crop year. Each series has a sign-up deadline date. In 2002-03 the deadlines are October 31, January 31 and May 30th (with a slightly different schedule for winter wheat).

The CWB establishes an acceptance level for each contract program within 18 days of the sign-up deadline. Rather than accept contracts on a first come – first served basis, the equity tenet of the CWB demands that each farmer obtains an equal delivery opportunity; with respect to contracts, this is accomplished by accepting the grain each farmer “offers” on each contract, prorated if necessary. For example, the CWB might accept 70 percent of an “A” series contract.

Under the current system, prior to the deadlines, farmers with feed type wheat (e.g. #3 CWRS, CPS) will weigh the option of the CWB with the open market and make a decision on the amount they want to contract to each channel.

The acceptance level is the farmer’s guarantee of delivery within the crop year although at this point, the CWB does not determine nor indicate the timing of the requirements. Contract sign-ups are used by the CWB as an indicator of what quantities of each type and grade of grain are available for sales. CWB delivery contracts contain a performance clause. Farmers are expected to deliver all the grain accepted. If they deliver less than 85% of the accepted amount, liquidated damages will be assessed on the shortfall. Recently the CWB has proposed moving to a 90% delivery requirement.

Malt barley is slightly different in that, in addition to being contracted with the CWB, it is also selected by the buyer on the basis of non-grade specification such as germination.

Contract Delivery Calls

CWB contracts with farmers on their own do not provide access to the grain handling and transportation system. This is provided by contract calls, also called delivery calls. Within each contract, a series of calls are used to provide delivery opportunities for farmers. Delivery calls are announced whenever the CWB considers the need for additional grain to satisfy sales. In this way, delivery calls are used to manage the flow of grain into the system.

Based on its analysis of the balance between inventory and requirements, the CWB will announce calls to allow deliveries into the system. In addition, these calls may be terminated at some point before (or after) the end of the crop year. Once a delivery call has terminated, delivery on that call is no longer possible (with the exception of special circumstances that have precluded farmers from making deliveries on the call). Delivery call terminations are used by the CWB to incite farmers to make deliveries against the call.

Payment to Farmers

Once farmers deliver grain to an agent of the CWB (grain companies), they are paid an initial price immediately, may receive interim payments through the crop year, and most often receive final payments for their grain following the conclusion of the crop year and the closing of the pool accounts (around December). Returns from CWB grain sales are pooled over time and over the various markets throughout the crop year. Farmers receive averaged returns from all CWB sales with no individual farmer having the opportunity to capture benefits from the timing and coordination of sales or from premium versus price-sensitive markets.

The exception would be the small amount of farmers who have begun using other CWB pricing instruments. Recently, the CWB has offered an alternative to pooling by offering fixed price contracts and basis contracts.

Price Pooling

Price pooling refers to the process whereby revenues from all sales are deposited into one of four pool accounts: wheat, durum wheat, feed barley and designated barley (for malt and other food use). This is to ensure that all farmers are treated equitably, regardless of when their grain is sold during the crop year. All farmers delivering the same grade of wheat or barley receive the same return at the end of the crop year, net of elevator and terminal handling fees and transportation.

Pool Return Outlook (PRO)

The Pool Return Outlook (PRO) was created to assist producers with seeding, marketing and financial decisions by providing a better sense of what the total return will be from CWB grains. Prior to the development of the PRO, farmers had only the upcoming initial price and past experiences with final payments to use when comparing returns from various crops. Moreover, when selecting between crops for seeding in the spring, the Initial Payments often were not even available.

Each month the CWB releases a PRO for each grain. The first PRO of each crop year is released in February or March, prior to the seeding of that year's crop. The PRO is presented as a set of price forecasts that provide the best indication of the total marketing year returns that producers can expect to receive for a selection of the classes, grades and qualities in each pool account. Towards the end of a marketing year, the PRO becomes more stable and after March (of the year after seeding) is usually only announced in May, July, September. It then becomes the final payment in December.

Payments on Finer Protein Increments

Over the years, the CWB has expanded payments to reflect finer protein increments. Up to the end of the 1998/99 crop year, protein increments were established at 0.5% increments. Since then, the CWB has paid producers on protein in 0.1% increments for certain grades. For example, No. 1 and 2 CWRS and No. 1 and No. 2 CWAD have protein ranges from 11.0 to 15.5%. The benefit to producers is that these better protein price signals enable producers to capture a greater proportion of the value from their protein and thus could impact agronomic

practices intended to extract more protein out of the crop. The protein increments assist the CWB's marketing strategy by improving information on protein supplies and deliveries. However, there is no public price discovery process to know whether these protein premiums are actually of value. There have been some indications that protein levels of 15.5% are actually undesirable especially if that wheat is mixed with lower protein levels resulting in an inconsistent but average shipment. There have also been statements that too much protein is undesirable and so some buyers are unwilling to pay premiums for this type of product.

Cash Advances

The "cash advance" is a federal government program (the Advance Payments Program), administered under the Agricultural Marketing Programs Act (AMPA). In the case of wheat and barley it is administered by the CWB. Thus the cash advance is not a CWB program (although it is often regarded as such). Farmers who meet certain criteria can apply for a cash advances at harvest of up to \$250,000 with the first \$50,000 interest free. Other organizations such as the Canadian Canola Growers Association also administer the program for certain commodities through an agreement with the Federal government. Most of the paperwork required for the wheat and barley cash advance is done by farmers, or by the elevator companies on the farmers' behalf. These companies keep track of repayment, through the CWB permit book, as farmers deliver their grain through the year.

Producer Cars

Producer cars fall under Canadian Grain Commission legislation (Canada Grains Act). However in last two years the CWB has started becoming an administrator of producer cars. This is a new role and is in direct competition with grain companies (in particular small independent companies).

Advocacy

Although not related to the actual marketing of grain, or to the legislation, the CWB has declared that "intensifying farmer advocacy" is part of its role.

Export Pricing Policy & Sales

Introduction

The CWB has presented the main advantage of the single desk selling authority as its ability to price discriminate. That is, although the CWB competes in low valued markets primarily on price, they are also able to extract premiums from other markets. However, the CWB has also acknowledged that although it holds the single desk selling authority over Canadian exports of wheat, it competes in a global market where its share of trade is around 17%. In this environment, the CWB must be competitive on price, quality and service.

CWB Initiated Sales

Based on the sales plan, the CWB tenders grain to export customers. Offshore business is mainly done on an in-store or loaded from terminal Canadian port basis. Sales to the US are on a delivered basis to the customer's plant.

Accredited Exporters

Often, the CWB makes sales through Accredited Exporters (AE's), companies that have authorization to purchase grain from the CWB for resale to export customers. Many AE's have extensive sales networks and markets that are on a par with those of the CWB. With branch offices scattered around the globe, some of these companies make direct contact with customers and are often dealing with them on a number of commodities. AE's also facilitate sales through freight sharing and acceptance of financial risk.

In an AE arranged sale, the AE works closely with their customer and deal with the CWB at the same time. The AE buys the grain from the CWB at the export price (on a FOB or instore terminal basis), and then sells it to its customer. The AE is often responsible for moving the grain to the export buyer. Prior to concluding the transaction with the CWB, the AE provides full information on the export sale including the country, end use customer, and detailed of the transaction, including price. Once the CWB is satisfied with the terms of the transaction (and that the sale will not interfere or jeopardize CWB sales efforts elsewhere), the CWB sells the grain to the AE and issues an export license.

There are 24 accredited exporters and two international exporters (IE's) that purchase grains from the CWB for resale to customers. Ultimately, it is the customer that decides whether to deal directly with the CWB or to use an AE.

Producer Direct Sale (PDS)

The Producer Direct Sale (PDS) or "buy-back" is an avenue for farmers to sell grain directly to end-users if they choose to do so. However, the amount charged for the buyback usually eliminates any premium that the farmer may have obtained plus there are usually administrative costs involved, cash flow concerns and risk.

To execute a buyback, the farmer sells the grain to the CWB (and receives the initial payment) then buys it back from the CWB. The purchase price is based on what the CWB believes it would get if it were selling into that same market on that same day. The buyback price is determined by the CWB and is not transparent. Moreover, there is a level of subjectivity in the price setting; if the CWB wanted to discourage grain from moving into the market the farmer is trying to sell into, it could either offer the grain at a price not likely acceptable, or refuse to provide a price altogether. The buyback is rarely used except occasionally for organic grain. The CWB requires a farmer to go through a buyback to obtain an export license.

Manufactured Feed Exports

Manufactured feed can be exported without buying the grain ingredients from the CWB provided the feed contains less than 75% of wheat and/or barley products⁶. The CWB authorizes export shipment and grants export licenses by mill site. The feed manufacturer provides a detailed description of the manufactured feed and a bill of lading (including volume and price).

Credit

To support its export efforts, the CWB works with the federal government to develop credit programs that facilitate the sale of western Canadian grain. The CWB, acting within the guidelines established by the Department of Finance and other government departments, works with individual customers and commercial banks to customize credit arrangements. These arrangements are an important factor in many foreign markets. During 2001-02 credit sales comprised 9.5% of total sales, compared to 12.3% in the previous year.

In 1998/99, 45% of the CWB's wheat sales were made on basis contracts. A common practice in the grain trade, this enables the CWB and the customer to manage price risk independently, and provides the customer with some flexibility in terms of pricing. The CWB manages the risk of an adverse movement in the price of grain between the time the grain is sold and when it is priced by selling grain futures contracts on U.S. futures markets.

Domestic Pricing Policy and Sales

According to the CNMA the provides procurement and risk management services to millers including surveying needs for the entire year, planning deliveries, managing stocks and storage to meet regional requirements, and selling by class, grade, and protein levels. In western Canada, local grain companies provide services to local mills as well, although everything is priced through the CWB. In addition, western processors source as much as 30 percent of their needs directly from farmers which allows them to identify source-specific qualities that are not necessarily available from grain companies. Large millers, though, generally prefer to source from grain companies. Regardless of their sourcing arrangements, mills must always purchase the grain from the CWB.

Domestic Pricing Policy

For many years, imports of wheat into Canada (for domestic milling purposes) were restricted, allowing the CWB to set domestic milling prices above competing markets. Now, under NAFTA, U.S. imports can readily move into Canada unimpeded and compete with Canadian wheat. For this reason the CWB has established a pricing system to ensure that Canadian grown wheat remains competitive in Canada while also not selling at discounts to U.S. imports. The domestic pricing system is meant to provide supply assurances to the Canadian millers while also offering various pricing alternatives that mirror those available from U.S. merchandisers operating in the open market.

⁶ The feed must be processed (e.g. hammered, rolled, pelleted etc.), contain a minimum of two feed ingredients, and be processed at a feed mill registered with Agriculture and Agri-food Canada.

Domestic Human Consumption (DHC)

The CWB currently has a policy to provide prices for milling wheat to domestic millers based on a formula that is called the Domestic Human Consumption Price, or DHC. This formula applies to wheat sold to a flourmill to be milled into flour for human consumption. The price is based on the Minneapolis track (cash) market for Dark Northern Spring wheat with 14% protein, which is considered equal to #1 CWRS with 13.5% protein. Other western Canadian wheat classes are priced on the basis of their North American milling value.

The DHC formula begins with the Minneapolis track price (futures and basis). This value is "transferred" to Thunder Bay intact. In other words, the CWB assumes Minneapolis and Thunder Bay markets to be equivalent markets. For a mill in western Canada, the regulated rail freight rate from the location of the mill to Thunder Bay is deducted from the Minneapolis/Thunder Bay price. And then, in addition, a "commercial equalization" factor of about \$15 per tonne is further deducted. The purpose of this is to adjust for the difference between Canadian regulated rail rates from the prairies to Thunder Bay and US commercial rates from the northern plains to Minneapolis. For a mill in eastern Canada, the freight from Thunder Bay to the mill would be added to the Minneapolis/Thunder Bay price.

Non-Human Consumption (NHC)

The CWB has a pricing scheme referred to as the Non-Human Consumption (NHC) pricing basis that applies to a processing plant that is producing gluten and starch from non-milling grades of wheat but may be producing a product for human consumption.

Since the products from this wheat may be going to human consumption but the quality of the wheat may be less than milling quality, the CWB has a slightly different policy. In this policy, the CWB follows the same price-setting process as for the DHC price but without the addition of the cash premium for DNS 14% wheat in Minneapolis. In effect, the CWB assumes the price instore Thunder Bay is the equivalent of the Minneapolis spring wheat futures price (converted to Canadian dollars). The relevant rail freight rate is then added or subtracted from this price depending on the location of the plant in Canada to determine the NHC price for the processor.

CWB Exempt and NHC Basis Pricing

This pricing scheme applies to an ethanol plant that has, as components of its process, the extraction of flour, gluten and/or starch that will be sold for these uses into commercial markets. In this case, the processor must purchase from the CWB the volume of wheat required to produce the volumes of these products that the facility will sell. This "wheat-equivalent" volume refers to the average milling ratio of wheat to flour of 1.38 to 1. All grades of wheat used for these products must be booked through the CWB at the DHC or NHC prices. All wheat required beyond the amount to produce these products – wheat that will produce feed products – may be purchased without going through the CWB.

Own Farm, Own Grain, Own Mill Pricing

This policy applies to a farmer who wishes to mill his own wheat on his own farm. If this product is sold in the same province as the farm, there are no CWB requirements. In the event that the product from the milling process is shipped out of the home province but within Canada, the farmer must obtain from the CWB an inter-provincial movement license. If the farmer wants to export the product outside of Canada, it gets much more complicated. The farmer must first sell his wheat to the CWB thereby remaining in the pool. The CWB would then establish a cash price for the wheat based on the market price for the type and quality of the wheat to be processed. Sales documents are then drawn up so the farmer can secure ownership of the wheat and obtain the necessary documentation to export the product. This is called the “producer-direct sale”.

Malt Market

The foregoing applies to wheat. Malters require a very specialized product. However, through pressures brought to bear by the CWB to provide farmers with quicker payments and reduced risks on malt barley, the grain companies and CWB created a “street malt” program. Before this program, the malt origination program was on the basis of consignment on behalf of farmers; the grain was identity preserved and farmers retained ownership until it was received at the domestic maltster or the export terminal and accepted as malt. Only then were farmers paid for their malt barley. Not only did farmers bear the risk that the barley may be rejected as malt (dropping it to a feed grade), they also were not paid until the barley was in place. The street malt program allows for immediate payment and no risk of rejection as the grain company accepts the risk. This program has led the domestic maltsters to increase the amount they source directly from farmers in order to gain greater quality control.

How the CWB prices malt to maltsters is even less clear than for millers. The malt industry has no open price discovery.

Sales Planning

At the center of CWB control, is the “sales plan”. Through implementation of the sales plan the CWB directs the revenue from the grain sales into the wheat, durum, malt (designated) barley or feed barley pool accounts. The sales plan, its implementation and results, shapes the Producer Return Outlook (PRO) as described above, the grade spreads within the pool accounts, the CWB’s decisions and actions on transportation and logistics, and ultimately the payments farmers will receive.

Overall price levels are determined by global supply and demand circumstances (or North American factors in the case of domestic sales). However, through the implementation of the sales plan and within the limitations of the marketplace the CWB attempts to control how, where, when, how much and at what price export and domestic human consumption wheat and barley is sold. It does so by considering specific quality and service needs of individual buyers within the competitive environment. Those quality and service needs vary. For example, they may be high for a market like Japan. The CWB objective is to offer “high priced” supplies to

those buyers it feels are the highest paying customers and discount to only those that are more price sensitive. Key to carrying out the plan is controlling the volume the CWB makes available to the market by not offering or by holding back on sales.

How Pooling Works & Grade Spreads

This section describes the operation of the price pooling system of the CWB and how wealth is distributed to farmers from the pricing pool.

The price pooling system is one of the key elements that make the CWB system different from that of an open market. It is also the source of confusion between the merchandizing function of the CWB (identifying, developing, selling product and after sales service) and the CWB's role in distributing the proceeds of sales revenue to farmers. This distribution occurs both during the crop year in terms of initial/adjustment payments and at the end of the year in terms of final payments.

A description of the CWB's roles in merchandising as well as the regulatory issues that allow it to gather and distribute grain are described above. Although these merchandising functions are carried out by all sellers/merchandisers of grain on the basis of public prices and private contractual arrangements, the CWB gets its foundation in legislation and regulation.

The processes used by the CWB and open market merchandisers in calculating offering prices for customers at both the international and domestic processor level are similar. The major difference is that in the open market price is used to attract grain into the system and therefore must represent the needs of the end-users and merchandisers and be enough to draw supplies from the farm level. There is very little or no opportunity (or incentive) to cross-subsidize sales (across time, customer or grade/quality) on any given day⁷.

In the case of the CWB, the procurement system is much more passive in that price is not used to attract grain into the system to satisfy requirements. This is possible since the CWB is the only delivery alternative for western Canadian farmers for milling wheat and malt barley. Farmer delivery decisions are not based on market signals but rather on the provision by the CWB of contract calls; market signals (including price) are almost totally absent.

A further differentiation with the cash market is how pricing relationships are handled between types, classes, grades and proteins of wheat. In the case of the CWB pooling system, revenues from all sales of CWB grains go into four separate pools – wheat (excluding durum), durum, feed barley and designated (malt) barley. Within these pools, proceeds from all sales of all grades of each stated grain, are pooled. For example, each crop year, the CWB provides to farmers, prices for various classes and grades of wheat delivered into the wheat pool. Within the wheat pool account, all farmers receive the average selling price for the year, minus related costs. As simple as this appears, this process is complicated by two factors: grade spreads and spreads between classes.

⁷ Cross subsidization refers to the process of using profits in one marketing area to discount sales to another in order to beat out the competition.

Considering the potential prices received for two grades of wheat (for example, #1 CWRS and #3 CWRS), depending on when the sales are made, the actual sale prices of #3 CWRS wheat could in fact be higher than the ultimate sales prices for #1 CWRS. For example, assume a wheat market where prices are trending higher over the course of the crop year. In this particular crop year, the CWB sells much of the #1 CWRS available to it early in the year for, say, an average of \$200 per tonne. Later in the crop year, the wheat market is higher and the CWB sells much of the #3 CWRS wheat in this later time period for an average price of \$210 per tonne. In this scenario, the lower quality of wheat garnered a higher price than the higher quality of wheat, simply due to the timing of the sales. To avoid the controversy of this result, the CWB “normalizes” all grade spreads when the sales are made. This means that whenever a sale of #3 CWRS wheat is made, the CWB also determines or estimates the market value of #1 CWRS at the same time. This process provides the CWB with an average price spread between grades for each sale. In the final pool account, the CWB adjusts grade returns to reflect the average of these spreads from the individual sales events – the higher grades will always provide a higher price.

It is believed that the CWB also uses a similar technique with respect to different wheat classes in the wheat pool. These include hard red spring, extra strong, prairie spring (red and white), soft white spring, hard red winter and feed wheat. This year will also include hard white spring.

In an open market, grain is drawn forward through the grain handling system to meet sales commitments. The market signal drawing grain forward to the buyer is price, which is driven by supply and demand, value of product based on type, class, grade, protein, etc. The price offered at the farm level reflects all the various inputs of the marketplace, including primarily supply availability (including inventories) and demand factors (the buyer’s willingness to pay). The end result of this process of demand forces meeting supply forces is a varying price regime in which any party involved can respond by buying or selling. Simply put, when the prices are too high (in the eyes of the buyers), buyers’ interest will taper off. Often market prices will have a tendency to drop off at these times. Similarly, when prices are too low for producers to be interested in selling, prices will tend to respond by moving higher. Through the facilities of open and public futures markets, these opposing forces pressuring prices one direction or another, allow both buyers and sellers to act in the market and make merchandising decisions. Interestingly, because of the function of the futures market, ultimate end use buyers and primary sellers (producers) do not need to agree on a price. The key element to making this system work is the accurate and continuous flow of information up and down the marketing channel.

The Freight Adjustment Factor (FAF) also influences the CWB price signal and total payments the farmer receives. The FAF modifies pool returns based on markets where the crop is sold and constraints in the handling system. As an example, the flow of hard red spring wheat would normally be based on the west coast for Alberta, Saskatchewan and perhaps the western half of Manitoba if prices were left to market signals. Based on the believed port constraints on the west coast (as determined by the CWB) and an adjustment for other market factors (eg. access to the Minneapolis milling wheat market), the CWB adjusts the deductions assigned to wheat on the east side of Saskatchewan and Manitoba. The calculation of this adjustment is made prior to the crop year and potentially has no relation to the actual movement of wheat within the crop year.

A final factor is the total disconnect between the sales activities to individual customers and the total payment signals provided to farmers. On any given day, the CWB can offer a similar quality of wheat to different customers at different prices (both immediate sales and forward contracts). The CWB makes the decision to sell to a customer based on its sales plan (sales allocated based on returns to pool customer prioritization), customer commitments (both written contract and long standing customer service) and the ability to move product in such a way as to maximize utilization of the grain handling system.

Further, the benefits obtained from premium markets (eg. premiums from the Japanese food agency tenders for 1CWRS high protein wheat) are generally not paid directly to the growers of this wheat. Similarly, the proceeds from grain sold into highly subsidized or competitive markets are generally protected from the full impact of sales by the revenue from the entire pooling process being used to offset these discounted prices.

Market Development

The CWB's market development activities around the world include seeking information on customer needs, after sales service to ensure end user satisfaction, farmer contracts for specialty grains, education and demonstrating wheat uses to customers. The CWB receives market development support from the Canadian Grain Commission and the Canadian International Grains Institute.

Many AE's are also active in creating interest and markets for Canadian grains. The AE's play a significant role in market development for CWB grains although they have less involvement than for open market crops because there is less incentive. The relative roles of the CWB and the private trade in market development differ between regions and markets. Significant examples of AE activities are the Warburtons program (a United Kingdom specialty bread company) handled by Agricore United and N. M. Paterson, and AC Navigator (a durum variety) that is handled by Saskatchewan Wheat Pool.

Transportation

Trucking

Grain moves from farms to rail sidings, the grain elevator system, grain processor or other users by truck. Commercial truckers are becoming more significant players. Trucking premiums are often offered by grain buyers to attract grain to their company. Premiums paid to farmers to attract grain (whether they are called trucking premiums or something else) are simply a reduction in handling margin that may be used to keep a client happy, to build market share or to get grain into the plant to meet a shipping commitment. The CWB has no role in the trucking of grain or the provision of trucking premiums.

Freight Cost Deductions

The single car rate rail freight rate to the nearest port is deducted (among other items) from the CWB initial payment to determine the net price received at the time of delivery. Unique to CWB grains, the total freight deduction possibly includes a Freight Adjustment Factor (FAF)⁸. The only role of the CWB in influencing freight cost deductions is in the area of FAF's.

Shipper Status

The CWB has “joint shipper” status for CWB grains, along with the grain company that loaded the cars. This arrangement allows the CWB to be recognized as a shipper in the event of a making a service complaint to the CTA, while allowing the grain company to be a shipper with respect to capturing multi-car incentive rates for loading, shipping and unloading blocks of 25 cars or more. For open market grains the shipper is the grain company.

Multi Car Incentives

Railways offer incentive rate reductions of up to \$6 a tonne when shippers load and unload multiple car blocks while also meeting certain performance criteria. These incentives are the same for CWB and open market grains regardless of which grain is being shipped. Only the grain company receives these incentives however they are often used to provide incentives to farmers through higher prices higher prices or trucking premiums.

Tendering

The CWB is required to issue tenders to grain companies for a fixed portion of its volume each year. In 2002-03 the CWB is to tender at least half of its regulated (i.e., subject to the Freight Revenue Cap) grain shipments to ports. Competition between grain companies to win tenders has lowered net handling and transporting costs. However, the result is that grain companies have less revenue to pay individual farmers trucking premiums.

Car Allocations

Under the CWB Act, the CWB can allocate all railcars available for the shipment of grain at any delivery point to any elevator, loading platform or person at the delivery point. In recent years, through a Memorandum of Understanding (MOU) with the federal minister, the CWB has agreed to limit the use of its powers over specific railcar allocation to fulfill its mandate, or to give notice. Under the MOU the CWB has agreed to be responsible for negotiating contractual arrangements with the railways to assure itself of sufficient rail cars.

For the grain that is not tendered, the CWB allocates cars based equally on the last 18 weeks of CWB receipts and the tonnage of outstanding farmer contracts with the CWB assigned to each

⁸ The Board may use the FAF to adjust for Seaway costs or other factors affecting their earnings from any given point, but FAF's have not been extensively used in Alberta, although they still impact pooled prices that Alberta producers receive.

grain company. Grain companies are responsible for logistics and car ordering from the railways.

Appendix A: Excerpts From the CWB Act & Regulations

CWB Act/Regulations

Section 45 – No person, other than the corporation shall:

- Export from Canada wheat and/or wheat products owned by a person other than the corporation,
- Transport from one province to another, wheat and/or wheat products owned by a person other than the corporation,
- Sell or agree to sell wheat or wheat products situated in one province for delivery in another province or outside of Canada, or
- Buy or agree to buy wheat and/or wheat products situated in one province for delivery in another province or outside of Canada.

Section 46 – The Governor in Council may make regulations to prescribe the terms and conditions on which licenses may be granted, including a requirement for the recovery from the applicant by the Corporation or any other person specified by the regulation, of a sum, that in the opinion of the Corporation, represents the pecuniary benefit arising solely by the reason of the prohibition of exports of wheat and/or wheat products without a license and then existing differences between prices of wheat and/or wheat products inside and outside of Canada.

Regulation 14 - Licenses

- The Corporation may grant a license for the export, sale, purchase, or delivery outside of Canada, of wheat and/or barley if:
 - a) the sale does not adversely affect the marketing by the CWB
 - b) the applicant pays the Corporation a sum of money that represents the pecuniary benefit inuring to the applicant pursuant to the granting of that license, arising by the reason of the prohibition of the export of that grain without a license and the differences between the prices of grain inside and outside of Canada.
- The Corporation may grant a license for the transportation from one province to another, or for the sale or delivery anywhere in Canada, of wheat and/or barley and/or products, but no fee shall be charged for such a license.
- Any person who exports wheat and/or barley and/or products from Canada, shall, at the time of exportation, give to a customs officer an export license.

Regulation 16 – Interprovincial Transportation and Sales

- Permission is granted to any person who is not a public carrier and resides in the designated area to transport or cause to be transported interprovincially within the area that comprises those provinces
 - a) wheat or barley that is not described by a grade name
 - b) any wheat products or barley products
- Permission is granted to any licensee as defined in the *Canada Grain Act* to buy and sell feed grain, wheat products or barley products that are situated in the designated area for delivery for consumption by livestock or poultry at any place in Canada elsewhere than in the province of purchase, and to transport the products to that place.

Appendix B: Transportation Legislation and Agreements

A. The empowering legislation of the CWB is the CWB Act, R.S., c-24 which reads in part:

25. Notwithstanding anything in the Canada Grain Act, except with the permission of the Corporation, no person shall deliver grain to a railway car ...

32. The Corporation shall undertake the marketing of wheat produced in the designated area in inter provincial and export trade and shall for that purpose ... deduct from the sum certain referred to in paragraph (b) the amount per tonne determined under subsection (2.1) for the delivery point...

28. The Corporation may, notwithstanding anything in the Canada Grain Act, but subject to directions, if any, contained in any order of the Governor in Council, by order...provide for the allocation of railway cars available for the shipment of grain at any delivery point to any elevator, loading platform or person at the delivery point.

45. Except as permitted under the regulations, no person other than the Corporation shall ... transport or cause to be transported from one province to another province, wheat or wheat products owned by a person other than the Corporation.

B. Transportation of grain is covered under the Canada Transportation Act, Division VI. R.S., c-10:

The entire Division is important but some sections stand out:

149. A prescribed railway company shall issue and publish tariffs that include single car rates in respect of the movement of grain from each grain delivery point on its railway.

150. A prescribed railway company's revenues, as determined by the Agency, for the movement of grain in a crop year may not exceed the company's maximum revenue entitlement for that year as determined under subsection 151(1)

C. Memorandum of Understanding – June 28, 2000

On June 28th, 2000 the CWB and the Minister responsible for the Canadian Wheat Board, Honourable Ralph Goodale, entered into an agreement to improve the Western Grain Handling and Transportation system. The agreement, inter alia, provided for to CWB to:

- a) negotiate contractual arrangements with the railways to assure itself of sufficient rail cars,
- b) issue public tenders with grain companies for a fixed percentage of its volume each year,
- c) negotiate single car freight rates with the railways.

The Board agreed to limit use of its powers over specific railway car allocation to only wheat and barley when necessary to fulfill its mandate. It agreed when using any of these powers to give the Minister and the public 14 days notice and publish its justification.

This agreement effectively allowed the Board to claim to be shipper of record with all the powers of a shipper under the Canadian Transportation Act and to claim the benefits of multi-car rate discounts.

D. Agreement between the CWB and Grain Companies – August 10, 2001

After the CWB and the Minister reached their agreement, the Grain Companies refused to tender for the movement of grain. Giving control of car allocation and thus market share to the Board left the grain companies in a position where they were unable to predict revenues and manage their liabilities. The result was further negotiation between the Grain Companies and the Board and a new agreement to end in July 2004. This document is not public so most information available is from press reports and hearsay.

- Car awards will be based on the last 18 weeks of CWB receipts and the amounts of outstanding farmer contracts held by each grain company. The two factors would be weighted equally.
- Grain companies would be responsible for logistic arrangements, i.e., they could order cars in advance directly from the railways or use CWB cars if they were available.
- Shipper rights would somehow be shared