

CHOICE MATTERS

Marketing choice supports economic opportunity.

Winter 2007



**GREETINGS FROM
MINISTER OF AGRICULTURE
GEORGE GROENEVELD**

THE BARLEY PLEBISCITE

Register your vote for open markets.

As your new Minister of Agriculture, I fully support **CHOICE MATTERS** and will continue to support initiatives to help farmers gain access to an open market system. The barley plebiscite offers eligible barley producers the opportunity to register a vote in favour of open barley markets.

I assure you that I intend to stay the course and work toward open market systems that allow producers to capitalize on opportunities. World-class barley producers deserve the right to market quality product to their maximum economic advantage just as they do in Eastern Canada.

A new grain marketing environment benefits Alberta's industry. This new environment would include a strong Canadian Wheat Board in a competitive market. Greater opportunity is just around the corner.

The future of agriculture in Western Canada depends on each eligible producer casting a vote for more opportunities for the barley industry. Talk to your friends and neighbours. Encourage their participation and ensure they vote. We want to make Alberta's voice loud and clear.

We invite you to visit www.choicematters.gov.ab.ca to make your opinions known.

A handwritten signature in dark ink, appearing to read "George Groeneveld".

Hon. George Groeneveld
Minister of Agriculture and Food

Seven key reasons to cast your vote for the future of barley.

THE BARLEY PLEBISCITE

The future of a profitable, value-added barley industry depends on each and every eligible voter voting for the institution of an open market system for Canada's barley.

YOUR VOTE CAN HELP CREATE OPPORTUNITY AND:

GREATER PROFITABILITY.

Farmers know they can often get more for their quality grain than the pooled price. With margins razor thin, barley farmers need to capitalize on every opportunity to increase profits.

OPPORTUNITY TO BENEFIT FROM MARKET SIGNALS.

Barley producers can assess market prices on their computer screens every day. They want to benefit from the price spikes. A vote in favour of open barley markets will give producers the opportunity to capitalize on market signals.

OPPORTUNITY TO SELL INTO NICHE MARKETS.

The number of small but potentially profitable niche markets is growing. A vote in favour of an open barley market will give barley farmers the go-ahead to identify and serve niche market profit centres.

OPPORTUNITY TO BENEFIT FROM DIFFERENTIATED PRODUCT.

Customers are demanding trait-specific product. Research is giving farmers ways to fulfill new customer demands. Your vote can help create the opportunity for farmers to benefit from differentiating grain traits and quality.

GROWTH IN VALUE-ADDED INDUSTRY.

Potential agribusiness investors have packed up and gone home when confronted with the demands of a single desk monopoly. Barley farmers could benefit from more malting companies and more barley flour processors investing in Alberta. Your vote can open the door to more value-added industry and more jobs.

LOWER COST OF TAKING PRODUCT TO MARKET.

Why haul your grain over 1,000 kilometres when you have a market 10 k's down the road? The single desk monopoly often requires that grain travel great distances to market. Restructuring the marketing environment can remove unnecessary hauling costs.

CONTRACTS WITH TRACEABILITY REQUIREMENTS.

End-users concerned about food safety issues and traceability want to know who their suppliers are. Taking product from just anybody could jeopardize their business. Farmers must be able to contract directly with the end-user.

"We are going forward into a new era where we have the choice to market our grains to whomever we want," says Jeff Nielsen, President of the Western Barley Growers Association. "Success of western Canadian agriculture depends on that choice. There are many opportunities out there, not only in the raw product we produce but in value-added. In the West that can only be achieved if we have choice."

Your vote is not only a vote for open barley markets but a vote for rights and freedom for farmers to market grain to their best advantage.

A vote for open markets is a vote for the future of farming in Canada.

RESPOND TO MARKET SIGNALS

A matter of survival and long-term profitability.

Producer and Chair of GrainVision Inc., Paul Orsak who farms at Binscarth, Man., says Canadian producers must gain the opportunity to read and react to market signals.

“The current ramifications of a single desk system blunt the transmission of market signals to producers, and complicate the delivery process, making it impossible to capture returns from the best markets.”

Orsak believes that Canadian farmers will succeed in the future, not necessarily because they can produce grain less expensively, but because they know how “to grow, preserve, and deliver specific desirable traits demanded by our customers.” As he sees it, structuring an open market system will also open the door to new products.

“Traceability is going to be part of the future of agriculture.”

As he sees it, farmers need to develop close relationships with processors and end-users. “Traceability is going to be part of the future of agriculture. Canadian farmers can effectively meet those demands only in a market system that is commercial and contractually based.”

Will Van Roessel at Bow Island, Alta., agrees that an open market system is the only way to meet future market demands. “More international competition makes it necessary for every farmer to maximize returns. To do this, producers should be dealing directly with the end-use customer whether it’s maltsters or millers.

“Technology allows us to read the changing market prices so the question boils down to: Why shouldn’t we take advantage of price signals? Changes in agriculture are a given. We should be encouraged to adapt. An open market provides a better way to manage change.”

Van Roessel points to cash flow as a persistent issue in the current single desk system. He says many durum producers recently experienced serious cash flow problems when the Canadian Wheat Board took only half of what was produced. “No matter how good your projections are when you put in the crop, if you’re forced to hold it, it affects cash flow,” he says.

Orsak says that every farmer should be given market choice – whether they want to exercise that right or not.

“Every farmer must be given the opportunity to take advantage of new markets for wheat and barley whether the farmer chooses to do so or not. New marketing opportunities wouldn’t impact every farmer in Canada, but it could make a difference between survival and long-term profitability for many.”

Orsak believes a reformed CWB will support farmers in a competitive environment. More value chains will be formed based on new seed varieties, production methods and capital investment in agriculture.

“Pooling grain makes it impossible for the farmer to determine the value of the deliverable crop,” Orsak points out.

He says that the farmer’s competitive advantage in the changing agricultural marketplace will more often now be based on knowledge, production capabilities and special handling.



“Every farmer must be given the opportunity to take advantage of new markets.”

These two farmers are ready for open markets.

CHANGES ON THE HORIZON

With the single desk marketing system under the microscope and changes imminent, many farmers like Gary Stanford at Magrath, Alta. and Alex Russell at Lethbridge, Alta., are starting to figure out how they will operate in an open market system.

Stanford says, "My 2006 winter wheat crop would have benefited because I would have watched the markets and tried to catch a price rally in the U.S. markets," he says. "I don't think I'm alone in saying that farmers want to open up opportunities in the U.S. to sell grain."

"I don't think I'm alone in saying that farmers want to open up opportunities in the U.S."

Stanford says he's prepared to line up buyers, make prearrangements and haul the grain himself. "I could move it quicker, that's for sure," he says. "If I knew I could contract malt barley in the U.S. and sell my wheat on contract, I'd make those arrangements myself and plan my crops accordingly."

He says it was discouraging to sell his winter wheat to an elevator in southern Alberta at \$1.60 per bushel initial payment with final payments to come later when he could identify markets that are paying \$4.50 per bushel and are within an economical hauling distance from his operation.

Alex Russell says the same thing: It's discouraging to see winter wheat prices so low when right across the border prices are higher. "The disparity is quite large," says Russell. "Sometimes prices are a dollar or more just over the border. I'd be happy to put in computer time to arrive at a higher price for my winter wheat if I could get an export permit for no charge. It would make winter wheat more attractive to growers and my acreage would increase."

Russell says he also looks forward to the day when he doesn't have to take downgrades as a result of the pooling system. "We've got some grading issues in the current pooling system," he says. "The issue is the falling number test before the board takes delivery. When the grain is shipped to the coast, the grade number can go up, but the farmer doesn't benefit from that. A huge amount of money gets lost in the system. Shipping pre-tested grain yourself would relieve these problems."

"We've got some grading issues in the current pooling system."

Stanford, who farms near Lethbridge, is a hop, skip and a jump away from U.S. markets. The malt barley contracts offered by brewers just over the border continue to fall into the "missed opportunity" category for many producers.

Russell points out that the malt barley segregation system has increased the value of Canadian malt barley. "We have sophisticated segregation systems. Buyers can now access a lot of information about the malt barley. These are all advantages, but we can't capitalize on them."

Stanford agrees and adds: "A lot of malt barley growers have gotten out of the business because their product, a quality product, ends up in feedlots in southern Alberta. This is hurting the industry.

"The economic losses every year start to add up, so malt barley producers often have no choice but to change their game plan," he says. "They put in other crops that hopefully won't get as downgraded as the malt barley because the single desk system can't market it properly."

MP Gerry Ritz

RESTORE CONFIDENCE IN GRAIN FARMING

Gerry Ritz thinks Prairie grain farmers need to move up the value chain to earn a sustainable income from farming. Ritz is a Conservative MP for the Saskatchewan riding of Battlefords-Lloydminster and Chair of the Standing Committee on Agriculture and Agri-Food.

“Combinations of factors have resulted in a long-term decline in returns for Canadian grain farmers,” notes Ritz. “Many of those factors we don’t control, and they don’t look to be going away, so I have to ask the question: What options do we have as policymakers to improve the prospects of earning a sustainable income from grain farming? One option is to create more favourable conditions for farmers to participate in the wealth created from the value added to their grain once it leaves the field.”

Many grain farmers want a shot at moving up the value chain.

Ritz believes that many grain farmers want a shot at moving up the value chain. He also believes that the existing Canadian Wheat Board is an impediment to giving farmers that opportunity.

In 2006, Ritz supported “Choice” by introducing a private member’s bill in Parliament to amend the CWB Act to permit producers to sell their grain to producer-controlled processors without incurring the CWB’s buy-back charges.

“Because it is farmers who incur these buy-back costs when they sell their wheat and barley to domestic processors, it not only impedes the development of more value-added industry on the Prairies, it impedes farmers from diversifying their risk by establishing processing ventures,” Ritz says.

Gerry Ritz believes Prairie grain farmers have an appetite to diversify and hedge their risk. He wants to put the CWB buy-back charges back into the producer’s pocket and create the opportunity for producers to reap the benefits of equity ownership in value-added processing ventures.

“The appetite is there because we have already seen partnerships developing between the grain companies and local producer groups in inland terminal facilities,” says Ritz. “As well, there are examples of niche processing ventures such as Northwest Organic Community Mills Co-operative Limited, an organic milling venture at Maymont, Sask., owned by local producers.

“When you remove the CWB from the middle, these kinds of ventures will become more common, and that will help restore confidence that grain farming on the Prairies is a sustainable activity.”



**Allow growers the freedom to choose
for themselves how best to diversify.**

THE NEW BIOECONOMY

Tap in before it's too late.



When it comes to Canada's position in global wheat and barley markets, there's the myth and then there's the reality.

According to the cherished myth, Canada enjoys an unmatched reputation among world buyers for its pristine quality, its standard-setting seed varieties and its unmatched farmland. The reality from where Trenton Baisley, CEO of FarmPure, is sitting, looks quite different.

Based in Regina, FarmPure is a producer-owned family of companies with global interests and partnerships along the agricultural value chain. Its seed business works with breeding institutions around the world to commercialize and distribute innovative seed varieties with specific functional end-use traits.

FarmPure's seed partners include pedigreed seed growers, distributors, processors and identity preservation supply chain specialists.

“We continue to have essentially a brown-bag economy when it comes to seed.”

From this perspective, Baisley perceives that Canada is falling behind other countries when it comes to developing and growing the special-trait wheat and barley that today's customers want.

He assigns a measured portion of blame to the single desk marketing system embodied by the Canadian Wheat Board. “The CWB has done a good job of selling commodity grains, but these days, who buys a boatload of anything anymore?” he asks. “It's more about just-in-time delivery with smaller amounts of niche products that are sold at a higher value.”

Baisley believes the CWB's monopoly has kept everyone – farmers, breeding institutions, processors and grain companies – stuck in a low-margin commodity mode for our two largest crops. Meanwhile, the more lucrative identity-preserved opportunities have largely gone elsewhere.

THE \$1.5 MILLION QUESTION

According to Baisley, it takes at least \$1.5 million to bring a new wheat or barley variety to market in Canada. That includes costs for early research, plant breeding and guiding the potential entrant through the registration process. To justify such an investment, the new variety needs to achieve a reasonable return through royalties or levies for end-use traits.

continued on page 7

THE NEW BIOECONOMY

continued from page 6

“In the Canadian system, it’s difficult to generate enough in royalties,” says Baisley. “We have intellectual property laws, but the respect for intellectual property is not there, and we continue to have essentially a brown-bag economy when it comes to seed.”

This uncertain investment climate is leading the world’s top breeders to look outside Canada for opportunity.

A second investment killer is a regulatory system that, in Baisley’s view, is excessively influenced by the marketing needs of the CWB. Often, promising special-trait varieties are shunned in favour of varieties that fit the CWB’s by-the-boatload commodity mentality.

“We say the single desk monopoly is discouraging these types of investments,” says Baisley. “Our country desperately needs this innovation, and it’s extremely important for Western Canada that we can bring these opportunities to fruition.”

“Who buys a boatload of anything anymore?”

THE GOLD RUSH OF RESEARCH

If a dual or open market replaced the single desk system, Baisley predicts a gold rush of research and development in special-trait, customer-focused, identity-preserved wheat and barley.

“Ask breeders what they would do if there were no constraints on the registration system, and their eyes light up,” says Baisley. Freed from the mission to develop all-round commodity-based varieties, Canada’s talented crop of wheat and barley breeders could work wonders.

How can Canada succeed in the new bioeconomy for wheat? In Baisley’s view, the key is to start developing niche varieties that customers will pay more for. That takes research, and research is hamstrung by the current marketing system. While Baisley emphasizes this is a long-term change, he cautions that time is not on Canada’s side. An open market? Yes please, and hurry.

MORE MARKETS, MORE LOCAL PROCESSORS

A hedge to
uncertainty.



Danny LeRoy, an agricultural economist at the University of Lethbridge, says that allowing producers the choice to market some of their grain to local processors not only opens another market outlet for producers, it affords them the opportunity to forward contract a portion of their crop with many different buyers.

“This is effectively a hedge to the uncertainty inherent in the Canadian Wheat Board pool account,” says LeRoy. “Opportunities that allow growers the freedom to choose *for themselves* how best to diversify or to transfer price risk, especially in a business that is as precarious as grain farming, deserve serious consideration.”

LeRoy believes the added market for grain and the increased opportunities to hedge will promote local processing. However, he questions whether government encouragement of producers taking equity positions in processing ventures is a good idea.

“The comparative advantage of most primary producers is not owning and operating processing plants,” says LeRoy, “but focusing their skills on successfully running their farm business. In my view, government policies that promote or subsidize grower control and operation of processing facilities are often detrimental to consumers and taxpayers.”

WINNIPEG COMMODITY EXCHANGE WEIGHS IN

An open market – better ways to manage risk.



“Exporters, including the CWB, are often price-takers when they compete in the global market.”

The Winnipeg Commodity Exchange plans to be the vehicle for world price discovery and risk management when Canada implements an open market system for spring wheat, durum wheat and malt barley.

According to WCE Senior Vice President Will Hill, the WCE sees itself performing a role for wheat and barley similar to the role it performs today in the global canola market.

“The major benefits to farmers arising from a futures market will be access to timely market signals for their grain crops,” says Hill, “and the opportunity to use futures contracts to hedge some of their risk.”

He points out that while the Fixed Price Contracts currently offered by the Canadian Wheat Board afford producers some opportunity to hedge, they pool differences in freight and handling costs and therefore do not allow individual producers to manage comparative advantages like size of operation and proximity to markets.

Farmers’ own circumstances should be taken into account.

Lynn Thacker, a farmer near Bow Island, Alta., agrees. “The CWB’s pseudo-hedge products permit the CWB to control too much of what I refer to as the ‘fudge factor,’” says Thacker. “A true hedge permits farmers themselves to independently contract and take account of their own particular circumstances.”

Hill says there are essentially two ways to manage risk. “One is to self-insure, which is what the CWB pool account does. The other is for farmers to use futures and options and forward price cash contracts. While the pool account has generally served farmers well, it need not be the only mechanism available to wheat and barley farmers for managing their risk.”

According to Hill, new contracts proposed by the WCE will accommodate the pricing and hedging activities of both individual farmers and farmers who choose to market their wheat and barley through the CWB.

Lynn Thacker believes that the self-insurance effect of pooling does not require that the CWB be the sole buyer of Prairie wheat and barley. “The CWB essentially operated as a cooperative for a number of years in the 1930s and offered farmers the benefits of pooling without being the sole buyer of Prairie grain. It seems ironic today, given the reasons posited by some, for the CWB to retain that sole buyer role.”

Hill points to the fact that the world grain market is extremely competitive. “The environment has changed enormously in the past 30 or 40 years. Exporters, including the CWB, are often price-takers when they compete in the global market.”

He adds: “The more homogenous environmental factors that supported a centrally planned marketing system for grains in earlier times no longer exist.”

The WCE believes Prairie grain farmers will be better served with more choice in how to manage their risk. “Pooling should always be available to farmers,” says Hill. “It has a place in any prudent risk management strategy, but not at the cost of other options.”

PREPARE FOR THE POST MONOPOLY ENVIRONMENT

“The good deals tend to be short-lived.”

Michael Robinson, FarmLink’s chief Alberta marketing advisor based in Medicine Hat, is helping farmers deal with the challenges in a single desk system as well as helping them prepare for changes in the future.

“Some farmers are anticipating seeing great new developments, while others are more uncertain,” Robinson says. “Depending on a farmer’s personality and the structure of the operation, this change might mean new opportunities are created or that new price risks are introduced.”

The focus of the FarmLink business is and will continue to be to align clients with the buyer who is prepared to pay the most for the types of crops the farm is producing.

Robinson says: “In a post-monopoly environment, our job will be to position the farm in the marketplace to maximize its profitability and to help the farmer feel positive about the outcome of day-to-day marketing experiences.”

Detailed marketing plans and sales strategies will help farmers chart the future.

Detailed marketing plans and sales strategies will help farmers chart the future in an open market environment. “In the process of developing the plan and sales strategies, the farm manager’s personality type, philosophical and political views, emotional and financial risk tolerance will need to be explored and defined,” says Robinson.

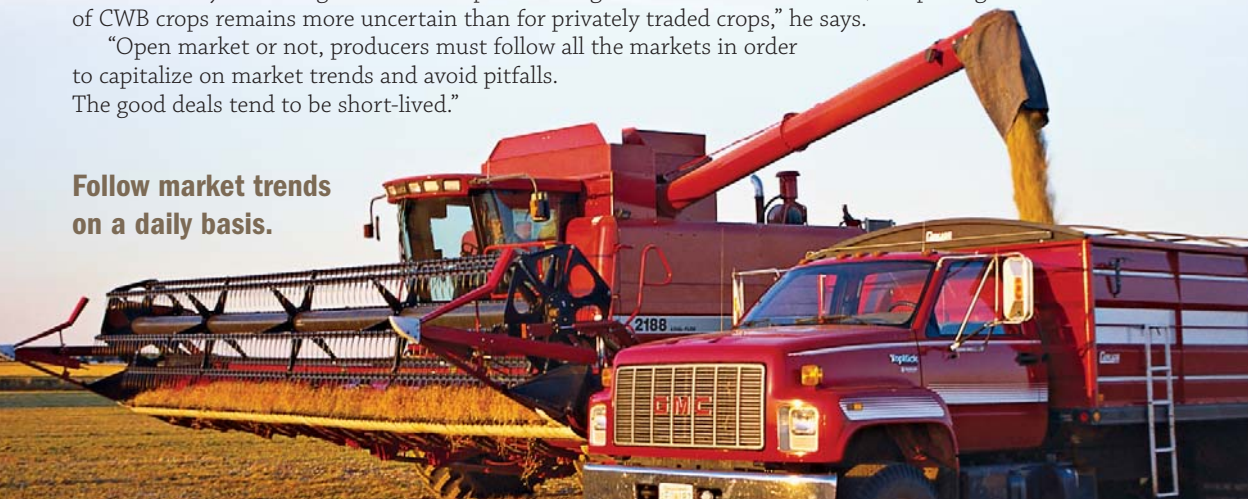
He points out that changing the status of the Canadian Wheat Board monopoly will affect each farmer differently. “The farm’s hopes and goals will factor heavily into finding the best approach to marketing crops in an open market system.”


Robinsons says that farmers today are dealing with change, much like they were in the past, but at an accelerated rate. “The power they exert to not only adapt but to shape change can make the difference between a profitable operation in the future or not,” he says.

To be successful, producers need to know when they are making profitable selling decisions and when they are selling at a loss. “Despite the range of values to choose from, the pricing of CWB crops remains more uncertain than for privately traded crops,” he says.

“Open market or not, producers must follow all the markets in order to capitalize on market trends and avoid pitfalls. The good deals tend to be short-lived.”

Follow market trends on a daily basis.





Create conditions whereby companies and breeders can truly respond to signals from the market.

WHEAT RESEARCH

CAPITALIZE ON THE BENEFITS

Changes to the variety registration system can't come soon enough for David Sippell. As CEO of Winnipeg-based Canterra Seeds, he has high hopes for several seed varieties being developed by his company.

One promising wheat variety yields up to 170 per cent of today's top CPS varieties. It's been developed for the feed market specifically and would be a nice fit for ethanol production, too.

There's just one problem. In Sippell's view, the variety stands zero chance of being registered under current conditions.

"Domestic use of wheat for feed and ethanol is increasing. In some years, this can be as high as 50 per cent of wheat acres," he explains. "Exports of wheat for milling and pasta are declining. However, 100 per cent of the wheat varieties being developed are for milling."

He notes that this occurs because breeders currently get their signals from the variety registration system and the Canadian Wheat Board.

Sippell believes that reform of antiquated Kernel Visual Distinguishability (KVD) standards and changes to the variety registration system would create conditions whereby companies and breeders can truly respond to signals from the market.

Higher yielding feed and ethanol wheats are being developed elsewhere in the world. Advancing these in Canada would allow Canadian farmers to be more competitive.

Create an environment where companies could invest confidently in non-milling varieties.

In this new environment, companies could invest confidently in the development of non-milling varieties. Premium quality wheats – such as Canterra's high-yielding, low-protein, high-energy feed wheats – could be among the first out of the gate.

"I am of the opinion that if the market was left to develop on its own, high-yielding feed-type and ethanol-type wheat might be here in Canada already," says Sippell. "But there's no place in the variety registration system for these varieties and no way to advance them toward commercialization. We're not saying they make good bread. We're saying they'd make great feed."