

CashPlus Question and Answer

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1. Will farmers have the option of selling to any buyer including the CWB?

No – the producer must sign a contract with the CWB. The process is described as follows in the CWB backgrounder.

Under CashPlus, a three-way transaction occurs between the farmer, the selecting company, and the CWB. The CWB negotiates sales price and volume with the selecting company and establishes a guaranteed price for producers. The selecting company and the producer then directly negotiate a contract.

2. Will buyers have the option of buying from any seller including the CWB?

The buyer cannot buy from a western Canadian producer without the CWB being a party to the contract. The selector (domestic maltster or exporter) must have a contract with the CWB if they want to source barley from a western Canadian farmer. The buyer may import malt barley (domestic maltsters) and malt product (domestic brewers).

3. Will this provide a competitive open market cash price? (If not, why not?)

No. The CWB negotiates directly with the selectors on malt barley prices and establishes the base price for farmers. The process prevents direct full price negotiation between selector and farmer.

4. What will the cash price be based on?

This has not clearly been explained by the CWB.

5. Is there a basis? If so, what is it based on?

At this point, the CWB is only offering a cash price. There is no specific relationship to western barley futures. The price offered by the CWB through the buyer is an In Store Vancouver price. The difference between this price and the price agreed to by the buyer and seller is the basis. There are no Basis contracts to futures offered.

6. Will this enable farmer and buyers to negotiate terms?

Farmers and buyers will be able to negotiate terms to some extent. Farmers and selectors have some latitude to negotiate quality, delivery, timing, and other criteria outside the generic terms in the basic contract. This information will need to be reported to the CWB. Information received to date is unclear as to who will enforce terms.

7. Will a farmer still be responsible for delivery if there is production shortfall/quality disaster and they do not have the barley available to cover their CashPlus contract commitment?

The CashPlus contract can include an “Act of Good Clause”. If there is a legitimate reason that the farmer is not able to deliver such as poor yields or poor quality, the farmer would inform the selector/the CWB of the production problem and would not be required to deliver on the contract. From the information provided by the CWB, it is unclear the verification process of the production loss and/or quality failure or who will enforce the contract in case of a dispute.

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Similarly, the selector has first right of refusal of the barley at a lower specification and the CWB holds the second right of refusal. How discounts and other factors will be determined on the contract are unclear. Finally, the selector may be prepared to pay a premium to farmers who are willing to take on production/quality risk.

8. Will this enable domestic maltsters to compete with the domestic feed barley market?

Perhaps, but it will depend on the price relationship between the malt and feed barley in the cash market as well as the relationship between price the selector pays the CWB and the payment the farmer receives from the CWB.

9. Who are the contracting parties?

- Maltster contracts with the CWB.
- Farmer contracts with the CWB.
- Growers and selectors sign a contract. Selectors are obligated to select the tonnes offered if the minimum quality specs are met, and growers are obligated to deliver the selected quality and tonnes. If either grower or selector does not fulfill selection/delivery obligations, they can be put into default at full replacement value of the barley.

10. What roles and responsibilities do they carry?

- The CWB will establish a guaranteed cash price for farmers based on “standard specs” that reflect market values in general. The exact markets that will be used and the process for calculating the guaranteed farmers price are not clearly defined by the CWB.
- The selecting company will then seek out producers to directly negotiate a contract, which may include premiums or discounts based on quality, transportation, etc.
- The producer is responsible to deliver the selected quality and tonnes. If the specs cannot be met, the selector has first right of refusal.
- Selector is obligated to select the tonnes offered if the minimum quality specs are met.
- The CWB will pay a potential additional premium to participating farmers at the end of the crop year based on spreads between the guaranteed price and actual CWB sales returns for malting barley in the CashPlus program.

11. Do the right parties carry the risk (and reward)?

The CWB does not take any risk in guaranteeing delivery terms to either the selector or the farmer. They have reduced their price exposure by matching selector contract prices with an actual farmer delivery.

12. Is the CashPlus program significantly different from traditional price pooling?

- Under traditional price pooling, there is a clear separation between the sales activities of the CWB to its domestic and export customers and the delivery/payment signals provided to farmers. For a small portion of their overall sales program, the CWB has offered farmer delivery programs designed to match individual farmer production to a sales need for a specific customer (Eg. Warburton program for wheat). These have allowed premiums above the CWB total payments/producer pricing options but none have direct price relationship between the price received by the CWB for the grain and the payment/price paid the farmer.
- Under the CashPlus program, the price the selector pays for the malt barley reflects the market conditions on the day the contract is signed (the same as sales to the traditional pooling system). The price offers the farmer for malt barley under the CashPlus program is also market based on the day of the signing their contract (not the case with malt barley delivered into the price pools). The CWB has indicated they will maintain some differential between the selector price and the farmer price that will be paid out at the end of the crop year as a top up/dividend. The outcome of this process will be lower costs for the CWB to manage their price risk (managing price risk on individual sales activities versus trying to manage price risk across a whole pooling year) and the ability of the selector and the farmer to sign a firm delivery contract.

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